



ISBA Network News

February 2010

ISBA Connect

ISBA Connect is a LIST SERVE email service that we have purchased for the members of ISBA.

What will ISBA Connect enable you to do and why do you want to participate? Answer: It will keep you connected to close to 700 ISBA members who may need your services! Also, one of your clients may need their services. Now you know where to go when a client requests information that you may not have. Through ISBA Connect, you can email out an inquiry and wait for the responses! It's a win/win/win. In most professional industries, you may be able to work out a referral fee from the

Partners In The World Of Valuation: The Appraiser, The Accountant And The Auditor

Kweku Boison, MSA, CPA, CSBA, CMEA

When it comes to the profession of estimating values for plant, machinery and equipment, the terms *valuation* and *appraisal* are used interchangeably. *The American Society of Appraisers* defines appraisal as ...the act or process of determining valueⁱ of an identified property. In other words, an appraisal is an unbiased opinion of value of an identified property.ⁱⁱ It is common to hear the expression "evaluation" being used in a context which alludes to valuation as described above. Evaluation is the end product of an analytical assessment (a consulting activity) without a value provision. *The Uniform Standards of Professional Appraisal Practice* (USPAP) distinguishes between *appraisal* and *consulting*. USPAP defines *consulting* as the act or process of providing information, analysis of data, and recommended conclusions on diversified problems, *other than estimating value*. It is the study of the nature, quality or utility of a property or interest in, or aspect of, a property *without reference to a value estimate*.ⁱⁱⁱ In this article the terms valuation and appraisal will be used interchangeably.

This article will focus on the collaboration the accounting profession should have with the Plant, Machinery and Equipment Appraiser for the CPA to best service his/her clients. It starts by looking at the significance of Plant, Machinery and Equipment to the taxpayer, the importance of relying on a Qualified Appraisal and Qualified Appraisers. Who is a Plant, Machinery and Equipment Appraiser? The partnership between the Appraiser, the Accountant and the Auditor and the case for frequent valuation of assets.

ISBA member.

Each ISBA member is automatically a participant and will receive ISBA Connect ListServe emails.

INSTRUCTIONS:

To email the ISBA Connect membership, click the link below!

Email ISBA Connect

If you want to opt-out and not receive any ISBA Network Connection emails, click the link below

ISBA Connect Opt-Out

Questions?

Call (866) 290-2284 for further instructions.



Visit Our Sponsor



Visit Our Sponsor

SIGNIFICANCE OF PLANT, MACHINERY AND EQUIPMENT TO THE TAXPAYER

Next to real estate, plant, machinery and equipment tends to be a substantial portion of a company's tangible assets. Indeed there are instances where plant, machinery and equipment dominate in value. Examples include Ethanol Plants, Oil Refineries and industrial plants.

IMPORTANCE OF RELYING ON A "QUALIFIED APPRAISER" AND A "QUALIFIED APPRAISAL"

Plant, machinery and equipment valuation is a specialization within the appraisal profession. To be a plant, machinery and equipment appraiser requires specific education and qualifications. Why is this information important to accountants? The reason is that certain statutory provisions impacting taxpayer filings with the IRS give specific guidelines as to what a "qualified appraisal" is and who a "qualified appraiser" is. The 2006 Pensions Protection Act requires taxpayers to obtain a "qualified appraisal" for donated property with a value of \$5000 or more. The Act defines a "qualified appraisal" as an appraisal of property prepared by a qualified appraiser.....in accordance with generally accepted appraisal standards and any regulations or other guidance prescribed by the Secretary.^{iv}[iv] The Act goes on to define "qualified appraiser" as an individual who (1) has earned an appraisal designation from a recognized professional appraiser organization or has otherwise met minimum education and experience requirements determined by the IRS in regulations; (2) regularly performs appraisals for which he or she receives compensation; (3) can demonstrate verifiable education and experience in valuing the type of property for which the appraisal is being performed; (4) has not been prohibited from practicing before the IRS by the Secretary at any time during the three years preceding the conduct of the appraisal; and (5) is not excluded from being a qualified appraiser under applicable Treasury regulations.^v[v] These provisions are amplified by the Internal Revenue Service in IRS Notice 2006-96 which provided transitional guidance between August 17, 2006 and February 16, 2007 leading to the full implementation of the 2006 Pensions Protection Act. The Notice says in part...(ii) For returns filed after February 16, 2007, the appraiser has (A) successfully completed college or professional-level coursework that is relevant to the property being valued, (B) obtained at least two years of experience in the trade or business of buying, selling, or valuing the type of property being valued, and (C) fully described in the appraisal the appraiser's education and experience that qualify the appraiser to value the type of property being valued.^{vi}[vi]

The aforesaid provisions of the 2006 Pensions Protection Act and the IRS Notice 2006-96 has become the default standard for all IRS related filings. The days are gone when the CPA will determine the fair market value by guessing, taking the owner's word, relying on a depreciation schedule or relying on the word of a non-certified person. The IRS, the courts and others all know that the value is inaccurate and unsubstantiated. More importantly, such dependence on unqualified sources imposes unnecessary risk!



Visit Our Sponsor



Visit DK



Visit Our Sponsor



Visit Our Sponsor

Join Our Mailing List!

WHO IS A PLANT, MACHINERY AND EQUIPMENT APPRAISER?
A Plant, Machinery and Equipment Appraiser is a professional trained and certified in the methodology of appraisal and knows the guidelines for determining values. In addition the professional appraiser is trained as to how to report values in a format acceptable to the client, the industry and other designated users. The guidelines followed by the trained appraiser are known as the Uniform Standards of Professional Appraisal Practice (USPAP), which has been endorsed by the Appraisal Foundation and ultimately by the United States Congress. Professional bodies dedicated to the training and certification of appraisers include National Equipment and Business Brokers Institute and the American Society of Appraisers. The professional appraiser is held to a standard of ethics by the professional body through which he/she earned certification. The ethics require a higher standard of thinking and conduct that distinguishes the certified professional appraiser from the non-certified person. Non-certified appraisers are dangerous to the clients for whom they work and a danger to themselves. Someone expresses the opinion that, "if I need brain surgery, I don't necessarily want the cheapest guy in town. I will want to check out his qualifications also. It's just too important! Many people are willing to cut your skull open and look for a problem. I want a surgeon with experience and one that I know has been to school."^{vii}[vii]
Do you agree?

APPRAISERS, ACCOUNTANTS AND AUDITORS - PARTNERS IN THE TAX WORLD

As is often the case the work product of the CPA in the form of filings on behalf of the taxpayer is subject to scrutiny. Tax authorities at both Federal and state levels have reasons to be interested in the values assigned to the taxpayer's personal property of which plant, machinery and equipment are integral parts of the tax liability.

1. Converting from a C Corp to an S Corp - As a result of a conversion from C Corp to S Corp any property then owned by the C Corp that has appreciated is taxable as capital gains if the gain is realized within 10 years. The means by which the CPA can substantiate the client's version of the value of the assets is to obtain a "qualified appraisal".
2. *Ad-Valorem* Taxes - A tax based on the assessed value of real estate or personal property. It is levied at the state and local level. Too often tax payers dispute the assessment on the basis that the property is not worth that much. The CPA requires a qualified appraisal to support the stand of the client-taxpayer.
3. Cost Segregation - Cost segregation is an IRS-sanctioned practice of asset reclassification procedure under which federal and state income tax savings can be realized by taking advantage of the accelerated depreciation allowed for personal property. The process of reclassification is required to be thoroughly documented with appropriate support for values of personal property. In effect the IRS is not only interested in the reclassification but also being able to enforce the

depreciation recapture rules in the event of the disposal of such reclassified assets.

4. Business Valuations - In determining the value of a business, book value is not accurate and usually different from Fair Market Value. Adhering to Revenue Ruling 59-60 in the valuation of a business is a golden rule. The combined effect of Revenue Ruling 59-60 and Revenue Ruling 68-609 mean that the respective personal property of the business has to be valued separately. If the plant, machinery, or equipment is not valued properly, the entire business valuation is skewed. Lots of liability!

5. 1031 Exchanges - Also known as Like-Kind Exchanges. This is an IRS recognized approach for deferring capital gains tax. To receive the blessings of the IRS assets on both sides of the transaction have to be valued. The valuation report of a "qualified appraiser" will stand up to the examination of the IRS.

6. Gifting - The value of a transfer subject to the federal gift tax is measured by the fair market value of the property transferred less the consideration received by the transferor. Determining the fair market value of the personal property may be difficult for the CPA but can be substantiated by the "qualified appraiser" having knowledge of the relevant facts.

7. Estate Planning, Retirement, Trusts and Wills - The 2006 Pension Protection Act requires a valuation of the tangible assets. Included in this law are far-reaching changes in the qualifications necessary to perform tax-related appraisals and in the valuation standards relied on to determine the fair market value of tangible and intangible assets for tax purposes. The law sets the bench mark for all valuations going before the IRS.

8. Tax Strategies - As a consequence of the bench mark set in the 2006 Pensions Protection Act all tax strategies involving the need for valuation of assets do require a "qualified appraiser" to conduct the appraisal.

How many clients have you come across today that have machinery and equipment? Yesterday, to determine the fair market value you were guessing, using conventional ratios or relying on anything other than a "Qualified" Plant, Machinery & Equipment Appraisal. Today, a phone call could reduce your risk by delivering an irrefutable, defensible and substantiated "Qualified" Plant Machinery & Equipment Appraisal that will withstand the scrutiny of the IRS, attorneys and the courts.

1[i] Valuing Machinery and Equipment, The Fundamentals of Appraising Machinery and Technical Assets by Machinery and Technical Specialties Committee of the American Society of Appraisers. (2000) page 1

1[ii] Principles of Valuation Machinery and Equipment Valuation Student Manual ME 201 by American Society of Appraisers page 6

1[iii] ibid

1[iv] **2006 Pensions Protection Act**
1[v] **ibid**
1[vi] **Notice 2006-96. Guidance Regarding Appraisal Requirements for Noncash Charitable Contributions by Internal Revenue Service.**
1[vii] **National Equipment and Business Brokers Institute Training Manuals**

Kweku Boison MSA, CPA, CSBA, CMEA, Principal, Valuation and Assets Services LLC; a firm providing Plant, Machinery and Equipment Appraisal services, Business Appraisal Services and Cost Segregation Studies nationwide. He received a Master of Science, Accounting degree from James Madison University. He is qualified as a Certified Public Accountant. He has been qualified by the National Equipment and Business Brokers Institute as Certified Machinery and Equipment Appraiser and also a Certified Senior Business Analyst of the Society of Business Analysts.

Please direct all questions to Kweku Boison at 301-646-4119 or projects@valuationandassets.com

Thank you for your valued membership in the International Society of Business Analysts. We are continually looking for new opportunities to expand your knowledge and bring value and success to your business.

Sincerely,

John Harris
International Society Of Business Analysts
866-290-2284

[Forward email](#)

✉ **SafeUnsubscribe®**

This email was sent to projects@valuationandassets.com by csba@societyofbusinessanalysts.com.

[Update Profile/Email Address](#) | [Instant removal with SafeUnsubscribe™](#) | [Privacy Policy](#).

Society Of Business Analysts | 2014 W. 13th | Wichita | KS | 67203

Email Marketing by



