



California
Society

**Certified
Public
Accountants**

December 14, 2006

Janice Fredericks
Financial Planning Project Manager
AICPA
Harborside Financial Center
201 Plaza Three
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Dear Ms. Fredericks,

The Estate Planning Committee of the California Society of Certified Public Accountants has major concerns in connection with the Proposed Statement on Standards for Valuation Services ("Statement"). Our Committee feels that the standards are unclear when applied to usual estate planning engagements because practitioners would not be in compliance with the standards outlined in the Statement if they were also following Circular 230 (issued by the U.S. Treasury), AICPA Statements on Standards for Tax Services #1 ("STS1") and most recently the US Treasury Regulations Section 301.6501(c)-1(f)(2) dealing with adequate disclosure for the tolling of the statute of limitations with regard to values used for gift tax returns.

We agree that standards are necessary for business valuation engagements but an attempt to apply the standards designed for third-party valuations in addition to the requirements of tax and judicial authorities may make the valuation so expensive that CPAs will not be able to compete with practitioners not subject to the standards for estate tax engagements.

This Committee as well as other California Society of Certified Public Accountants ("CalCPA") Committees provided suggestions in 2005 during the initial comment period. Although the corrections to grammar, terminology and lack of clarity have not been made, we realize that some relaxation of the standards has occurred with the latest version. However, we do not believe that the changes provide any relief in the estate planning area. We have read many of the comments and suggestions submitted to you from other CalCPA committees, such as the Committee on Taxation and the Society's Board of Directors and it appears that many of the more technical items have been addressed. Rather than duplicate them in our comments we have chosen to only amplify the issues that we perceive as relevant to the estate planning arena and make known for the second time the concerns we have with the Statement.

The Internal Revenue Service issued Rev. Rul. 59-60 to determine fair market value of a closely held business. The ruling was originally issued

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to value the stock of a closely held corporation for estate or gift tax purposes but it has been expanded to cover income tax matters and valuations of partnerships, LLCs, sole proprietorships or any other form of closely held business. The ruling lists eight factors to be considered in a valuation but states that it is inappropriate to simply take an average of several factors.

Item 8(a) indicates that the Statement does not apply to “mechanical computations... where the member does not apply valuation approaches and use professional judgment.” This change provides no assistance when applying Rev. Rul 59-60 since both professional judgment and valuation approaches are involved. There are few engagements in which estate planning specialists or CPAs in general do not use professional judgment. Allowing oral valuation reports gives no relief in the estate planning area where “complete financial and other data upon which the valuation is based should be submitted with the return (Treas. Reg. §20.2031-3).”

Item 10 provides a jurisdictional exception that is worded unclearly. It would be clear if changed to read as follow:

10. If a valuation follows published governmental, judicial or accounting authority or such authority specifies valuation developmental procedures or valuation reporting procedures, it is exempt from this statement. If part of the valuation departs from such authority, that part constitutes a separate engagement subject to the standard.

The flowchart in item 11 would also need to be adjusted for this clarification.

This suggested change in terminology is consistent with Item 19 (Conclusion of Illustration 7) where it is stated that when a taxing authority requires its own report, the need for a separate valuation report is obviated.

Item 25 (Conclusion of Illustration 9-that erroneously refers to IRS regulations) is not clear. It sounds like the jurisdictional exception supersedes the Statement only when the Statement differs from the published authority. The Illustration and Conclusion should be rewritten so they provide clarity.

Item 38 (Conclusion to Illustration 12d) seems particularly harsh. We know of examples where an outside appraiser provides a value for real estate owned by a FLP. The member then adds to that value the assets shown on the FLP balance sheet as of the valuation date (cash, equipment and receivables), since a CPA always uses professional judgment such action appears to be a valuation engagement according to

this illustration. We do not see how following the Statement in this situation provides value to anyone. We are concerned that the additional costs added to the engagement will put us at a significant competitive disadvantage to other tax practitioners.

Item 55 (Conclusion to Illustration 13d) should indicate that a jurisdictional exception would apply if the valuation is in compliance with Treasury regulations and Rev. Rul. 59-60.

Tax and estate planning practitioners are advocates for their clients. This is expected and encouraged by many legal precedents. In this advocacy CPAs, however, are bound by STS1 and Circular 230. The Statement does not recognize that the relationship between a client and the taxing authorities differs from the same client's relationship with a third party such as a banker, potential buyer or divorce counsel for the spouse of a shareholder. Our relationship with the taxing authorities is regulated and subject to their review. When our work follows published governmental or judicial authority, we believe we should be exempt from the Statement.

As CPAs, we are the provider to the consumer of our services. The needs of these consumers should dictate the services that we provide. We should always strive to provide the highest level of professional services to our clients as the engagement dictates. However, to require the use of a set of standards which may be far in excess of what is required for a specific engagement or to superimpose new requirements in addition to standards that already have been established as the benchmark does not serve the best interests of practitioners or the public we serve. Standards for a valuation engagement are important and we applaud the efforts to adopt these standards to ensure the consistent and high levels of work performed by our profession, but they have a time and place when they are applicable. To utilize these standards across the board on a blanket basis will only diminish their effectiveness and reduce our ability to properly serve our clients.

The profession has a history of meeting the needs of the public that we serve while maintaining the high standards that our work is held to. Examples of this would be the three different levels of financial statement reports and the distinction made between reporting standards for small businesses and larger publicly held businesses. We would ask that the AICPA take the same common sense approach and be sensitive to client needs and costs, when considering the application of these standards.


It is our position that the performance of valuation services as part of an estate planning or compliance engagement should not be subjected to the Statement if it is in accord with STS1 and Circular 230. If it is determined by the professional and the client that additional valuation

services are required, a separate valuation engagement would be required.

The profession needs to set high standards against which our work is held accountable, but we also need to be competitive in the marketplace because there are others willing to take our place because our costs are out of line with the service provided.

We would like to thank you in advance for your time and thoughtful consideration of our comments requesting that the Statement clearly remove an estate planning or compliance engagement subject to STS1 and Circular 230 from the definition of "valuation engagement."

Very truly yours,



Mary Kay Foss, Chair
Estate Planning Committee
California Society of CPAs

cc: Mr. Barry Melancon, AICPA President and CEO
Mr. Jimmy Williamson, AICPA Chairman
Mr. Thomas Ochsenschlager, AICPA Vice President-Taxation
Mr. Edward Karl, AICPA Tax Division Director
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