

Taxpayer:

Per your request, attached is a table that shows the depreciation percent good factors (Expectancy Life Factors) that Pritchard & Abbott, Inc., will be using for tax year 2016, for properties having various service lives. These Expectancy Life Factors address only the physical deterioration component of depreciation. Other components of depreciation (functional and/or economic obsolescence), to the extent they can be identified and quantified, are addressed through analysis of various property characteristics. One such example would be utilization (throughput relative to capacity) that can act as a mass-appraisal proxy for a more rigorous rate of return or income shortfall analysis.

Please note:

- The attached Expectancy Life table is generic regarding tax year and age. To use this table, look up the expectancy life factor (percent good) corresponding to the **age** of the equipment **in years**, instead of using a specific installation year. The age is shown in ascending order in the 2nd column. Longer assumed service lives result in higher percent good factors, age being equal. For any percent good factor on this table that falls below the floor factor you want to use, just use the floor factor instead. For example, equipment that's 10 years old as of January 1, 2013 (i.e., installed anytime in 2003) with an assumed service life of 20 years has a percent good factor of 0.6834 (equal to 68.34%). If the same type of equipment is 19 years old, the percent good factor is 0.0934 (equal to 9.34%). If you don't want to use anything less than 10% floor (just as an example), then use 0.1000 instead of 0.0934.
- Use the expectancy life formula shown at the bottom of the page to calculate percent good factors corresponding to any service life not shown on this table.
- Unless we change the assumed 8% rate of return in the expectancy life formula, these depreciation percent good factors will remain the same every tax year.

Pritchard & Abbott, Inc., does not publish or otherwise provide a schedule of RCN values or service lives corresponding to specific categories of property. We generally develop our own RCN schedules and service life guides for use with the specialized industrial and/or oilfield personal property equipment and facilities that we appraise. We do trend past historical or original costs when needed to convert them to current vintage with index data from a variety of sources such as Marshall & Swift, Handy-Whitman, Chemical Engineering Magazine, Oil and Gas Journal, etc. We do not combine trend factors with depreciation factors to form "composite" factors of any kind.