Ready for the Changes?

Since Q1 2020, Marshall & Stevens has been engaged for many more **wealth transfer and preservation** valuation engagements than in recent years. The impetus for this increase in the valuation of interests in businesses, real estate, tangible, and intangible assets is to counter proposed federal tax changes.

A brief overview of the proposed tax changes and the strategies being undertaken by our clients are:

A. **Personal Tax** – Increases in income tax and capital gains tax rates along with a significant reduction in the federal lifetime gift exemption limit have been proposed.

   1. **Wealth Transfer**: Request for valuations of fractional interests in businesses and real estate for gifting/transfer to trusts to preserve potential future gains for heirs and for gifting to charities.
   2. **Sale**: We are serving as sell-side advisor to clients looking to sell their businesses in the hope that they will be able to pay the current tax rate on sale proceeds.
   3. **Recapitalization**: We are performing Solvency Opinions for private equity investors who are initiating dividend recapitalization transactions, replacing equity in a business with inexpensive debt - harvesting proceeds under the current tax rates.

B. **Corporate –** Increases in corporate tax rates are expected and there is a proposal to terminate the federal bonus depreciation incentive in 2021. These potential changes are being countered with:

   1. **Corporate Tax Restructurings**: Selling assets from one entity to another entity in a lower tax jurisdiction or situation.
   2. **Investment in Renewable Energy Projects** to shield earnings with investment tax credits (ITC), production tax credits (PTC), and depreciation benefits. Large financial institutions, insurance companies, infrastructure funds, and corporations have been doing this for over a decade. We have a practice dedicated to the valuation of these projects.
   3. **Cost Segregation** of commercial real estate and improvements to accelerate depreciation utilizing the IRS's MACRS (Modified Accelerated Cost Recovery System) plus benefitting from the current federal bonus depreciation incentive.

Cost Segregation has been popular for large and small real estate investors for decades. The federal bonus depreciation incentive is a cost segregation accelerant, allowing for the depreciation of all short-lived assets in the year they are acquired.

4. **Equipment Purchases and Financing**: The current federal bonus depreciation incentive provides for the depreciation of all acquired short-lived assets (life of 15 years or less) in Year 1 – essentially, buy it and expense it. And the assets being acquired do not have to be new, just new to you.

IRS compliant valuation analyses play an important role in all these transactions.

Marshall & Stevens

Founded in 1932, Marshall & Stevens has provided valuation advisory for estate and gift tax planning and reporting for decades. We apply proper valuation methodology and applicable case law to each unique situation in order to provide a fair and supportable valuation and save our clients from unwanted scrutiny.

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