

Wednesday, 06 December, 2006



California  
Society

Certified  
Public  
Accountants

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

Dear Ms. Fredericks,

The following comments are submitted by the Committee on Taxation of the California Society of Certified Public Accountants, concerning the Exposure Draft of the Proposed Statement on Standards for Valuation Services ("Statement").

General position:

We believe that there should be an exemption from the Statement when a member's primary engagement is to provide tax services and which may include valuation considerations and the reporting of a value on a tax return, and who is in compliance with government and professional authorities with regard to those tax services.

While that may already be the intent of some aspects of the Statement as it is currently drafted, it is in a number of ways unclear in both scope and in meaning, causing uncertainty. The uncertainty causes us to be very concerned that we will be held accountable to enforceable standards in situations when we are not able to ascertain whether the Statement applies, or how to apply it. If, as a result of this uncertainty, we then descend to the lowest common denominator of applying the Statement in every situation that might be applicable, the added costs of our services will be substantial, with no demonstrable benefit.

When providing tax services that include valuation considerations, we believe that our compliance with existing regulatory and professional standards, including Treasury Circular 230, statutory and judicial authority and requirements, and AICPA Statements on Standards for Tax Services along with other AICPA rules, provides sufficient enforceable standards and sources of authority.

Examples of Uncertainty of Application:

We appreciate that there are certain "carve-outs" in the Statement, including mechanical computations and the jurisdictional exception. While helpful, they do not solve the problems stated above. The following relatively simple examples show the difficulty in determining whether and to what extent the proposed standards and their exceptions apply in tax engagements, and the associated additional costs:

1201 K Street, #1000  
Sacramento, CA  
95814

1 (916) 441-5351  
[www.calcpa.org](http://www.calcpa.org)

1. A CPA is engaged to prepare an estate tax return. A major asset is a 50% interest in the stock of a closely held corporation. The estate of the decedent sells the interest in an arms-length transaction 6 months after the decedent's death. The CPA determines that, after careful consideration and application of statutory and judicial authority, and using professional judgment, the sale price is the best indication of fair market value for estate tax reporting purposes and documents those reasons on the return.

2. A CPA is engaged to prepare an estate tax return. The decedent owned an interest in a real estate limited partnership consisting of rental property, a bank account and a mortgage. The partnership's property manager who is also a real estate broker provides the fair market value of the building. The client agrees that that value is reasonable and should be used. The CPA adds the bank account balance and mortgage liability to arrive at the value of the partnership as a whole, and then applies the percentage of ownership.

None of the exceptions in the Statement clearly apply to these examples, as follows:

1. The exception in Statement paragraph 4 for values provided by a client or third party is difficult in its application. The Statement and Appendix D repeatedly state, as an overriding principle, that any time a member applies valuation approaches and methods and uses professional judgment, the Statement is applicable. In both these examples, professional judgment is being used to determine what can and should be used on an estate tax return. In the broad definition of valuation approaches and methods, they are being used too. Any time alternative valuation approaches and methods are considered as part of the determination of what value to report on a return, even when finally rejected, the member can be said to be using them. Therefore the exception does not appear to be applicable to either example.

2. The mechanical computation exception of Statement paragraph 8 (a) does not appear to be applicable to either example. The exception applies when "such (mechanical) computations do not rise to the level of an engagement to estimate value...that is, where the member does not apply valuation approaches and methods and use professional judgment" (emphasis added). In the above examples, the member is using professional judgment. Therefore, as written, if the member determines he is not or may not be applying valuation approaches and methods, but is using professional judgment, the exception would not apply. While that may not be the intent of the exception, that seems to be the result the way it is written. The decision tree appears to support this reading. Also, paragraph 21 of Appendix D leaves out the "use of professional judgment" clause when applying this exception, causing further confusion.

3. The exception under paragraph 8 (b) does not appear to apply to either example, as the member is not unable to apply valuation approaches and methods, assuming he is even doing so, which is uncertain.

4. It is uncertain how far the jurisdictional exception of paragraph 10 applies to example 1 above. While regulatory and judicial authority clearly allow for the use of an actual sale price when circumstances warrant it, it is not clear how much of the Statement must still be applied. Does other authorities' allowance for the use of the sale price mean that their valuation approaches and methods are "different"? In example 2, the exception does not apply.

These examples show, in two simple and common cases, the difficulty of providing tax services that include valuation considerations and the attempt to interpret and apply the requirements of the Statement.

A primary result of this attempt will be the high cost of the effort. For example, even if it is determined that a calculation engagement (as opposed to a valuation engagement) applies, the member: (1) should consider all the items at paragraph 48 (and document?), (2) should comply with the documentation requirements in paragraphs 46 and 48 (we believe this was intended to refer to paragraphs 46 and 47), and (3) must comply with the calculation report provisions of paragraphs 74 through 78. The uses of the word "should" above may well result in its being interpreted as "must". This will cost thousands of dollars, often in cases where the member is doing it only because of his uncertainty of the applicability of the Statement to a situation.

Alternate suggestions:

Absent the suggested exemption for tax services that include valuation considerations, as stated above, we would offer the following suggestions:

1. There should be a de minimis exception. Paragraph 8 (b) does not achieve that due to the inclusion of the word "unable". Therefore a separate exception should be provided for situations where, in the professional judgment of the member, the amount and use of a value is not material to the overall service being provided.
2. Under the jurisdictional exception of paragraph 10, where the member is in compliance with governmental, judicial and/or accounting authority, he should be exempted from the application of the Statement. The use of the word "differs" creates uncertainty. The statement that "other parts of this Statement continue in full force and effect" causes a great amount of cost to be incurred in an engagement that is otherwise fully compliant with various authorities.
3. Paragraph 8 (a) can be clarified. Omitting "that is, where the member does not apply valuation approaches and methods and use professional judgment" would take away the uncertainty in these situations, as shown in the above example.
4. The allowance of oral reports may be helpful, but it is not clear. If a member shows a value on a tax return, can it be construed to be an oral report? It would not seem so. Even so, all the analysis and documentation required for either a valuation engagement or a calculation engagement still apply to an oral report; only the written report is omitted. Thus, this is little if any help for a tax engagement that includes valuation considerations, for the reasons stated above.

5. A further narrowing of the tax services exemption that we request in the second paragraph of this letter could be to include in the exemption the restriction that the only non-client party that will be given the value would be the government tax authority related to the tax service.

Respectfully submitted,



Daniel K. Crosbie, Chair  
Committee on Taxation,  
California Society of CPAs

cc Mr. Barry Melancon, President and CEO, AICPA  
Mr. Jimmy Williamson, Chairman, AICPA  
Mr. Thomas Ochenschlager, Vice President-Taxation, AICPA  
Mr. Edward Karl, Director, AICPA Tax Division  
Committee on Taxation, CalCPA  
Mr. Mark G. Parkinson, Chair, CalCPA  
Ms. Teresa C. Mason, First Vice-Chair, CalCPA  
Ms. Loretta Doon, CEO, CalCPA  
Mr. Bruce C. Allen, Director, Government Relations, CalCPA  
Ms. Jeannie Tindel, Director, Legislation, CalCPA