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## LIST OF SUBSTANTIVE CHANGES AND ADDITIONS

### *PPC's Guide to Business Valuations*

### Twenty-ninth Edition (February 2019)

#### Highlights of This Edition

The following are some of the important new features of the 2019 Edition of *PPC's Guide to Business Valuations*:

**More Integrated Discussion of the Tax Cuts and Jobs Act (TCJA) and Its Impact on the Valuation Profession.** Although it has been over a year since the TCJA was enacted, there remains uncertainty regarding its details and impact on business valuations. Your *Guide* not only provides discussion of the latest theories and practice applications related to determining the tax provision for pass-through entities, but it also provides discussions regarding the latest TCJA-related tax regulations and its impact on the valuation profession. For example, your *Guide* includes considerations of the TCJA's effect on the market approach methods.

**A New Section on Allocating Equity Value within Complex Capital Structures.** Valuation of various equity securities within a complex capital structure is often necessary when, for example, a business needs additional financing rounds or to determine the value of share-based compensation to employees for both financial reporting disclosure and tax reporting disclosure. Your *Guide* has a new section focusing on the allocation of a private entity's total equity value among its various classes of securities. Specifically, the new section describes strengths and weaknesses and how to implement three options-based methods professionals can utilize to allocate equity value—current value method, option pricing model, and probability-weighted expected return method.

**New Practice Aid for Conflicts of Interest.** We've continued to revise the practice aids to increase their functionality and ease-of-use and to reflect the guidance from SSVS No. 1 and other AICPA professional standards, as well as, the standards of the other business valuation organizations. We've also added a "Sample Conflict of Interest Form" as a new practice aid that may be used to document information about the client(s), and if applicable, the client's lawyer(s), the opposing party, and their lawyers(s); whether there are conflicts of interest with any of those parties; and steps taken to mitigate such conflicts.

**New National Economic Analysis.** A narrative discussion of the national economic trends that occurred during 2018 and an economic forecast for 2019 through 2020 has been added. You may find this discussion useful when analyzing the performance of a company in the context of its operating environment and providing a discussion in your valuation report of economic factors that significantly affect the subject company's value.

In addition to these featured items, your *Guide* includes the following update items detailed below.

<u>Chapter</u>	<u>Description of Changes/Additions</u>	<u>Guide Reference</u>
CHAPTER 1 Overview of a Business Valuation Engagement	1. Added a discussion concerning proposed changes for the 2020–2021 edition USPAP affecting valuation consultants.	Paragraphs 101.36–.37
	2. Updated the discussion of defining <i>qualified appraiser</i> and <i>qualified appraisal</i> for final IRS regulations.	Paragraphs 101.83–.85
	3. Updated the discussion regarding training/certification requirements for the AICPA granting the ABV designation to non-CPAs and NACVA the (former) CBA and MCBA designations.	Paragraphs 102.11 and 102.16
	4. Added the most recent version of the NACVA Professional Standards.	Appendix 1A-3
	5. Updated the list of business valuation reference materials.	Appendix 1C
CHAPTER 3 Pre-Engagement Procedures	1. Revised to expand the “Illustrative Engagement Acceptance Form—Business Valuation Engagement.”	Appendix 3A
CHAPTER 4 Data Gathering and Analysis	1. Updated the discussion concerning computing a tax provision when identifying and making financial statement adjustments.	Paragraph 404.43
	2. Updated and expanded the suggested sources of external data to include online sources.	Appendix 4A
	3. Added a national economic analysis for 2018 and a forecast of 2019 and 2020.	Appendix 4H-1
CHAPTER 5 Capitalized and Discounted Returns Methods	1. Updated the discussion concerning forecast assumptions about income taxes for the Tax Cuts and Jobs Act of 2017 (TCJA).	Paragraph 502.32
	2. Revised the capitalized cash flow method discussions concerning using the company’s tax rates as of the valuation date and the determination of a tax provisions for pass-through entities for the TCJA.	Paragraphs 504.7–.13
	3. Updated the discussion regarding the sources of equity risk premium information.	Paragraph 505.15
	4. Updated the discussion of Duff & Phelps (and other) cost of capital information for the latest Duff & Phelps recommended equity risk premium, the 2019 <i>Cost of Capital Navigator</i> , and the newest online competitor for cost of capital data—BVRResources’ <i>Cost of Capital Professional</i> .	Section 507

<b><u>Chapter</u></b>	<b><u>Description of Changes/Additions</u></b>	<b><u>Guide Reference</u></b>
	5. Updated the weighted average cost of capital (WACC) discussion for a TCJA business interest deduction consideration.	Paragraphs 509.1 and 509.4
	6. Updated the discounted cash flow method discussion for a TCJA bonus depreciation consideration.	Paragraph 511.3
CHAPTER 6 Valuation Methods Based on Guideline Company Data	1. Updated the introduction discussion of using guideline companies to value an interest in a business for the effect of the TCJA's effect on the market approach.	Paragraphs 600.14–.18
	2. Updated the discussion concerning computing (or recomputing) Federal taxes of each guideline company.	Paragraph 601.51
	3. Updated the research sources for guideline transaction data.	Paragraphs 603.7–.12 and Exhibit 6-12
CHAPTER 7 Asset-based, Excess Earnings, and Other Methods	1. Updated the Appendix, "Income Tax Considerations for the Net Asset Value and Liquidation Value Methods," for various items.	Appendix 7B
CHAPTER 8 Wrapping Up the Engagement	1. Updated the discussion of quantifying control premiums and minority interest discounts to reflect recent data.	Paragraph 803.18 and Exhibits 8-9 and 8-10
	2. Updated the discussion concerning studies of transactions in closely held stocks prior to IPOs.	Paragraph 803.65 and Exhibit 8-16
	3. Updated the exhibit summarizing commonly used business valuation discounts and premia databases.	Exhibit 8-18
CHAPTER 9 Valuation Reports	1. Updated the discussion of ASA business valuation reporting standards.	Paragraphs 903.7
	2. Updated the discussion concerning authoritative guidance for calculation reports to clarify that ASA and USPA allows for calculation engagements if properly identified as such.	Paragraph 905.2
CHAPTER 10 Estate and Gift Tax Valuations	1. Updated the discussion and Exhibit for inflation-adjusted 2019 applicable estate credit amounts.	Paragraphs 1001.15–.18 and Exhibit 10-2
	2. Updated the illustrative estate calculation for rates and tax credits currently in effect.	Exhibit 10-3
	3. Updated the discussion of filing IRS Form 709.	Paragraph 1001.33
	4. Updated the discussion and examples of calculating the tax basis of a gift received for rates, exclusions, and credits effective in 2019.	Paragraph 1001.41 and Exhibit 10-4

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CHAPTER 11 Valuing Professional Practices	1. Updated the list of types of health care billing codes.	Paragraph 1106.32
	2. Updated the “Selected Professional Practice Valuation Bibliography.”	Appendix 11A
CHAPTER 12 Valuations for Divorce Engagements	1. Added a discussion of the Tate decision as an example of using the proper standard of value used by the court.	Paragraphs 1202.12–.13
	2. Revised the discussion concerning establishing which party is ultimately responsible for paying the valuation consultant’s fee.	Paragraph 1203.11
	3. Added a discussion of the <i>Rohling</i> decision as an example of using the proper level of service allowed by a particular court.	Paragraphs 1206.12–.14
CHAPTER 13 Litigation Services	1. Expanded the discussions concerning testimony preparation and answering questions at deposition,	Paragraphs 1303.9 and 1304.12
CHAPTER 15 Fair Value Under Shareholder Dissent and Oppression Actions	1. Added a discussion regarding whether a liquidated damages provisions of a noncompete agreement was enforceable against a dissenter from a corporate merger.	Paragraphs 1505.41–.44
	2. Added a discussion of the reversal of a recent decision in a fair value appraisal action of <i>In Re Appraisal of DFC Global Corp.</i>	Paragraph 1505.85
	3. Added a discussion of the recent fair value appraisal action of <i>Dell, Inc. v. Magnetar Global Event Driven Master Fund Ltd.</i>	Paragraphs 1505.86–.88
CHAPTER 16 Valuing Non-traded Financial Options	1. Added a new section concerning the allocation of equity value within complex capital structures.	Section 1605
	2. Expanded the Glossary of Option Terminology.	Appendix 16A
CHAPTER 17 Fair Value Measurements for Business Combinations, Financial Reporting, and Intangible Assets	1. Expanded the discussions regarding highest a best use of a nonfinancial asset and the applicability of fair value measurement to liabilities.	Paragraphs 1700.9 and 1700.12
	2. Updated the “Intangible Asset Valuation Bibliography.”	Appendix 17C
PRACTICE AIDS	1. Expanded the “Engagement Acceptance Form.”	VAL-PA-2.1
	2. For the “Engagement Independence Compliance and Nonattest Services Documentation Form”—	VAL-PA-2.3

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	<ul style="list-style-type: none"> <li>• Updated a practical regarding an ethics interpretation, <i>Hosting Services</i>.</li> <li>• Added a practical consideration regarding the firm's internal control procedures.</li> <li>• Expanded and clarified a Note regarding the <i>Conceptual Framework for Independence</i>.</li> </ul>	
	3. Added a new Practice Aid, "Sample Conflict of Interest Form."	VAL-PA-2.4
	4. Added a Note providing alternative language to the "Sample Valuation Engagement Letter Drafting Form" and the "Sample Calculation Engagement Letter Drafting Form" for instances when the valuation consultant is retained by the client's lawyer.	VAL-PA-4.1 and VAL-PA-4.2
	5. Updated the optional language to document the client's acceptance of its responsibility when performing litigation consulting for an attest client in the Sample Engagement Letter Drafting Form—Litigation Services.	VAL-PA-4.3