

# How to Choose the Best Business Appraiser

Are you considering buying or selling an operation, have a gift or estate tax issue, buying or selling a minority equity interest in an operation, or have fair value or fair market value-related financial reporting requirements for either GAAP or tax purposes?

If so, a fundamental question exists: How much is your business and assets worth? To find out, you need the experience and expertise of a business valuation expert – a business appraiser.

Small businesses and big corporations often don't know what to expect when choosing a business appraiser. Two critical questions to ask are: (1) How do I know if they are qualified; and (2) What should an appraisal cost? Appraisers play a vital role in the market, and choosing one takes a little knowledge and lots of comparing to get comfortable with your selection.

## Look for Professional Certifications

Many business owners, attorneys and advisers aren't sure what qualifications a trustworthy expert business appraiser should have. Just as accountants and doctors might use CPA and M.D., respectively, business appraisers often have a set of initials confirming they have received extensive training and/or have ample experience in their field. These certifications span a broad range, but they all indicate that the business appraiser knows what he or she is doing. Here's an overview of common certifications:

- ASA (Accredited Senior Appraiser) – Issued by the American Society of Appraisers (ASA). To earn this prestigious certification, applicants must have a 4-year degree, 5 years of business appraisal experience; take 96 hours of ASA's rigorous course sets and 12 hours of oral and written exams. They must also interview with their local ASA chapter, pass an ethics test, and submit two appraisal reports before their peers. In addition, active ASAs must complete additional courses on an ongoing basis to keep their designation.
- CBA (Certified Business Appraiser) – Issued by the Institute of Business Appraisers (IBA). Holders must be an active member of the IBA, have a 4-year business degree, complete 6 hours of various workshops and training programs, pass the CBA exam, have submitted two demonstration reports and have 5 years of appraisal experience or 90 hours of class time. Requirements may be lessened for those who hold other business appraisal certifications prior to application.
- CPA/ABV (Certified Public Accountant Accredited in Business Valuation) – Issued by the American Institute of Certified Public Accountants (AICPA). Holders must have a valid CPA, complete the ABV exam, work on ten engagements and meet business valuation experience and education requirements.
- CVA (Certified Valuation Analyst) – Issued by the National Association of Certified Valuation Analysts (NACVA). Holders must have a valid CPA or relevant business degree, at least three personal and business references, has passed a proctored exam and two years or ten engagements of business appraisal experience.

Obviously these certificates have vastly different levels of experience to satisfy the designation. Be sure and know the difference when selecting your appraiser. Of course, these certifications aren't tell-all determinants of an appraiser's skill or qualifications. Not all ASAs are equally experienced in the same industry. Consider their work experience, industry experience and client references. Review their website and publications made by the appraiser. While experience and expertise are really important, credentialing provides added support in litigation environment before the court, the IRS or when subjected to auditor review.

## Beware of Right-Hand Appraisers

Make sure that your business appraiser exercises complete objectivity when appraising your firm. An appraiser's job isn't to promote you, but to give an unbiased assessment of your organization's worth. Unruly "right-hand" appraisers may overstate the value of your business for personal gain. These tactics created quite the turmoil in the late 80s real estate market. Homes were frequently overvalued, encouraging banks to hand out heftier loans. When the decade turned, the market crashed.

This is another area where certifications can help. Business appraisers with professional certifications are bound by a code of ethics that prohibits right-handing and other shady practices. Non-certified appraisers may also operate by these ethics, but it's not guaranteed. Remember that appraisers aren't on the side of buyers, sellers or loan officers; they work for the good of the free market. Before you sign anything, read the appraisal agreement and verify that there is an independence clause.

## Know the Costs

Depending on who you hire, a business valuation can cost between a few thousand to well into the six figures, depending upon the scope of the project. The more services you require, especially those for litigation purposes, the more your appraiser will charge. Especially in "high-stake" situations, most often litigation, the credentials, experience and expertise of your valuation expert matter. Selecting a low-cost provider is often "penny wise and pound foolish" as the results may cost more in the end. Also, keep in mind that litigation services can run hundreds of dollars per hour and can easily skyrocket if proceedings drag on.

Don't sign a contract with the first appraiser you meet. Instead, compare estimates from a variety of sources, look at their qualifications, and evaluate what your situation requires. Projects that will receive a high level of scrutiny from auditors, the IRS, opposing council or judges will require significant documentation. However, if you're a small business looking for an oral appraisal, fees should be lower as very little documentation (i.e. report writing) is required.