



Is a 'Relevant Range' Practical?

In the article "Stop Pretending: Valuation is Not an Exact Science" (July/August, page 20), Alfred M. King states: "We would all be better off providing our indications of value in a range, not as a point estimate." Certainly the AICPA's Statement on Standards for Valuation Services No. 1 provides that a valuation engagement conclusion of value may be expressed as either a single amount or a range. I would agree with the author's premise that it might be beneficial to express a conclusion of value in terms of a relevant range when the opportunity arises. For instance, when an individual is thinking of selling the business, providing a range of value might be very helpful, both as a starting point and in managing initial expectations.

However, in many cases, providing a range of value can be problematic. In divorce cases, if I provide a range of value, the parties will go right to each end of the range. That could do more harm than good. Actually, I am often engaged by both parties, in divorce cases, to estimate the value of a business. Providing a relevant range of value has a strong probability of upsetting both parties and both lawyers. The parties would simply gravitate to the result most beneficial to their respective positions. In most divorce cases, the parties just do not need another issue to fight over. The same holds true in shareholder disputes.

Most of the time, the end users of valuation reports need a specific value amount, not a relevant range of value. Developing

a relevant range of value certainly requires some skill. However, making a final determination of value, particularly in the case of a joint retention, and effectively communicating that outcome, can be a much more difficult but necessary process.

A relevant range of value is just not realistic, or acceptable, in the estate and gift tax area. You cannot put a range of value on the tax returns. To put this in context, imagine you are hired to complete a valuation of an equity interest in a family limited partnership. The partnership holds one piece of real estate worth approximately \$5 million. How would you respond if the real estate appraiser provided a conclusion of value, on the real estate, within a 10 percent range (\$4.5 to \$5.5 million)? I would send the real estate appraisal back. As business appraisers, most of us are not qualified to value real estate. In selecting the mid-point of \$5 million, the business appraiser would basically be making the final determination of value on the real estate and then valuing the FLP equity interest. The IRS would have a relatively easy time attacking this work. The business appraiser would have exposure to the IRS and the client. Expressing estate and gift tax conclusions of value as a relevant range of value would be viewed in much the same way. The preparer of the estate or gift tax return probably would not appreciate the lack of single value.

At times, expressing a conclusion of value as a relevant range can be very use-

ful. However, in the area of litigation and in the estate and gift tax arena, the users of our reports generally require a specific value amount. In fact, the client or lawyer usually hires the business appraiser to provide a specific value amount, and expects such a determination. Providing a range of value in such cases is akin to the business appraiser telling the estate tax attorney, "Okay, I got you 80 percent of the way there, now you finish the job." That just does not work. We need to carefully assess each job, at the engagement level, and determine what reporting format is the most appropriate for a specific assignment, including whether a point or a range is acceptable. That information should then be communicated to the appropriate parties.

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ALFRED M. KING RESPONDS:

Valuation professionals often specialize in certain areas, and I agree fully with Mr. Barrett's comments that in many circumstances an exact answer is required. Having said that, how is it that two equally competent valuation specialists can come up with similar, but not identical, exact answers? Is one correct and the other wrong?

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No, both probably have a substantial overlap in their range of value. I think I indicated that in a "worst case" situation the appraiser should present the range and then a recommended value within that range; ordinarily that would be the mid-point.

Mr. Barrett's point about estate tax and divorce valuations is exactly why I wrote the article. Two competing valuation specialists develop diametrically opposite reports, and any neutral third party (judge or arbitrator) throws up his or her hands. The problem is that when you present a single point answer, and

a lot of money rides on the answer, it appears desirable to the client and her "hired gun" to go as high, or as low, as can conceivably be supported without getting ridiculous. That is what actually happens in practice, and I was suggesting that if both contending appraisers provide ranges, then it might be easier for a third party to make sense out of the information provided.

Every time I see that a third valuation expert has to be hired to mediate between two partisan appraisers I just shake my head at the waste of professional resources. One appraiser could

have worked for both parties and saved a lot of resources, and by the way probably have come very close to the answer ultimately arrived at in the other, more expensive approach.

It's very likely that you are called upon to value a business that has "little" or "no" goodwill. Oftentimes, the only assets of the business are the machinery and equipment. It has value!

Now what? How do you determine the value of the equipment? No longer can you ignore, guess, rely on a depreciation schedule, or rely on the word of a non-certified person to determine the value of your client's machinery and equipment! Why? Because these methods are inaccurate and filled with the risk of liability. Also, you are not relying on substantiated, accurate, and defensible equipment values required by the IRS, lenders, and others. An inaccurate equipment value can also skew a business valuation. What's the alternative?

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