



California
Society

**Certified
Public
Accountants**

December 11, 2006

Janice Fredericks
AICPA - Financial Planning
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

Dear Ms. Fredericks:

I am writing on behalf of the California Society of Certified Public Accountants (CalCPA) to submit comments on the exposure draft of the Proposed Statement on Standards for Valuation Services.

In general, CalCPA supports the promulgation of a business valuation standard. We agree with the AICPA regarding the need to issue standards, which apply to CPAs providing business valuation services. However, CalCPA does not support the application of this standard to services provided solely for purposes of tax return preparation or similar services such as tax controversy. We understand that the AICPA does not endorse a blanket exemption for tax services. That said, a significant number of CalCPA members from the Committee on Taxation and the Estate Planning Committee feel strongly that in certain situations current tax standards and Treasury regulations supersede the valuation standards, and the concurrent application of the valuation standards to tax services would undermine our members' ability to provide high quality services with certainty regarding the professional standards covering those services. We feel the valuation standards as currently written will serve to limit a practitioner's ability to provide timely, cost effective professional services to clients.

When CPAs exercising their professional judgment determine that they have complied with regulatory and ethical standards including Circular 230, AICPA Rule 201, General Standards (AICPA, Professional Standards, Vol. 2, ET Sec. 201.01), and AICPA Rule 202, General Standards (AICPA, Professional Standards, Vol. 2, ET Sec. 202.01), and those services are used solely for a tax return filing, then there should be an exemption for those tax services.

Specifically, Statement on Standards for Tax Services (SSTS) #1 provides that in general a CPA can sign a return with a position that has a Reasonable Possibility of being Sustained (RPOS). With disclosure, a return can be signed when there is a position taken that is Not Frivolous. RPOS is defined as having a one in three chance of prevailing if contested by the IRS. Not Frivolous is closer to a one in ten chance of prevailing. What this means is that a CPA is currently able to prepare a return taking a position on an asset valuation that has a one in three or as little as a one in ten chance of prevailing. With regard to the valuation standard, it appears that the CPA has to reach a much higher level of confidence with respect to a value reported on a tax return. If that is the case, then the valuation standard would supersede and supplant the

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existing tax standards with respect to the inclusion of indicators or opinions of value included in tax returns.

For example, both the Internal Revenue Service and the courts have recognized that the application of discounts to fractional interests to the value of property and business entities is both appropriate and required. Taxing authorities have allowed “reasonable discounts” where adequate disclosure is made of the assumptions used in arriving at the discount. A valuation used in a tax compliance or an estate planning engagement may not necessarily require the same type of standards as a specific valuation engagement. In a tax services engagement the professional may be in more of an advocacy role for the client, many times using guidelines established through the judicial process.

We understand based on other communications that the AICPA currently does not intend to grant a broad exemption for tax services. This second exposure draft has significantly broadened the range of options available to the CPA for compliance with the valuation standard. Specifically, the oral valuation report and the calculation engagement allow the CPA to provide limited scope valuation services and still comply with the valuation standard. Our concern is an issue of certainty. We would like the AICPA to provide clarification or guidance to the CPA providing limited scope valuation services within a tax engagement. How will the CPA know with certainty that the steps taken in an oral valuation report or calculation engagement are sufficient to comply with the valuation standard?

We ask that you consider the following amendments and additions to the standards:

Jurisdictional Exception

Amended (*in Italics*)

10. If any part of this statement differs from a published governmental, judicial, or accounting authority, or such authority specifies valuation developmental procedures or valuation reporting procedures, then the valuation analyst should follow the applicable published authority or stated procedures with respect to that part. *This Jurisdictional Exception applies even when the applicable authority does not require the same level of confidence or objectivity with regard to the services rendered.* ~~The other parts of the statement continue in full force and effect.~~ See also Appendix D.

Added

8(c). This Statement is not applicable when the member is providing services for use solely under the Jurisdictional Exception. Under the Jurisdictional Exception, the standards and procedures of the applicable authorities apply.

Illustration 14a. Would the answers to Illustration 13 change if the values were determined solely for reporting on a tax return? The client does not want a valuation report: written, oral or as a calculation engagement. The member uses professional judgment and some valuation methodologies in determining the values to be reported. The client, by signing the tax return, is declaring they have

examined the value and the value is correct to the best of their knowledge and belief. Does the Statement apply?

Conclusion

The Statement would not apply if the values were provided solely for reporting on a tax return. The Jurisdiction Exception applies and the services are provided under the standards and procedures of the applicable authorities. The client, by signing the tax return, is declaring the value to be correct or appropriate for tax return reporting. However, the member would be subject to Statement on Standards for Tax Services in general, with specific reference to SSTs No. 1 Tax Return Positions, No. 3 Certain Procedural Aspects of Preparing Returns, No. 4 Use of Estimates, and No. 8 Form and Content of Advice to Taxpayers in providing appropriate due diligence with respect to the values communicated to the member (see AIPCA Professional Standards, vol. 2, TS sec. 300). It is also recommended but not required that the understanding between the member and the client in these circumstances include documentation of the fact that the client has assumed responsibility for the appropriateness and accuracy of the value of the subject interest.

We thank you for the opportunity to provide these comments and hope that you will consider them in your deliberations.

Best regards,



MARC G. PARKINSON, Chair
California Society of CPAs