

Business Valuation Notes

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Olsen Thielen CPAs Make Purchase...

MBVG IS ACQUIRED

Significant Capacity Increase...

MBVG President Randall Schostag announced today that the Minnesota Business Valuation Group has been acquired by Olsen Thielen & Co., Ltd, a St. Paul, Minnesota based certified public accounting firm.

Olsen Thielen has created a new limited liability company which will use the name Minnesota Business Valuation Group and the assets of Randall Schostag, Inc. which has been doing business under that name. Olsen



Vohs

Thielen President Kenneth H. Vohs said the new firm, Minnesota Business Valuation Group, LLC, will continue to operate in a similar manner but with support from Olsen Thielen's staff. Schostag, Vohs said, will remain president of the firm.

"We are very excited about the prospect of joining with this prestigious, professional firm," Schostag said. "This is a perfect fit that will enable MBVG to continue to grow its broad-based professional services, adding much needed capacity and support."

The acquisition was completed June 18 at the offices of Olsen Thielen after an approximate three-month period of negotiations and due diligence. Most telephone numbers, the Internet site and domain, and other brand-related resources, including Business Valuation Notes will remain the same. Some numbers, such as the fax number, may change.

Schostag, who founded MBVG in mid 2001, stated that growth has required the business to either add substantial additional support capability internally to handle its growing corporate finance services or combine with another firm. "This offers the best of all worlds," Schostag said. "In the last year it's been evident that we have needed to have more man-power to handle work, meet deadlines, and expand in-house skills."

Since inception, MBVG has used valuation as a cornerstone, using that capability for standard valuation needs, but also expanding that core competency for use in corporate strategic planning, portfolio valuation for compliance and



Schostag

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Tax Benefits from

COST SEGREGATION STUDIES

Companies should consider a Cost Segregation Study of fixed assets to provide potentially significant tax savings and thus enhanced cash flow, according to Ron Bruzek, Principal, Minnesota Business Valuation Group.

In a recent white paper, Bruzek, certified in both real estate and equipment appraisal, said, "This is not a sleight of hand trick or tax scheme but a way of declaring tax depreciation earlier and benefiting from the time value of money. A property owner can lower their current income tax liability; a dollar of tax savings today is more valuable than the same savings in the future."

Bruzek is an instructor of real estate appraisal classes for continuing education programs. Bruzek, an MBVG Principal since 2001, is an Accredited Senior Appraiser in the American Society of Appraisers (ASA), where he is certified in both real property/urban and machinery & equipment. He is also a member of the Commercial Panel of Arbitrators of the American Arbitration Association. Before joining MBVG, Bruzek worked 24 years as an appraiser/analyst for Marshall & Stevens, a national appraisal company.

"A cost segregation study is not a new accounting procedure," Bruzek said. "It has been around for a long

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SEGREGATION

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time, but more recently, due to a tax court decision, the strategy has been resurrected because it is such a potentially powerful tax savings strategy.”

In 1999, the IRS acquiesced with a court decision (*Hospital Corporation of America*) allowing a taxpayer to segregate and depreciate various building costs over shorter lives other than the customary long lives used for real property. Historically the Internal Revenue Code (IRC) has allowed accounting depreciation for the exhaustion, wear and tear, and obsolescence of business real estate. Several different methods are described for calculating depreciation under IRC sections 167 and 168, including straight line, declining balance, and sum-of-the-years digits.

In 1942, IRS Publication Number 173 ("Bulletin F") was released and provided a useful life guide for various types of property based on the nature of the business use. Section 167 allowed taxpayers to choose between a composite depreciation method (composite rate for buildings, including all installed building equipment) or a component depreciation method (depreciate the building equipment separately from the structure itself).

In 1962, Congress enacted Code section 48, Investment Tax Credit (ITC). Section 48 generally allowed a tax credit for investment in tangible depreciable property (primarily machinery and equipment) placed in business service during the taxable year. Also in 1962 IRC sections 1245 and 1250 were enacted. Section 1245 property is either personal property or other tangible property used as an

integral part of certain business activities. Section 1245 property specifically excludes a building or its structural components from the definition of section 1245 property. Section 1250 property is defined as any real property, other than section 1245 property.

In 1981 Congress enacted IRC section 168, the Economic Recovery Tax Act of 1981 (ERTA) and the Accelerated Cost Recovery System (ACRS). Section 168 was intended to provide a less complicated method for computing depreciation and provided a mandatory hand full of depreciation periods for real property. Simultaneously with the enactment of ACRS, Congress disallowed component depreciation as a method of computing depreciation for buildings.

Modified Accelerated Cost Recovery System (MACRS) was enacted Under the Tax Reform Act of 1986. The depreciation period for buildings (long-lived property) and structural components (short-lived property) increased dramatically. In 1986, MACRS reiterated that the use of component depreciation was not allowable.

ACRS is effective for property placed in use between 1981 and 1986, and MACRS is effective for property placed in use after 1986.

A plethora of court cases have addressed the classification of property for ITC purposes, Bruzek said. All of the cases have current applications and merit; and yet quite often the opinions of the courts conflict. But there are no rigid set of standards that can be evolved to test or distinguish section 1245 and section 1250 properties, according to Bruzek.

The 1999 landmark decision, *Hospital Corporation of America (HCA) v. Commissioner*, provided the legal support to use cost segre-

gation studies for computing cost recovery depreciation. Some experts feel that this decision has reinstated a form of component depreciation.

In HCA case, the IRS took the position that certain property items (certain building support systems) were structural components of a building and that section 168 prohibited the use of a component depreciation method for computing depreciation on structural components. The IRS also argued that section 168 changed the definition of tangible personal property for ACRS purposes by excluding any item attached to the building from being section 1245 property. Therefore, the prohibition against component depreciation precluded an item from being treated as section 1245 property if it was attached to a building and had utility beyond its relationship to the particular piece of property.

The judge in the HCA case ruled that the property at issue was section 1245 property and rejected the IRS's argument. The judge also concluded that the enactment of ACRS did not redefine section 1250 property to include property that had been section 1245 property for purposes of ITC. Therein, the court determined that section 168, disallowing component depreciation, applied only to section 1250 property. Bruzek said that it appears the court's opinion effectively re-established a form of component depreciation for certain building support systems, such as the electrical and plumbing systems that directly serve tangible personal property.

“As a practical matter, for properties that already have established depreciation periods,” Bruzek said, “a change in these depreciation periods may be viewed as a change

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ACQUIRED

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management, merger and acquisition, and other services. This growth has increased its senior, professional advisors to 14.

Olsen Thielen is one of the top 25 and largest CPA firms in Minnesota, with 19 principals and more than 125 staff. Olsen Thielen's team members are experts in a variety of individual and corporate tax, assurance, financial planning, business consulting and technology fields, backed by a history of long term client relationships in the Upper Midwest. Over the past 88 years, the firm has expanded specialized services, developing expertise in information technology consulting, utility consulting, benefit plan consulting and administration, business valuations, and financial planning.

Olsen Thielen has a history of building affiliated companies. The firm has a subsidiary, Olsen Thielen Technologies, which serves more than 300 clients utilizing Microsoft Dynamics™ GP, Microsoft Dynamics™ CRM, and IT managed services. Olsen Thielen has a practice groups dedicated in the business services, distribution, manufacturing, not-for-profit, and telecommunications industries. The technology firm provides software, services, and solutions that help organizations meet and exceed business goals. Schostag noted that MBVG should fit nicely into supporting that effort.

MBVG focuses its valuation and other corporate services to be compliant with clients' needs. The valuation work supports company audits, Internal Revenue Service reporting, and litigation for goodwill impairment for FASB 142, option pricing for 409A and FASB(123-R) and other requirements, purchase price

allocation for FASB 141, gifting and estate reporting for IRS Revenue Ruling 59-60, and Department of Labor reporting for Employee Stock Ownership Plans.

MBVG also does valuations and other corporate finance work for divorce, shareholder disputes, cost segregation, ESOP implementation and updates, appraisal for proper insurance coverage, medical practice and healthcare company valuation, valuation and analysis, reverse mergers, asset-based lending, strategic planning, portfolio valuation and for compliance, and offers tools for selecting and monitoring public equities. .

MBVG offers valuation tools for operations turnaround, selling a business, buying another, and assessing financing alternatives.

Valuation is at the heart of both management and investment, and through its affiliations with Life Cycle Returns, Business ValueXpress, and the Abbott Index, offers proprietary tools for large portfolio investment selection and fund compliance reporting.

As an affiliate of Olsen Thielen, Schostag and the Minnesota Business Valuation Group will report to Steve Sarracco, Chairman of Olsen Thielen and Principal-in-Charge of the Tax Department.

Sarracco has more than 29 years of experience advising closely-held and family-owned businesses and their owners and shareholders on complex tax matters. After spending more than six years with the Internal Revenue Service, Sarracco joined Olsen Thielen in 1981. Sarracco is also a Certified Public Accountant Accredited in Business Valuation (CPA/ABV) by the American Institute of Certified Public Accountants



Sarracco

(AICPA) and is a Certified Valuation Analyst (CVA) by the National Association of Certified Valuation Analysts (NACVA).

“Schostag and the rest of the folks in the Minnesota Business Valuation Group bring very strong collective experience and contacts to Olsen Thielen with this acquisition,” Sarracco said. “We’re anxious not to meddle with the formula which has made them successful but to provide the assistance now required to continue to grow.”

Schostag said, “Sarracco and Olsen Thielen not only offer support which has become increasingly needed, but by positioning MBVG with the tax group we gain considerable help in examining our models and conclusions along side real tax issues. It’s an understatement to say that we’re excited.

SEGREGATION

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in method of accounting and require IRS consent. Thus property that is newly constructed and has contemporaneous detailed records was thought to be the most logical use of cost segregation studies. Yet reason suggests that at the time of a property acquisition a properly documented cost segregation study could support separate depreciation for personal property.”

Bruzek noted cost segregation studies have been criticized for requiring significant time to prepare and costly. With a proper cost allocation process, Bruzek said, the benefits should outweigh the costs.

Because cost segregation studies are closely scrutinized by the IRS, the work requires an unbiased consultant with expertise in construction components, equipment/personal property, blueprint analysis, cost estimating, and appraisal valuations to prepare a supportable report.

Professional Business Appraisals

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BUSINESS VALUATION

Goodwill Impairment Analysis (141/142)

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**WE ARE AVAILABLE FOR PRESENTATIONS FOR ESOP IMPLEMENTATION,
MERGER & ACQUISITION CONSIDERATIONS, EXPERT TESTIMONY PREPARATION,
GENERAL BUSINESS VALUATION, AND MANY OTHER TOPICS.**

OUR FORMAT IS POWER POINT - BASED.

**WE REQUEST THAT YOU SUPPLY THE SOUND SYSTEM AND APPROPRIATE DISPLAY
INSTRUMENT.**

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PLEASE ALLOW AT LEAST 30 DAYS FOR SCHEDULING.