



Appraising Your Appraiser

An appraiser assigns value to your property and potentially minimizes your exposure to certain risks, such as tax penalties. An inaccurate appraisal could hinder your ability to receive a fair price for property, increase the likelihood of a tax audit, or result in an inequitable division of property or inappropriate insurance coverage. Your financial decisions may depend on your appraiser's research, analysis, and reporting.

Hiring an Appraiser

Choosing a qualified professional involves time and preparation. Because appraisers tend to specialize in certain areas, such as antiques, coins, stamps, jewelry, silver, etc., you want to find someone with relevant expertise and a proven track record. For a referral, contact the following professional organizations:

International Society of Appraisers (ISA)

www.isa-appraisers.org
1-866-481-1689

Appraisers Association of America (AAA)

www.appraisersassoc.org
212-889-5404

American Society of Appraisers (ASA)

www.appraisers.org
1-800-272-8258

Other resources include libraries, museums, auction houses, and the Internet, as well as recommendations from friends and colleagues. Once you find someone with the necessary experience, conduct an interview to ensure his or her appraisal practices meet *your* standards, as well as the accepted standards in the field. Consider asking the following questions:

1. What are your work experience and education qualifications? Ask for references and review the candidate's résumé or curriculum vitae, making note of work history, both formal and continued education, and membership in professional organizations. Some professional organizations require that members pass examinations and comply with a code of ethics. Valuation should be based on standard appraisal principles and procedures acquired through formal training. Authenticating an item is just one aspect of the appraisal process.

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Dodd Consulting, LLC
One Landmark Square, 8th Floor
Stamford, CT 06901-2603
Phone: (203) 504-3633
Fax: (203) 504-3639
E-mail: info@doddconsulting.net
Website: www.doddconsulting.net

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Valuing a Closely Held Business

For many small business owners, valuing a **closely held business** is an important part of estate and financial planning. Because valuation is a multi-faceted endeavor, a comprehensive approach is needed. Equity interests in a closely held business are not frequently sold or otherwise transferred, which can make it difficult to ascertain a valuation. Therefore, valuing a business (a **sole proprietorship**, a **partnership**, or a **corporation**), involves an analysis of specific conditions that can affect closely held businesses.

Getting Down to Business

Whenever there is a need to perform a business valuation for estate purposes, there are potentially seven areas that must be researched in order to arrive at a fair value for the total business. Each area may address issues that are somewhat abstract and/or difficult to quantify. Here is a general overview:

1) The nature, scope, and history of the business operation must be reviewed. The product or service rendered must be evaluated by past performance, as well as the risks inherent in all phases of operations. While disregarding past events that are unlikely to recur, capital structure, sales records, growth, and diversity of operations can speak volumes about the past and even future performance of the business.

2) By analyzing both related business sectors and current economic conditions, an appraisal can be made regarding the future potential for business profits. Generally, the greater the expectation of profits, the greater the value of the business. The appraiser should evaluate the industry, as well

as the position of the particular business within the industry. The economic climate may impact the ability of all businesses to generate profits. Often, insight can be gained from looking at several competitors' past performance and future growth potential.

3) Book value, defined as assets minus liabilities, is readily obtained from the balance sheet. However, in most cases, balance sheet adjustments according to book value will need to be made for an accurate reflection of economic versus tax depreciation.

4) Profit and loss statements must be scrutinized to determine the company's earnings history. While the Internal Revenue Service (IRS) may require the past five years of profit and loss statements, for example, the agency generally will not respect five-year earnings averages, due to the belief that averages do not indicate realistic valuations. It is common for appraisers to "capitalize" earnings as a means of reducing future income to a single number, otherwise referred to as present value. Capitalizing earnings is a method used to determine how much an individual will pay for a business given the level of risk involved. Typically, the greater the risk, the less the buyer will pay, and vice versa.

5) Where appropriate, the dividend-paying capacity of the company will be determined from financial statements. However, dividends may not be a reliable criterion of market value for a closely held company since the controlling stockholders may have used discretion in opting to pay deductible salaries and bonuses, rather than nondeductible dividends.

6) The most difficult area for valuation purposes is goodwill, or the

ability of a business to earn a return over and above what it could on its fixed assets alone. Consumer satisfaction, trust, and trademarks may be important factors in gross revenues. In addition, intangible goodwill value can be based upon location, reputation, or clientele. While it may be difficult to determine a precise valuation, an independent appraiser may be able to discern the overall significance of the company's goodwill.

7) If shares were purchased in the last three years, for example, the price paid for an interest in the business may be a significant factor in valuation for a closely held business. In this case, the IRS may scrutinize when the sale was made, whether the interest sold was controlling or a minority block, and whether or not the sale was forced by other conditions in the business or circumstances associated with the buyer or seller.

Wherever possible, each area must be reduced to specific numerical values. The IRS cautions against averages to prevent the appraiser from simply averaging factors, such as book value, goodwill, and capitalized earnings, and then coming up with a figure. Courts generally agree with the IRS in not giving credence to averages and formulas. As a result, valuation has become more complicated.

While determining the valuation of a closely held business may seem overwhelming at first, it may prove useful in estate and financial planning, as well as **business succession planning**. Because the valuation process is intricate and involves many variables, be sure to consult with qualified professionals. ■

Charitable Giving Hits Record Levels in 2013

Fueled largely by significant gains in stock prices, charitable giving in the U.S. increased 13% in 2013, hitting a record \$416.7 billion, according to a report released by the Atlas of Giving.

The analysis showed that while all of the measured sectors grew significantly, the biggest increases in gift revenue were among human services organizations, environmental charities, donor-advised funds, and educational institutions. Meanwhile, giving to churches and health organizations failed to keep pace with the revenue growth seen in other charitable sectors.

Researchers observed that several key factors came together to create a

favorable atmosphere for philanthropy in 2013, including a 12% nationwide rise in housing prices and big jumps in stock market values. However, the lingering effects of unemployment continued to hurt churches and other organizations that rely on small gifts from a large number of donors.

“In 2013 we experienced a fantastic, record-setting year for charitable giving in the United States,” said Rob Mitchell, CEO of the Atlas of Giving. “Stock market growth fueled much of the giving but improving employment, growing real estate values, a lack of inflation, low interest rates, and acceleration in GDP also helped to make 2013 an especially strong

giving year. Breaking the \$400 billion mark is a historic event that bolsters U.S. dominance of world philanthropy.”

Mitchell added that these conditions in the marketplace motivated many affluent donors to give, especially to universities and donor-advised funds. “Giving appreciated stock or real estate is a great way to avoid paying capital gains tax, and many donors took advantage of the opportunity by making gifts involving such assets,” he observed.

While emphasizing that the initial outlook for giving in 2014 is positive, Mitchell warned that growth for the current year is not expected to keep pace with 2013 levels. ■

Life Insurance Can Help Ensure Your Child's Education

Although we all know that “time flies,” it seems to move with particular speed as we watch our children grow. Yet, in considering college for a newborn, it is understandable that parents may tend to procrastinate, since seventeen or eighteen years seems a long way off. Unfortunately, our children progress all too quickly from day care to the dorm room, making early college planning essential.

That's why ensuring your child's future education requires setting up a savings plan as early as possible. However, even planning early cannot guarantee future savings if something should happen to you. Can you be certain that the money for your child's college education will be there even if you are not?



Life insurance can play an important role in overall planning for college funding. It can provide supplemental, tax-advantaged funds to help pay college costs. And, it's the only self-completing vehicle that can help assure continued funding in the event of your premature death. In addition, if you choose a **waiver of premium rider** and become disabled, the rider will pay for the life insurance policy premium so that you can continue to have coverage for the duration of the policy.

Remember, it's important to develop a program that can provide your child with the best opportunity for a college education. For more information on how life insurance can become a valuable part of your college funding plan, contact your insurance professional. ■

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2. What is your area of expertise? Make sure your candidate's expertise matches your needs. However, finding one person who is an expert in all areas may be difficult. The International Society of Appraisers recognizes over 220 areas of specialization. For items that exceed an appraiser's expertise, ask if the appraiser would be willing to consult with other qualified professionals.

3. How much will the appraisal cost? Appraisers may charge per hour, per diem, per item, or a flat rate. Other charges may include reimbursement for additional expenses, including travel and photographs. Consider avoiding any proposal that includes a "contingency fee" based on a sale or a fee which is based on a percentage of the valuation. Generally considered unethical, these types of appraisals could have tax consequences for you; the Internal Revenue Service (IRS) rejects all appraisals performed with these conditions.

4. How do you report your findings? An appraiser typically prepares a signed, written report that documents the valuation of an item, including his or her evaluation methodologies and credentials.

The Written Report

Keep in mind that at some point attorneys, judges, the IRS, estate executors, insurers, and trustees may grant decisions based on your

appraisal. Therefore, it should be comprehensive and professionally prepared. The following key elements are usually included in an appraisal report:

Statement of Purpose. As discussed earlier, an appraisal has a variety of uses, which may include helping you assess your insurance needs or substantiate a tax deduction. The purpose of your appraisal and its expected use should be clearly noted.

Description of Property. This includes a physical description that details such features as the size, weight, color, age, material composition, origin, and condition of the appraised item, as well as the method of acquisition (often helpful for tax purposes). The appraiser also attests to an item's authenticity and notes the date it was viewed.

Statement of Disinterest. The appraiser should verify that no conflict of interest exists. If the report has been prepared for tax purposes, the appraiser must provide a tax identification number and also disclose if the IRS has ever disqualified him or her. The appraiser also needs to include an explanation of the applicable fee structure.

Method of Valuation. An explanation of valuation methodology offers a basis for the appraiser's conclusion. In general, appraisers make assessments based on such factors as

replacement value, fair market value (FMV), or comparable sales. For example, an appraiser who is determining the value of a work of art may consider the prices of similar works of art. The appraiser often includes a market analysis that references historical performance and may also project future value.

The Provenance. In some instances, particularly with artwork, a history of ownership may be included. Further documentation, if applicable, might chronicle noteworthy exhibitions or publications.

Statement of Value. The report should clearly state a dollar amount representing the valuation of the appraised item, and it should be signed and dated by the appraiser. It is also standard practice for the appraiser to include his or her credentials, either with a résumé or curriculum vitae.

Stay Current

In order to keep pace with the potential for changing market values, consider reviewing an appraisal every three years. As your financial strategies change, make sure you base your decisions on the most up-to-date and accurate information regarding the value of your possessions. What you cherish as "priceless" may have a price tag that can help you plan for your financial future. ■

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