



Office of the Commissioner General



## **PUBLIC RULING AND GUIDANCE**

<b>Public Ruling:</b>	<b>No. PR-LRC-VII-20-09-2020-1</b>
<b>Subject Matter:</b>	<b>Simple Straight-line Depreciation Method for Real Property Tax Purpose</b>
<b>Date of Issue:</b>	<b>July 1, 2020</b>
<b>Effective Date:</b>	<b>July 1, 2020</b>
<b>Issued By:</b>	<b>Hon. Thomas Doe Nah, Commissioner General</b>

### **1. PRELIMINARY**

Section 7 of the Liberia Revenue Authority Act of 2013 states that the Authority was established and empowered to transparently, equitable and fairly administer the assessment and collection of revenues, account for all revenues to which the revenue laws apply, and deposit all amounts assessed and collected into the Consolidated Fund and ensure compliance with the Code and regulations.

Section 8 of the Liberia Revenue Authority Act of 2013 mandates the Authority to discharge its functions by taking actions necessary to accomplish those functions in the manner and using the methods permitted under the Code and other laws.

Pursuant to Section 21(a) and Section 38(1) of the Liberia Revenue Authority Act of 2013, the Commissioner General has the power to interpret administrative and operational matters relating to the administration and application of the Code and other appertaining laws.

The following provisions mentioned supra provide legal basis for the issuance of this Public Ruling on the interpretation of depreciation method to be used for depreciating commercial real property in accordance with Section 2001 of the Liberia Revenue Code as amended.

#### **1.1 PURPOSE**

This Public Ruling is to provide interpretations for Section 2001(b) and Section 204(b)(2) of the Code as amended which are oftentimes misapplied by persons regarding two different methods of depreciation relating to non-movable property for Real Property Tax purpose and Income Taxation purpose







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## 1.2 DEFINITION OF TERMINOLOGIES

The terminologies used in this Public Ruling have the following meanings:

- (a) "Authority" means the "Liberia Revenue Authority;
- (b) "Consolidated Fund" means the "General Revenue Account" at CBL;
- (c) "CBL" means the "Central Bank of Liberia";
- (d) "this Act" means the "Liberia Revenue Authority Act of 2013";
- (d) "LRA" means the "Liberia Revenue Authority"
- (e) "Commissioner General" means the "Chief Executive Officer (CEO) who oversees the matters of the LRA;
- (f) "Public Ruling" means an opinion of the Commissioner General regarding the interpretation of any administrative and operational provisions of the Code as amended and other appertaining regulations for group of taxpayers whose circumstances may be the same regarding any provisions of the tax laws;
- (g) "Market value" means the capital sum which land, buildings or improvements might be expected to realize as at the date of assessment if offered for sale on such reasonable terms and conditions current price at which an asset would be sold as a bona fide seller would require;
- (h) "Assessed value" means the taxable value of real property subject to taxation on the basis of such valuation whether improved or unimproved, ascertained in accordance with provisions of the Code as amended;
- (i) "Commercial use" in relation to buildings or improvements means building or improvements used mainly for the purpose of private profit;
- (j) "Straight-line depreciation" means a simple method for calculating how much a particular fixed asset depreciates or loses value over time;
- (k) "Improved land" means land upon which improvements (as defined in Section 2000(d)(6) have been effected;
- (l) "Improvements" means those physical additions and alterations to land, building and all works carried out for the benefit of land that have the effect of increasing its value;
- (m) "Fifty (50) years of useful life of a nonresidential or commercial structure" means the estimated time at which a nonresidential or commercial structure can be fully depreciated;







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### 1.3 INTRODUCTION / BACKGROUND

The LRA has come to realize that some taxpayers or persons engaged in commercial real property business are using a certain straight-line depreciation method as indicated under Section 204(b)(2) of the Code as amended to determine annual depreciation for their commercial buildings or real estates.

The straight-line depreciation method in Section 203(b)(2) of the Code as amended is intended to depreciate other non-movable property for the purpose of income taxation (.i.e. for determining personal and business income taxes) on non-movable property other than real estate or building.

Pursuant to the above observations, the LRA wishes to issue this Public Ruling for the purpose of making further clarities regarding appropriate method to be used for determining annual depreciation henceforth. These clarities are consistent with the interpretations of the following provisions within the Liberia Revenue Code as amended. The provision are as follows: Section 2001(b) of the Code as amended which is under the Real Property Tax Law; and Section 204(b)(2) of the Code as amended which is under the Income Tax Law respectively.

#### SECTION 1.3.1 METHOD FOR DETERMINING ASSESSED VALUE OF REAL PROPERTY

Section 2001(b) of the Codes as amended provides each parcel of land so subject to assessment and taxation shall be inspected and its assessed value determined on the basis of its market value as at the date of inspection. Such assessed value shall be carried on the real property assessment record books by the Minister (now Commissioner General) for a period of 5 years from the date such valuation becomes operative in accordance with the following rules:

- (1) Determination on or before June 15<sup>th</sup>. When the assessed value of a parcel of land is determined hereunder and notice thereof is given to the taxpayer on or before June 15<sup>th</sup> in any calendar year, the operative date shall be January 1<sup>st</sup> of the then current year.
- (2) Determine after June 15<sup>th</sup> when the assessed value of a parcel of land is determined hereunder and notice thereof is given to the taxpayer after June 15<sup>th</sup> in any calendar year, the operation date shall be January 1<sup>st</sup> of the succeeding calendar year.







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(3) Exception -When Newly Completed Structures are involved. Parcel of land governed by the provisions of Paragraph (f) are exempted from the rules set forth in Paragraphs (a) and (b).

**SECTION 1.3.2 EXCEPTION FROM RULES SET FORTH IN PARAGRAPHS (A) & (B) IN SECTION 2001 OF THE CODE AS AMENDED WHEN NEWLY COMPLETED MADE ON A PARCEL OF LAND**

Section 2001(f) of the Code as amended provides that when newly constructed improvements on a parcel of land are completed, either fully according to plans thereof, or particularly to the extent that the new construction is being used or can be used for the purpose or purposes for which it was constructed or otherwise, a determination shall be made of the assessed value of the parcel on the basis of its market value as at the date of inspection. In the event the assessed value becomes operative on or after February 1<sup>st</sup> in any calendar year, the appropriate real property tax shall be levied on the parcel involved for the remainder of the calendar year at the rate of one-twelfth of the annual tax based on such assessed value for each month or fraction of a month of the then current calendar year remaining, and assessed value shall be carried on the real property assessment books for a period of 5 years from January 1<sup>st</sup> of the succeeding calendar. In the event such construction is completed as herein before set forth and the assessed value becomes operative on or before January 31<sup>st</sup> in any calendar year, then the real property tax to be levied on such parcel for such calendar year shall be the whole of the annual tax based on such assessed value and the assessed value shall be carried on the real property assessment books for a period of five years from January 1<sup>st</sup> of the then current calendar year.

**1.3.3 BASIS FOR REAL PROPERTY TAXATION**

Section 2000(a) of the Code as amended provides that there shall be levied annually a tax on real property in accordance with the conditions hereinafter prescribed. The tax shall be imposed upon each parcel of land not exempt from taxation, as specified hereunder, and shall consist of

- (1) a tax on each parcel of unimproved land, which shall include under-improved land as hereafter defined, at rates prescribed herein depending upon its geographical classification and
- (2) a tax on each parcel of improved land at a stated percentage of its assessed value determined in accordance with the provisions of Section 2001, the rate to be imposed depending upon the use classification of the building and other improvements thereon.







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### **1.3.4 ASSESSORS; NOTICE OF DETERMINANTS; CRITERIA TO BE USED BY THEM**

Section 2006 of the Code as amended states that except otherwise provided, all land, whether improved or unimproved, subject to assessment and taxation on the basis of its assessed value, shall be assessed or reassessed as the case may be, by officials appointed and authorized by the Minister (now Commissioner General to act as real estate assessors. Upon the rendering of their determinations the Minister (now Commissioner General) shall give notice in writing to the owners of the properties involved of the assessed taxable values thereof as so determined and of the annual tax assessed thereon, or if this is impractical, he shall publish such information at least twice in a newspaper having general circulation in the area in which the properties involved are located. In the event notice is given by the way of publication, it shall be deemed to have been received by the owners so notified 10 days after the last publication.

### **1.3.5 DEPRECIATION OR AMORTIZATION OF DEPRECIABLE PROPERTY EXCLUDING LAND INVENTORY**

Section 204(a) of the Code as amended provides that an annual allowance for depreciation or amortization of capital expenditures may be deducted in accordance with this Section for the physical or nonphysical depreciation of depreciable property. Depreciable property is property (other than land and inventory) used in whole or in part to earn taxable income; that when acquired has a useful life longer than one year, and that loses value as a result of use, damage, or prescription.

### **1.3.6 DEPRECIATION AND AMORTIZATION OF NON-MOVABLE PROPERTY FOR THE PURPOSE OF INCOME TAXATION**

Section 204(b)(2) of the Code as amended provide that non-movable property is to be depreciated on an asset-by-asset and by the straight-line method over a 15 year period.

## **2. RULING AND INTERPRETATION**







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## **2.1 INTERPRETATION OF SECTION 2001(B) OF THE CODE AS AMENDED**

Pursuant to Section 2001(b) of the Code as amended, it is provided that each parcel of land so subject to assessment and taxation shall be inspected, and its assessed value determined on the basis of its market value as at the date of inspection.

## **2.2 INTERPRETATION SECTION 204(B)(2) OF THE CODE AS AMENDED**

Pursuant to Section 204(b)(2) of the Code as amended, depreciation and amortization of non-movable property via the straight-line method over a 15 year period is for the determination of income tax liability and not real property liability.

### **2.2.1 INTERPRETATION OF ADMINISTRATIVE REGULATION NO. 7.2000-1/MOF/R/28/AUGUST 2009**

Pursuant to Administration Regulation No. 7.2000-1/MOF/R/28/August 2009, it is stated therein that the Economic Useful life of a building is fifty (50) years.

## **2.3 APPLICATION OF THE RULING**

Considering that land does not depreciate or go through wear and tear, but rather increase in value over time, the assessed value of land shall be based on its market value for real estate tax purpose.

However, improvements made to land can either depreciate over time or at some point increase in value based on many factors.

### **2.3.1 DEPRECIATION METHOD FOR CALCULATION OF REAL PROPERTY TAX**

The LRA wishes to inform the general public that all persons or taxpayers whose circumstances are described herein, should use or conform to using the "Economic Age-Life Method or Straight-line Depreciation Method" for determining annual depreciation on the respective properties in commercial use for the purpose of real property taxation under Part VII, Chapter 20 of the Code as amended.

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### 2.3.2 FORMULA FOR THE ECONOMIC AGE-LIFE METHOD OR STRAIGHT-LINE DEPRECIATION METHOD

For the purpose of this Ruling, nonresidential or commercial structures (such as stores, hotels and office buildings) will be depreciated at a straight-line rate (equal amounts of the cost of acquiring or constructing the structure deducted in each period) over a period of 50 years. That is, for a building that costs \$100,000, \$2,000 (or 1/50th) is written off in each of the following 50 years.

### 3. CONCLUSION

This Public Ruling sets in place the principles under which the “Economic Age-Life Method” or Straight-line Depreciation Method will be used for Real Property Taxation under Part VII, Chapter 20 of the Code as amended.

### 4. EFFECTIVE DATE

This Public Ruling comes into effect from the date of issue.

Signed: \_\_\_\_\_

Thomas Doe Nah

Commissioner General/CEO

