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Tax & Business Alert

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A VALUATION MAY LEAD TO A BETTER BUSINESS FUTURE

If someone suggests that you should have your business appraised, you might wonder if that's a subtle suggestion that you should retire and sell the company. But a valuation can serve many purposes other than preparing your business for sale.

Think of a valuation as a checkup. You can use it to take the temperature of your business as part of a business health improvement plan.

A DIAGNOSIS OF BUSINESS STRENGTH AND WEAKNESS

Today's economy offers both challenges and opportunities for companies. One major challenge you may be facing is access to financing due to current interest rates, ongoing inflation concerns and stricter lending standards.

A business valuation conducted by an outside expert can help you present timely, in-depth financial data to lenders. The appraisal will not only help lenders better understand the current state of your business, it will also demonstrate how you expect your company to grow. For example, the discounted cash flow section of a valuation report can show how expected future cash flows are projected to increase in value.

In addition, a valuator can examine and state an opinion on company-specific factors, such as specific risks your business may face and ways to mitigate them. You might even recognize some weaknesses you weren't aware of that you can remedy. A valuator

can also pinpoint how your leadership is — or isn't — tuned into market conditions.

ACQUISITIONS AND SALES

There's no getting around the fact that, in many cases, the primary reason for getting a valuation is to prepare for a transfer of business interests. This might involve an acquisition or a sale. Even if you're not ready to make a move like this right now, an appraiser can help you get a better sense of the optimal time.

ADD PEACE OF MIND TO YOUR GIFTING STRATEGY

When business owners transfer business interests to their loved ones, the IRS generally has three years to challenge the valuation for gift tax purposes. But that period doesn't begin until an owner "adequately discloses" the gift on a timely filed gift tax return. Among other things, the return must provide various details about the transferred interest, the terms of the transfer, and the relationship between transferor and transferee.

Start the clock ticking on the statute of limitations by filing a timely gift tax return that includes a qualified appraisal — even if filing a return isn't required (because, for example, the owner hasn't exceeded the lifetime gift exclusion). A qualified appraiser is one who meets certain minimum education and experience requirements or has earned a designation from a recognized professional appraiser organization.

If you're considering a purchase, a valuation of the company should be part of your due diligence. When negotiating the final sale price, an appraiser can help determine the reasonableness of the seller's asking price and related factors.

If you're the seller, a formal appraisal adds credibility to your asking price in the eyes of a potential buyer. Most appraisers subscribe to transaction databases that report the recent sale prices of similar private businesses.

GO ABOVE AND BEYOND

An appraisal is a savvy way to raise the bar. It enables you to get the information you need for wise future planning. Contact us for support throughout the valuation process and to help you make the most of the information you receive. ■

UNLOCKING TAX SAVINGS: THE BENEFITS OF A COST SEGREGATION STUDY

A cost segregation study is a strategic tax planning tool that allows a business property owner to accelerate depreciation deductions. That, in turn, will enable the owner to reduce taxable income and increase cash flow. A cost segregation study can be performed by an expert in the field. The study separates various building components — such as electrical systems, certain plumbing systems and removable carpeting. It then allows the personal property to be reclassified for tax purposes and deducted over a much shorter period. This strategy has been consistently upheld in the courts.

FUNDAMENTALS OF DEPRECIATION

Business buildings generally have a 39-year depreciation period. Typically, companies depreciate a building's structural components — including walls, windows, HVAC systems, plumbing and wiring — along with the building. Personal property (such as equipment, machinery, furniture and fixtures) is eligible for accelerated depreciation, usually over five or seven years.

Often, businesses allocate all, or most, of their buildings' acquisition or construction costs to real property, overlooking opportunities to allocate costs to shorter-lived personal property or land improvements. Items that appear to be "part of a building" may, in fact, be personal property. Examples include removable wall and floor coverings, removable partitions, awnings, canopies, window treatments and signs.

SHINE A LIGHT ON OUTDOOR SAVINGS

Rules for outdoor lighting, parking lots, landscaping and fencing are tricky but can still lead to current tax deductions in certain situations. These expenditures are generally treated as capital improvements, subject to the 15-year depreciation rule. For instance, if you replace your business lighting to upgrade it or provide greater security at night, it qualifies as a deductible capital improvement. Similarly, landscaping projects designed to boost your curb appeal or provide environmental benefits are considered capital improvements.

On the other hand, routine maintenance — such as the costs of mowing and watering the lawn surrounding your business building — typically fall into the category of deductible business expenses, just like minor repairs.

IDENTIFYING COSTS

A cost segregation study combines accounting and engineering techniques to identify building costs that are properly allocable to tangible personal property rather than real property. Although the relative costs and benefits of a cost segregation study will depend on your particular facts and circumstances, it can be a valuable investment.

It may allow you to accelerate depreciation deductions on certain items, thereby reducing taxes and boosting cash flow. And, under the Tax Cuts and Jobs Act, the potential benefits of a cost segregation study may be even greater than they were years ago because of enhancements to certain depreciation-related tax breaks.

WORTH CHECKING OUT

Cost segregation studies have costs of their own, but the potential long-term tax benefits may make it worthwhile to undertake the process. Contact our firm for further details. ■

FEELING CHARITABLE? BE SURE YOU CAN SUBSTANTIATE YOUR GIFTS

As the end of the year approaches, many people give more thought to supporting charities they favor. To avoid losing valuable charitable deductions if you itemize, you'll need specific documentation, depending on the type and size of your gift. Here's a breakdown of the rules.

Cash gifts under $250: A canceled check will do, or ask the charity for a receipt or "other reliable written record" that provides the organization's name, the date and the amount of the gift. If you make separate gifts, there's no need to combine gifts of less than $250 to the same charity (monthly contributions, for example).

Cash gifts of $250 or more: You'll need a *contemporaneous* written acknowledgment from the charity stating the amount of the gift. That means you received the acknowledgment before the earlier of your tax return due date (including extensions) or the date you file your return. Also, if you received anything in exchange for your gift, such as a book or movie ticket, ask the charity about the fair market value of the item. You'll need to subtract it from your charitable deduction.

Noncash gifts under $250: Get a receipt showing the charity's name, the date and location of the donation, and a description of the property.

Noncash gifts of $250 or more: Obtain a contemporaneous written acknowledgment from the charity that contains the information required for cash gifts, plus a description of the property. File Form 8283 if total noncash gifts exceed $500.

Noncash gifts of more than $500: In addition to the above, keep records showing the date you acquired the property, how you acquired it and your adjusted basis in it.

Noncash gifts of more than $5,000 ($10,000 for closely held stock): In addition to the above, obtain a qualified appraisal and include an appraisal summary, signed by the appraiser and the charity, with your return. (No appraisal is required for publicly traded securities.)

Noncash gifts of more than $500,000 ($20,000 for art): In addition to the above, include a copy of the signed appraisal, not just a summary, with your return.

Saving taxes isn't the primary motivator for charitable donations, but it may affect the amount you can afford to give. Substantiate your donations to ensure you receive the deductions you deserve. ■

NOT EVERY DISASTER ALLOWS FOR A CASUALTY LOSS TAX DEDUCTION

Many Americans have become victims of natural disasters in 2024. Wherever you live, unexpected disasters may cause damage to your home or personal property. What's considered a personal casualty for tax purposes? It includes damages incurred due to a sudden, unexpected or unusual event, such as a hurricane, tornado, flood, earthquake, fire, act of vandalism or terrorist attack. An example might be if high winds tore off part of your roof, resulting in water damage to your home's interior and your belongings.

Through 2025, you can deduct personal casualty losses only if you itemize on your tax return and the loss results from a federally declared disaster. There is, however, an exception to that general rule. Suppose you have personal casualty *gains* because your insurance proceeds exceed the tax basis of the damaged or destroyed property. In that case, you can deduct personal casualty losses that aren't due to a federally declared disaster up to the amount of your personal casualty gains.

WHEN TO CLAIM A REFUND

A special election allows taxpayers to deduct a casualty loss that's due to a federally declared disaster on the tax return for the *preceding* year and claim a refund. You can file an amended return if you've already filed the relevant return.

This election must be made no later than six months after the due date (without considering extensions) for filing your tax return for the year in which the disaster occurs. However, the election itself must be made on an original or amended return for the preceding year.

Need help? Contact us with your questions. ■