

The Enterprise

January 1972

Appraisal Concepts

THE ENTERPRISE is the first issue of a new quarterly published by Enterprise Appraisal Company. This newsletter will contain topical ideas which we hope will provide avenues for appraisal solutions to some of the problems of American business.

The platform provided by this journal will give some of the finest minds in the appraisal profession an opportunity to present discussions of valuation problems which are pertinent to enterprise in America.

The issue before you contains articles concerning ad valorem taxes, investment credit and intangibles. The "Dollar Conversion" table on the back provides an insight into the relationship of your historically invested dollar to present cost and market values. The "Dollar Converter" reflects national averages and is designed as a handy reference for rule of thumb estimates of present property values.

YOUR UNFROZEN TAX CREDIT

The passage of the investment credit brings back the opportunity of a tax reduction equal to 7% of capitalized section 34 property in activated use, August 15, 1971, or later. In addition to personal property, many process items included in your new building contract qualify for the investment tax credit. Separation of these items from your lump sum building contract requires careful scrutiny and expertise. This matter is a relatively easy project for your appraiser. He combines his knowledge of building construction and accounting in component fractionalizing of process items from the general purpose building. The result can provide tax dollar savings that flow down to your bottom line and improve your annual earnings per share.

DEPRECIABLE INTANGIBLES

The tax problem which most often raises the question of whether or not intangible values exist involves the allocation of the purchase price paid for all the assets of an enterprise.

Patents have a legal life and are commonly known as depreciable intangibles for tax purposes. However, in their absence, the only other intangible that comes to mind is non-depreciable "Good Will." The appraiser's search for all separable tangibles and intangibles in his valuation of all assets purchased, often reveals numerous depreciable intangibles. Subsequent issues of this newsletter will discuss many of the more important depreciable intangibles that have saved millions of tax dollars.

AD VALOREM TAXES UNDER SCRUTINY

The unusual rise of taxes in many areas of our economy has resulted in a close examination of the basis for every tax increase. The taxation of real and personal property has generated unusual interest because of its pertinence to everyone from major corporations to home owners. Ralph Nader recently stimulated this interest in his speech on inequities between industry and the home owner. While the home owner was depicted as the victim, many responsive corporate surveys found the reverse.

The equitable basis for taxation of real estate and personal property is the assessed value which is usually some percentage of fair market value. Tax increases are usually effected by either an increase in the rate, or the assessment, or a combination of both adjustments.

A vigilant review of the basis for assessment and its equitable relationship with every other property in the same political subdivision is necessary to insure a proper tax burden for your property.

An objective valuation review of your property provides a basis for decision about the fairness of a given assessment. The age of the assessment is not a guarantee of fairness, because our economy is dynamic. An old assessment may peg the value of your property at a level which is excessive for current economic conditions.

Expert opinions of value are required to support an over-assessment contention before a tax review board. Two modes of retaining appraisal service are apparent. The first entails a fee based on the time involved to appraise the subject property. The second entails a contingent fee equivalent to as much as 50% of the first year's tax savings. The first mode is the only ethical approach to fee structure for a professional appraiser. The second mode places the appraiser and his report in an advocacy position. The objective appraisal report is the essential basis for a decision to challenge assessments.

DOLLAR CONVERTER

Your dollar spent in earlier years has the following values today:

	BUILDINGS			MACHINERY & EQUIPMENT		
	Repl. Cost New	Occupied Proprietary Value	Resale Value	Repl. Cost New	Installed Operating Value	Used Market Value
1971	1.00	1.00	0.90	1.00	1.00	0.75
70	1.08	1.06	0.95	1.06	0.95	0.74
69	1.14	1.09	0.98	1.13	0.96	0.73
68	1.21	1.14	1.02	1.18	0.88	0.71
67	1.32	1.21	1.08	1.22	0.85	0.67
66	1.37	1.23	1.10	1.26	0.82	0.63
65	1.42	1.25	1.10	1.32	0.79	0.59
64	1.47	1.26	1.10	1.36	0.75	0.54
63	1.50	1.26	1.09	1.38	0.69	0.51
62	1.54	1.26	1.08	1.39	0.65	0.49
61	1.56	1.25	1.05	1.41	0.63	0.47
60	1.58	1.23	1.03	1.43	0.60	0.43
59	1.61	1.22	1.01	1.47	0.57	0.41
58	1.66	1.23	1.00	1.50	0.55	0.39
57	1.70	1.22	0.98	1.55	0.54	0.39
56	1.73	1.21	0.95	1.68	0.55	0.39
55	1.85	1.26	0.97	1.83	0.57	0.38
54	1.91	1.26	0.95	1.89	0.55	0.38
53	1.95	1.25	0.93	1.92	0.52	0.36
52	2.00	1.24	0.90	1.94	0.50	0.35
51	2.03	1.22	0.86	1.95	0.49	0.35
50	2.23	1.29	0.89	2.08	0.52	0.35
49	2.39	1.34	0.90	2.15	0.52	0.34
48	2.36	1.27	0.83	2.15	0.52	0.34
47	2.58	1.34	0.84	2.29	0.53	0.34
46	3.01	1.50	0.90	2.65	0.61	0.40
45	3.56	1.71	1.00	3.14	0.69	0.44
44	3.83	1.76	1.00	3.15	0.66	0.44
43	3.89	1.71	0.93	3.16	0.63	0.41
42	3.96	1.66	0.87	3.17	0.60	0.38
41	4.32	1.73	0.86	3.47	0.62	0.42
40	4.62	1.76	0.88	3.99	0.68	0.44
39	4.77	1.72	0.86	4.17	0.71	0.46
38	4.86	1.65	0.83	4.12	0.70	0.41
37	4.77	1.53	0.76	3.97	0.64	0.40
36	5.31	1.59	0.80	4.34	0.69	0.43
35	5.37	1.50	0.75	4.52	0.72	0.45
34	5.63	1.46	0.73	4.61	0.69	0.41
33	6.06	1.45	0.73	5.01	0.75	0.45
32	6.77	1.49	0.74	5.11	0.76	0.46

EXAMPLE OF APPLICATIONS OF THE DOLLAR CONVERTER

The ABC Corporation completed their present plant in 1947 at costs of:

BUILDINGS	\$10,000,000
MACHY & EQUIP.	<u>20,000,000</u>
	\$30,000,000

The replacement costs new of this original investment are:

BUILDINGS	\$25,800,000
MACHY & EQUIP.	<u>45,800,000</u>
	\$71,600,000

The occupied proprietary and installed operating values are respectively:

BUILDINGS	\$13,400,000
MACHY & EQUIP.	<u>10,600,000</u>
	\$24,000,000

The resale or used market values are, respectively:

BUILDINGS	\$ 8,400,000
MACHY & EQUIP.	<u>6,800,000</u>
	\$15,200,000

The above illustration is based on national averages for replacement cost new, and our interpretation of normal composite market indications. The Replacement Cost and the Fair Market Value factors under the two stated conditions, are multipliers to be applied to historical original cost. These factors should not be used in specific cases as many variables make up the averages indicated. Your mix of the variables may produce a very different answer.

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