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HYDE Valuations, Inc.

We Value Both Real Estate and Businesses
Including Machinery & Equipment

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Appraisals for Divorce

Appraisal for the purpose of assisting with a property settlement in a divorce are among the most difficult engagements for an appraiser. Often the information available is sketchy at best and generally each spouse has an agenda – one tries to paint a picture of a company (or property) that is about to be bankrupt or otherwise worthless while the other insists that it there is hidden revenue, personal expenses charged to the business, etc., i.e. the company (or property) is worth much more than it appears. The appraiser's job is to work through the available data, deal with the misrepresentations from both sides, and arrive at the "true" value of the company or property.

To further complicate the process, many judges in family law courts have their own ideas as to what should be included particularly in a business appraisal and often have an individual or two that have done lots of "appraisal" work in family law situations that they believe do a remarkable job. Unfortunately, much of the time cases in family law courts involve very small businesses and the only appraisers willing to do these assignments for very low appraisal fees, and within extremely short time frames, are individuals that do not know how to prepare a proper appraisal. I have been asked to review work periodically done by one of these divorce appraisal specialists and have been horrified to see the extremely poor quality of work and totally unsupportable indications of value they generate. Once in a while, I have been asked to prepare an appraisal for an entity that has also been appraised by a "divorce engagement specialist." In these cases, I prepare my usual 100 page plus thorough description of the analysis and explain in detail how the value conclusion was reached and the "divorce engagement specialist" submits a three to ten page "report" illustrating the value conclusion that basically provides little other than the value is supported by "my professional opinion."

I understand that many divorces involve a very small business and that there are limited funds available for expert reports to assist in the process. When I have an opportunity to make a suggestion regarding how best to arrive at the "correct" value for these types of entities, I suggest that in my opinion, the best way to resolve the problem is to hire a well-qualified appraiser as a joint expert. Unfortunately, when this is done, one side often does not "like" the value conclusion and hires another expert anyway. Other times, the judge hires one of the "divorce engagement specialists" in the area to arrive at the value of the business and the value conclusion is not supportable and often wrong.

I was recently asked by an attorney for whom I have worked before to review the value conclusion of a "divorce engagement specialist" that was hired by the court to value a business run by the other spouse. The "report" was horrible, with no support for the value conclusion, and it was obvious that many mistakes had been made by the "appraiser." However, the value conclusion was such that it benefitted this attorney's client so it was accepted. I later got another phone call from this attorney stating that the "divorce engagement specialist" was now claiming that as of the effective date of the appraisal, there was a large amount of funds in the business classified as accounts receivable and that the spouse not running the business should be required to "pay" one-half of the income tax that would be owed by the business when the accounts receivable was actually collected and asked my opinion about this conclusion. I was actually stunned! While I have been doing appraisals and reviewing them for over twenty years, I had to this point never seen an "appraiser" make that ridiculous of a claim! I explained to the attorney that the value conclusion for a business includes the value of all of the assets of that business. Value conclusions are forward looking, in other words, they represent all of the anticipated future earnings of the business as of the effective date. This would include the value of the accounts receivable owned by the business so the “appraiser’s” claim that the value conclusion should be modified by some percentage of future revenue generated by the collection of normal accounts receivable violated basic business appraisal concepts.

The lessons I have learned from viewing these common family law court bungles (that I suspect take place in many other places as well) is that there are expert witnesses that fall into two major groups: 1) those that truly have 20 plus years of experience and are well qualified and knowledgeable, and 2) those that have one very limited year of experience repeated twenty times over with few qualifications and little knowledge. It is up to the parties involved, (particularly attorneys who retain the experts) to check out the qualifications and references of the experts they need.

Valuations play a part in all strategic transactions, tax, and many litigation matters. For additional information or advice on a current situation, please do not hesitate to call. **We value real estate, businesses, and personal property including livestock and machinery & equipment.**

Sincerely,

Paul R. Hyde, EA, MCBA, ASA, MAI
Enrolled to Practice Before the IRS (Enrolled Agent)
Master Certified Business Appraiser
Accredited Senior Appraiser – Business Valuation
Designated Member (MAI) - Appraisal Institute
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Senior Appraiser – American Society of Agricultural
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