

Private Letter Ruling 03-005

Redacted Version

Classification of Medical Imaging Equipment as Movable or Immovable Property

March 17, 2003

This private letter ruling involves the classification of already-installed durable medical equipment as immovable property under the Louisiana Civil Code. The facts of the case are presented below.

Facts

Client and its affiliates, “the Taxpayers,” operate health care facilities in Louisiana. The affiliates of client provide emergency medical and general health care services as well as specialized surgical procedures. Client owns a controlling interest in each of the Taxpayers.

The Taxpayers contracted and paid for (i) the acquisition and installation of and (ii) the repair and maintenance of items of durable medical imaging equipment (the “Imaging Equipment”). Two subsidiaries of the equipment’s manufacturer sell and maintain, repair, and provide related services to the Imaging Equipment. These companies will be referred to collectively as “Manufacturer.”

Manufacturer categorizes and accounts for sales/installation and service of the Imaging Equipment by grouping the equipment into five modalities:

- “MR” (Magnetic Resonance Imaging Equipment);
- “CT” (Computerized Tomography Equipment);
- “XV” (X-Ray Vascular equipment, e.g., cardiac catheterization laboratories and specialist laboratories);
- “XF” (Radiographic and Fluoroscopic X-Ray Equipment); and
- “NM” (Nuclear Medicine equipment, e.g., PET scanners, gamma or scintillator cameras).

1. “MR” Modalities

The Taxpayers purchased and had “MR” units installed in Louisiana hospitals. The type of MR model that taxpayers purchased is made up of over two dozen pieces of equipment that are arranged in several rooms and incorporated into the walls and floors. Special construction materials and techniques must be used in order to allow proper functioning and shielding of the MR unit.

The installation was planned and conducted according to the methods that manufacturers/installers of MR units provide to hospitals and architects. Compliance with these guidelines is necessary to (i) protect the magnet from its environment, so that the magnetic field will not be distorted by other magnetic devices and (ii) protect the environment from the strong magnetic field, including protecting the safety of patients and health care professionals.

The manufacturer guidelines require special construction methods and structural considerations. The weight of the magnet and the patient support component that are attached to the magnet frame weigh over nine tons. This weight, as well as other components, such as the strong magnetic field, the use of radio frequency signals, and the use of cryogenic liquids for cooling the magnet all require special structural, electrical, and mechanical modifications to the building.

2. “CT” Modalities

Computerized tomography (“CT”) units are imaging devices using multiple radiographic x-ray images, as interpreted by computers, to create cross-sectional images of body structures. The site design and installation of the typical CT scanner involves many of the same structural and safety requirements of the MR equipment. The pieces of equipment in the examination room, operator room, and power room are linked together by means of cables and wires that run beneath the floor and through the walls. The CT scanners are linked to the power supply room through hard wiring and the power supply equipment is also hard-wired into the building. In compliance with regulations promulgated by the Louisiana Department of Environmental Quality, high levels of shielding are installed in and around the CT scanners and other x-ray-based imaging equipment.

3. “XV” Modalities

X-Ray Vascular Rooms (“XV”) include both cardiac catheterization labs, or “cath labs” and the “specialist lab.” Both labs incorporate radiographic and fluoroscopic x-ray imaging devices that are either suspended from gantries or contained on large c-arms affixed to the floor. The imaging devices include integral wiring and cabling conduits that connect the equipment to specialized power sources, control panels, and computerized control and monitoring devices. As with the CT units, three contiguous rooms, an examination room, operator room, and power room, contain the XV equipment and are linked by extensive cabling and wiring underneath the floor and through the walls. As with the MR and CT modalities, the immovable property housing this equipment must be adapted to accommodate the weight, size, and safety requirements of the equipment.

4. “XF” Modalities

“XF” Modalities include radiographic and fluoroscopic x-ray equipment. The imaging equipment is mounted on the floor, ceiling, or wall. These systems contain an operator control room and examination room, which are separated by a wall. The rooms housing x-ray units must, by law, include extensive built-in shielding materials to prevent the x-ray radiation from escaping the room. The operator’s console is connected to the equipment in the examination room by means of wire and cable extending through the floor and walls.

5. “NM” Modality

The Nuclear Medicine equipment, or “NM Modality” produces images and highlights certain anomalies within the body through the use of low-level radioactive isotopes referred to as radionuclides, radiopharmaceuticals, or radiotracers. The equipment utilizing this technology is configured in three separate, contiguous rooms, which include a magnet room, where the patient is scanned, a separate control room for the operator, and a third room

where the power supply and associated equipment are located. The operator workstations are connected to the imaging system by means of cables and wiring that run beneath the floor. The imaging system and patient table are permanently mounted on a reinforced concrete foundation.

Issue

Should the already-installed imaging equipment be classified as movable or immovable property based on Louisiana Civil Code and judicial interpretation of such code?

Ruling

Louisiana Revised Statutes 47:302, 321, and 331 impose sales tax on the sale of tangible personal property. As defined in Louisiana Revised Statutes 47:301(16)(a), tangible personal property “means and includes personal property which may be seen, weighed, measured, felt, or touched, or is in any other manner perceptible to the senses.” However, items of property that are permanently attached to an immovable become component parts of the immovable, and in turn, are considered immovable under Louisiana Civil Code Article 466, which provides:

Things permanently attached to a building or other construction, such as plumbing, heating, cooling, electrical or other installations, are its component parts.

Things are considered permanently attached if they cannot be removed without substantial damage to themselves or to the immovable to which they are attached.

The type of attachment that these items of imaging equipment have to the hospital structure meets the test of permanent attachment described in Civil Code Article 466. As explained on page three of Department of Revenue Ruling Number 02-003—Magnetic Resonance Imaging Scanners, permanent attachment, as provided in Civil Code Article 466, can occur in one of two methods. The first method of attachment involves the types of items illustrated in the first paragraph of Civil Code Article 466 (plumbing, heating, cooling, electrical and other installations). These items are deemed permanently attached as a matter of law and facility of removal is immaterial.

According to the facts that you have provided, the imaging equipment meets the requirements for the first paragraph of Civil Code Article 466. All of these items of imaging equipment, once installed, are connected to the building through hardwiring into the hospital’s electrical system, and thus become “electrical installations.” This term was explained in *Equibank v. I.R.S.*, 749 F.2d 1176 (5th Cir. 1985) as electrical units connected to the electric energy source through the interior wiring of the building or other construction. In *Equibank*, the electrical unit at issue was a chandelier, which was deemed a component part of a residence. The court emphasized that the connection and disconnection to the power source required special training and skills. Conversely, the *Equibank* court clarified that electrical units connected to the electric energy source through a plug in a socket are not considered “electrical installations” under the first paragraph of Civil Code Article 466, because the removal of these types of movables does not require any special expertise and can be accomplished by pulling a plug from a socket. The various types of imaging equipment described in your letter were hardwired into the hospital; therefore, these items became “electrical installations” under the *Equibank* decision and meet the requirements of the first paragraph of Civil Code Article 466.

Additionally, specific facts provided with the descriptions of the MR and XV modalities reveal that those types of imaging equipment are connected to the hospital's plumbing and cooling systems. The cryogenerator, which is part of the MR unit, must be cooled by water. This is accomplished through running chilled water under suspended flooring. Helium needed to cool the MR magnet and cryogenerator is vented to the exterior of the hospital through insulated aluminum or stainless steel pipes. The XV cath and specialist labs are sterile environments that must meet operating room venting standards established by the Louisiana Department of Environmental Quality. The first paragraph of Civil Code Article 466 provides that items connected to a building through the plumbing and cooling systems of that structure also become component parts, and the types of attachment that the MR and XV modalities have to the plumbing and cooling systems of the hospital qualify these modalities as immovable property once they are installed.

Revenue Ruling Number 02-003 also discusses the test of "substantial damage" that is provided in the second paragraph of Civil Code Article 466. Under this provision of the law, objects that cannot be removed without substantially damaging the items or the items to which they are attached are considered component parts of an immovable. However, the attachment does not need to be for perpetuity, nor does the attachment need to be made through the use of cement or permanent fasteners. What is required is that, if the items are damaged, that this damage is "substantial" such that the items involved are injured in some way.

The description of the attachment of the MR, CT, XV, XF, and NM Modalities to the hospital structure indicated that extensive planning goes into the placement of these objects for proper layout, functioning, and safety of patients and medical professionals. The equipment is situated over several rooms and is interconnected with piping, wires, and utility and data transmission line cables. Additionally, the weight of this equipment is often several tons, and reinforced concrete must be used to support the equipment.

Removal of the systems would cause damage to the hospital structure or to the equipment. The MR magnet can only be removed by removing the walls of the MR center or the ceiling and magnetic dome over the magnet. The CT modality is integrated into the hospital structure in a manner similar to the MR modality and removal of the patient table, CT scanner, or related equipment would result in damage to the equipment or to the hospital walls, ceilings, or floor. The XV, XF, and NM modalities require extensive floor, wall, or ceiling mounting of imaging equipment and accessories, removal of which would also damage the hospital structure.

Therefore, although the first paragraph of Article 466 is satisfied due to the fact that the items of durable medical equipment are electrical installations and for at least for two modalities, are also joined to the building's plumbing and cooling systems, the "substantial damage" test of the second paragraph of Article 466 is also satisfied for all of the modalities.

Summary

According to the facts provided on behalf of the client, all of the imaging equipment installed in Louisiana health care facilities was hardwired into the medical centers' electrical systems.

Additionally, two of the modalities were also connected to the Louisiana hospitals through the plumbing and cooling systems. Therefore, the items of durable medical equipment satisfy the first paragraph of Article 466 and are component parts of the building. Even in the absence of these connections, the items of durable medical equipment would meet the test provided in the second paragraph of Article 466 due to the fact that the hospital or equipment would be damaged if the imaging equipment were removed.

If you have any questions or need additional information, please contact the Policy Services Division at (225) 219.2780.

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