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assets a business, tax, and financial newsletter

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Executive Compensation ■ Succession ■ Wealth Transfer Planning

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Appraising Your Appraiser

An appraiser assigns value to your property and potentially minimizes your exposure to certain risks, such as tax penalties. An inaccurate appraisal could hinder your ability to receive a fair price for property, increase the likelihood of a tax audit, or result in an inequitable division of property or inappropriate insurance coverage. Your financial decisions may depend on your appraiser's research, analysis, and reporting.

Hiring an Appraiser

Choosing a qualified professional involves time and preparation. Because appraisers tend to specialize in certain areas, such as antiques, coins, stamps, jewelry, silver, and so forth, you want to find someone with relevant expertise and a proven track record. For a referral, contact the following professional organizations:

International Society of Appraisers (ISA)
www.isa-appraisers.org
1-312-981-6778

Appraisers Association of America (AAA)
www.appraisersassoc.org
212-889-5404

American Society of Appraisers (ASA)
www.appraisers.org
1-800-272-8258

Other resources include libraries, museums, auction houses, and the Internet, as well as recommendations from friends and colleagues. Once you find someone with the necessary experience, conduct an interview to ensure his or her appraisal practices meet your standards, as well as the accepted standards in the field. Consider asking the following questions:

1. What are your work experience and education qualifications? Ask for references and review the candidate's résumé or curriculum vitae, making note of work history, both formal and continued education, and membership in professional organizations. Some professional organizations require that members pass examinations and comply with a code of ethics. Valuation should be based on standard appraisal principles and procedures acquired through formal training. Authenticating an item is just one aspect of the appraisal process.

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Your Credit Report and Identity Theft Protection

Identity theft is a serious crime, with increasingly greater numbers of consumers being affected every year. As part of a protection strategy, the Federal Trade Commission (FTC) and other consumer credit organizations recommend a proactive approach to safeguarding your identity: checking your **credit report** annually.

A credit report records information about your bills and loan and repayment history, available credit, and outstanding debts, and is typically used by lenders when deciding to accept a loan or credit application. In addition, credit reports can alert you to accounts that have been fraudulently opened in your name, unauthorized charges made to your existing accounts, and other crimes committed by someone using your personal information.

According to the **Fair Credit Reporting Act (FCRA)**, you can request a free copy of your credit reports from each of the three major credit bureaus (Equifax, Experian, and TransUnion) once a year. For your convenience, you can access all three agencies through a single website, www.annualcreditreport.com. The FTC suggests that you order all three reports, even if you choose to stagger your report requests throughout the calendar year, as the information may differ from each bureau. This is because credit reporting is voluntary, and therefore creditors may subscribe and report information to just one agency, or all three.

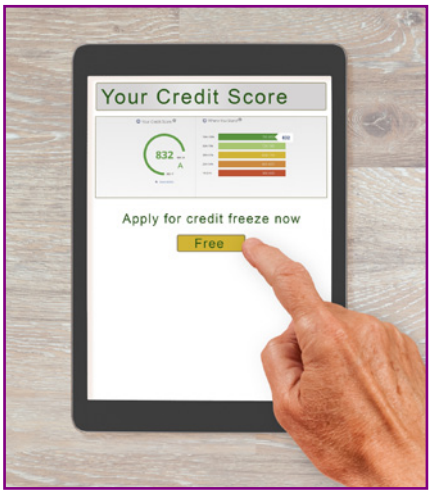
Reviewing Your Reports

Usually, a credit report is divided into four major sections: identifying information, credit history, public records, and inquiries. The **identifying information** on your report will include your name, current (and previous) address, Social Security number, driver's license number, telephone number, birth date, current and previous employers, and your spouse's name, if applicable.

The **credit history** section details your payment history with banks, retail stores, finance companies, mortgage companies, and others who have given you credit. Each account, sometimes called a trade line, will appear with the following information: name of creditor, account number, type of credit (i.e., installment loan or revolving credit), account participation (e.g., joint owner, individual account, or authorized user), date opened, last activity (date of last payment or charge), high credit (the credit limit or original loan amount), terms (number of installments or amount of monthly payments), balance at the time of reporting, past due balance at the time of reporting, status of the account (open, closed, inactive, etc.), and date of last report. It is in this section that accounts opened or affected by identity thieves may become apparent.

The **public records** section includes documents that reflect your history of meeting financial obligations, such as bankruptcies, collection accounts, judgments, and tax liens. Since public records can have a serious, negative effect on your credit, verify that the information belongs to you, not someone who used your personal information.

Finally, the **inquiry** section lists all the businesses that have received



your credit report during the last 24 months. Inquiries are categorized as hard or soft. Hard inquires are those you initiate by filing a credit or loan application. Soft inquiries often come from marketers who want to sell you something. If you do not recognize a listed business, be sure to find out the nature of the business and why they are looking at your credit report.

A Mistake or Identity Theft?

If you find a mistake on your credit report, immediately contact the credit bureau that issued the report using the form provided or by following that particular agency's instructions. If the error is serious, and you suspect that your identity has been stolen, contact the FTC's Identity Theft Hotline at 1-877-IDTHEFT (877-438-4338). Be sure to keep detailed documentation of all communications with creditors, agencies, and the FTC.

You can help safeguard your identity by continually monitoring your credit reports. For more information about identity theft, visit the FTC's website at www.ftc.gov. ■

The Four Forms of Property Co-Ownership

Owning property with another individual or partner can be complicated. Consulting with your legal professional can help you establish the form of ownership that will benefit you and your heirs. The four forms of co-ownership are the following:

Tenancy in common is a form of co-ownership often used between unrelated individuals. Tenants in common may own unequal shares of property; however, shares between partners are said to be "undivided," which means each owns a proportionate interest in the entire property. For example, if two individuals are equal tenants in common to a parcel of land, it is inaccurate to describe one co-owner as owning the west half and the other as owning the east half. Rather, both own a one-half interest in the entire parcel.

Joint ownership is a specific type of co-ownership where each owner's legal interest is equal to the interest of every other joint owner. For example, if there are three joint owners, each owns an equal, undivided, one-third interest in the entire property. In addition, joint ownership carries the **right of survivorship**. When a joint owner dies, the surviving joint owners automatically succeed in ownership of the deceased joint owner's interest. Survivorship rights of a joint owner are given precedence over the claims of the decedent's creditors.

Tenancy by the entirety is a unique form of joint tenancy solely for married couples with one significant difference: The creditor protection of joint ownership extends to the lifetime creditors of the tenants by the entirety.

Community property applies to married couples who own property in any of the following nine states: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. Regardless of whose name is on any ownership paperwork, any property acquired during the marriage is "owned" by both parties.

Remember, splitting property, for any reason, can be difficult. So, the decision to purchase property with another party is one that requires careful consideration. ■

Keeping Sight of Personal Priorities

In the rush of daily business activities, business owners can lose sight of what they had originally hoped to accomplish through their continuous efforts. Over time, as the business grows, personal objectives may also change.

When was the last time you stopped to reevaluate your personal priorities and goals? Here are some key areas to consider:

Building wealth. Many business owners become so engrossed in company operations that they inadvertently neglect their personal finances, particularly when most of their liquid assets are tied up in the business. To achieve financial independence and build personal wealth, it is important to make personal savings a priority. By conducting regular financial reviews and taking follow-up action as needed, you can develop strategies that will help strengthen your *personal* finances.

Preparing for retirement. Many tax-deferred, ***qualified* retirement savings vehicles**, such as **simplified employee pension plans (SEPs)** or **401(k) plans,** are available to business owners and their employees. The size of a company, along with the ages and salaries of its employees, often determine which type of retirement plan is most appropriate. In addition, ***nonqualified plans*** allow business owners to provide *selective* retirement benefits for themselves and their key employees.

Developing an exit strategy. Will your small business be marketable if and when you decide to sell? Develop an exit strategy that will help maintain the value of your business should you choose—or be forced by circumstance—to sell.

Keeping it in the family. Your company may be a **closely held business**, operated by more than one family member. If you wish to keep your company in the family, it is important to learn about **transfer tax** issues and to develop a **business succession** plan that will help secure your long-term goals.

Stay Focused

As your company grows and develops, remember to set your *personal* priorities, especially as they change over time. Annual reviews can help ensure that your business operations are consistent with your overall objectives. ■

appraising your appraiser

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2. What is your area of expertise? Make sure your candidate's expertise matches your needs. However, finding one person who is an expert in *all* areas may be difficult. The International Society of Appraisers recognizes over 220 areas of specialization. For items that exceed an appraiser's expertise, ask if the appraiser would be willing to consult with other qualified professionals.

3. How much will the appraisal cost? Appraisers may charge per hour, per diem, per item, or a flat rate. Other charges may include reimbursement for additional expenses, including travel and photographs. Consider avoiding any proposal that includes a "contingency fee" based on a sale or a fee that is based on a percentage of the valuation. Generally considered unethical, these types of appraisals could have tax consequences for you; the Internal Revenue Service (IRS) rejects all appraisals performed under these conditions.

4. How do you report your findings? An appraiser typically prepares a signed, written report that documents the valuation of an item, including his or her evaluation methodologies and credentials.

The Written Report

Keep in mind that at some point attorneys, judges, the IRS, estate executors, insurers, and trustees may grant decisions based on your appraisal. Therefore, it should be comprehensive and professionally prepared. The following key elements are usually included in an appraisal report:

Statement of purpose. As discussed earlier, an appraisal has a variety of uses, which may include helping you assess your insurance needs or substantiate a tax deduction. The purpose of your appraisal and its expected use should be clearly noted.

Description of property. This includes a physical description that details such features as the size, weight, color, age, material composition, origin, and condition of the appraised item, as well as the method of acquisition (often helpful for tax purposes). The appraiser also attests to an item's authenticity and notes the date it was viewed.

Statement of disinterest. The appraiser should verify that no conflict of interest exists. If the report has been prepared for tax purposes, the appraiser must provide a tax identification number and also disclose if the IRS has ever disqualified him or her. The appraiser also needs to include an explanation of the applicable fee structure.

Method of valuation. An explanation of valuation methodology offers a basis for the appraiser's conclusion. In general, appraisers make assessments based on such factors as replacement value, fair market value (FMV), or comparable sales. For example, an appraiser who is determining the value of a work of art may consider the prices of similar works of art. The appraiser often includes a market analysis that references historical performance and may also project future value.

Provenance. In some instances, particularly with artwork, a history of ownership may be included. Further documentation, if applicable, might chronicle noteworthy exhibitions or publications.

Statement of value. The report should clearly state a dollar amount representing the valuation of the appraised item, and it should be signed and dated by the appraiser. It is also standard practice for the appraiser to include his or her credentials, either with a résumé or curriculum vitae.

Stay Current

In order to keep pace with the potential for changing market values, consider reviewing an appraisal every three years. As your financial strategies change, make sure you base your decisions on the most up-to-date and accurate information regarding the value of your possessions. What you cherish as "priceless" may have a price tag that can help you plan for your financial future. ■

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