

# Discussion on the Intangible Personal Property Exemption of Centrally Assessed Companies

Prepared for Revenue Interim Committee

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# Montana Statute Pertaining to IPP

- MCA 15-6-218. Intangible Personal Property Exemption
  - Requires the removal of intangible personal property from the unit value of centrally assessed property
  - "intangible personal property" means personal property that is not tangible personal property and that has no intrinsic value but is the representative or evidence of value . . . **Including but not limited to goodwill**

# Montana Rule Pertaining to IPP

- ARM 42.22.110. Deduction for Intangible Personal Property
  - **Provides for a minimum or standard deduction for IPP** as, “accurately quantifying the value of intangible personal property is difficult and subject to controversy and litigation which would not clarify the issues for future appraisals”
  - **Standard deduction based on industry:** Airlines 10%, Pipelines 5%, Electric Cooperatives 5%, Telephone Cooperatives 5%, Electric Utilities 10%, and Telecommunications 15%
  - **Allows for further reductions above standard,** “If any taxpayer believes that the value of its intangible personal property is greater than that allowed under (2), the taxpayer may propose alternative methodology or information at any time during the appraisal process and the department will give it full and fair consideration”

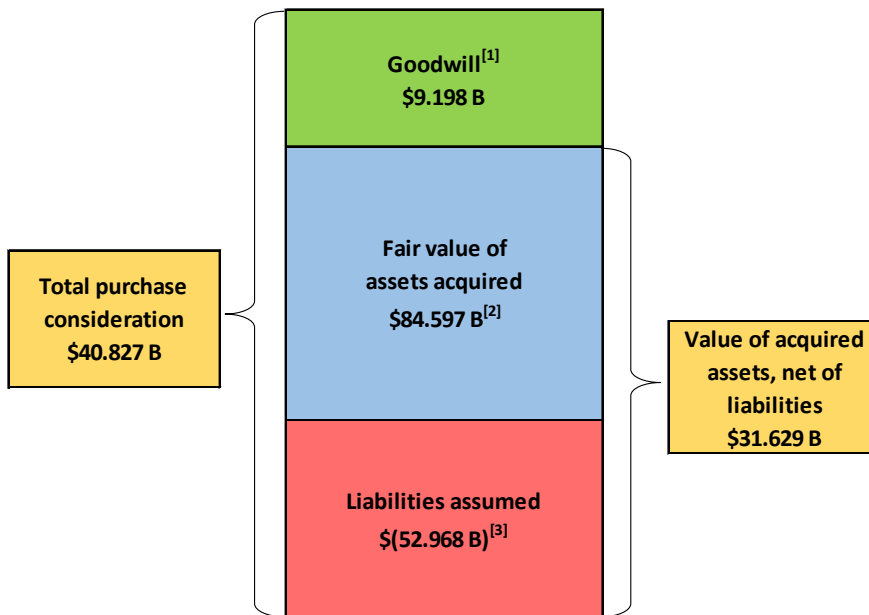
# Goodwill Defined

- Goodwill has different definitions when used in different contexts
  1. **From an accounting perspective, goodwill is measured as the excess amount of the consideration paid for an acquisition of a business above the value of the acquired assets, net of liabilities.** Accounting rules for business combinations have detailed guidance on the identification and valuation of assets and liabilities of acquired businesses.<sup>[1]</sup>
  2. **Outside the context of financial reporting, the elements of value captured by goodwill are sometimes much broader.** In some cases, goodwill refers to the total intangible value of a business. It may also be used to refer to the intangible value of a business that has not been specifically attributed to any other specific intangibles.<sup>[1]</sup>

[1] Shannon Pratt, *Valuing a Business*, 6th ed., Pg. 573

# Example Purchase Price Allocation

T-Mobile's Acquisition of Sprint, April 1, 2020 (in billions)



[1] Goodwill = \$40.827 Total purchase consideration  
31.629 Less: Value of acquired assets, net of liabilities  
 \$9.198 Goodwill

[2] Value of assets acquired = \$ 7.982 Total current assets  
 24.102 Total property and equipment  
 45.400 Spectrum licenses  
 0.207 Tradenames  
 4.900 Customer relationships  
 0.790 Favorable spectrum leases  
 0.428 Other intangible assets  
0.788 Total other assets  
 \$ 84.597 Total value of acquired assets

[3] Liabilities assumed = \$ 5.951 Total current liabilities  
 40.200 Total debt  
6.817 Other long term liabilities  
 \$ 52.968

Accounting Equation			
<u>Assets</u>	=	<u>Liabilities</u>	+ <u>Equity</u>
\$84.597		\$52.968	+ \$40.827
\$84.597	=		\$93.795
<u>\$9.198</u>			
<u>\$93.795</u>	=		<u>\$93.795</u>

# Resulting Tangible vs Intangible Assets

T-Mobile's Acquisition of Sprint, April 1, 2020 (in billions)

<b>Tangible Assets</b> <b>\$32.872 B<sup>[1]</sup></b>	<b>35%</b>	<b>35%</b>
<b>Identified Intangible Assets</b> <b>\$51.725 B<sup>[2]</sup></b>	<b>55%</b>	<b>65%</b>
<b>Goodwill<sup>[3]</sup></b> <b>\$9.198 B</b>	<b>10%</b>	
<b>Total Assets</b> <b>\$93.795</b>		

[1] Total Tangible Assets

\$ 7.982 Total current assets  
 24.102 Total property and equipment  
 0.788 Total other assets  


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 \$32.872 Total tangible property

[2] Total Identified Intangible Assets

\$45.400 Spectrum licenses  
 0.207 Tradenames  
 4.900 Customer relationships  
 0.790 Favorable spectrum leases  
 0.428 Other intangible assets  


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 \$51.725 Total intangible property

[3] Goodwill

\$40.827 Total purchase consideration  
 31.629 Less: Value of acquired assets, net of liabilities  


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 \$9.198 Goodwill

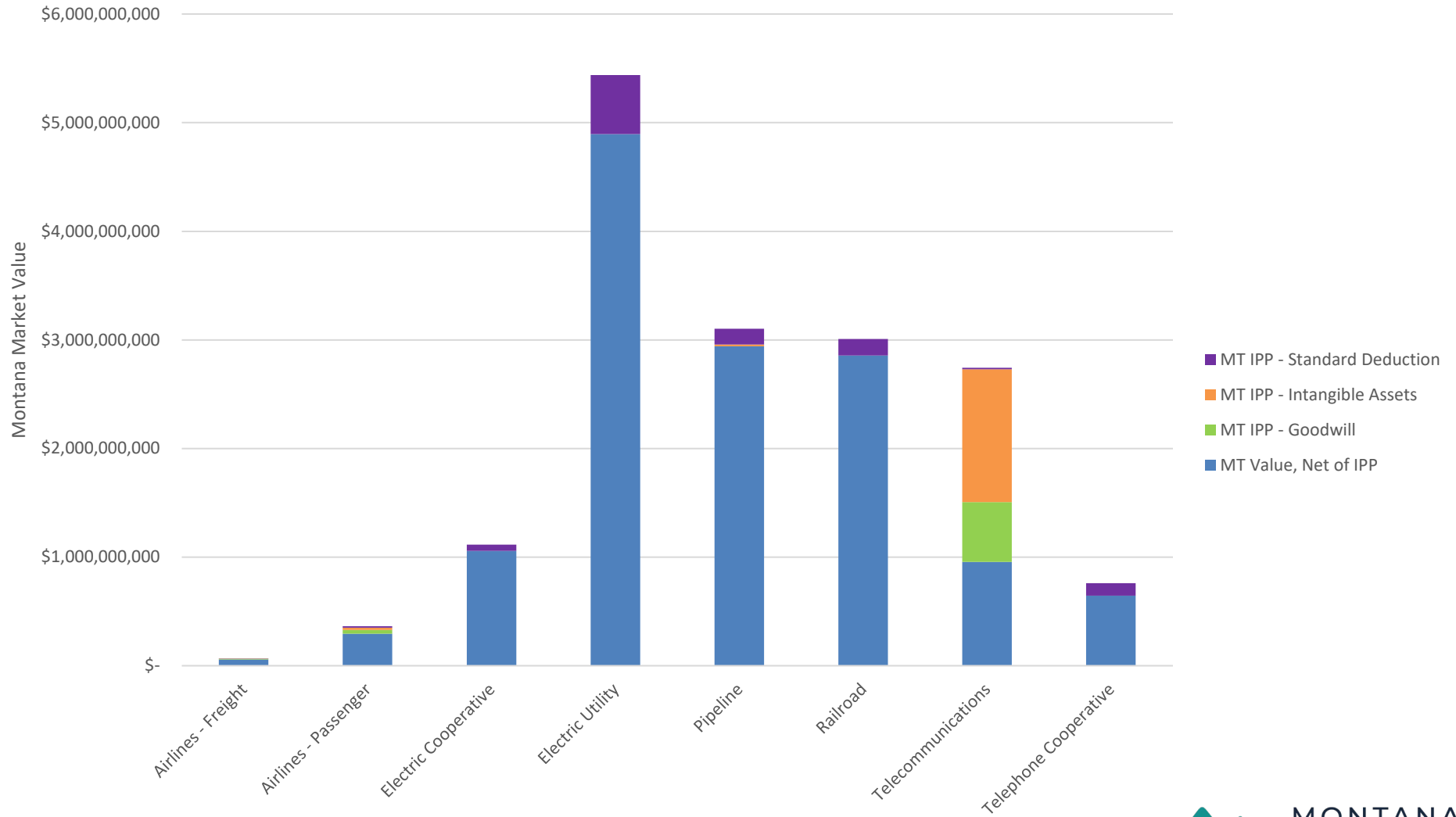
# Summary of IPP Deductions

of Centrally Assessed Property for Tax Year 2022

Industry	Appraisal Count	Standard IPP Deductions	Above Standard
Airlines - Freight	2	1	1
Airlines - Passenger	13	7	6
Electric Cooperative	31	31	0
Electric Utility	15	15	0
Pipeline	29	27	2
Railroad	8	8	0
Telecommunications	19	10	9
Telephone Cooperative	10	10	0
<b>Grand Total</b>	<b>127</b>	<b>109</b>	<b>18</b>

# Montana Market Value by Industry

of Centrally Assessed Property for Tax Year 2022





# What is the process to request IPP deductions greater than the standard deduction?

- It's case by case
  - ARM 42.22.110 (3) explains, **"If any taxpayer believes that the value of its intangible personal property is greater than that allowed [using the standard deduction] the taxpayer may propose alternative methodology or information at any time during the appraisal process and the department will give it full and fair consideration."**
- The valuation of IPP is very complex and requires a considerable amount of time, effort, and access to proprietary information to value. The standard deduction has been a means to address many taxpayers concerns as it pertains to the difficulty of valuing intangible property and the potential cost of reports and/or experts that may otherwise be required on annual basis to resolve.

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