
**WEDNESDAY,
SEPTEMBER 20
SESSIONS**

**MANAGING ART AND
OTHER TANGIBLE
PERSON PROPERTY
WITHIN BUSINESS
ENTITIES**

Managing Tangible Assets



with
NORTHERN
TRUST

and

GURRJOHNS
est.1914



within
Business
Entities



Tangible Assets



Appraisals

Factors That Affect Appraisals

Purpose of Appraisal

Characteristics

Quality

Authenticity

Type of Value

Rarity & Demand

Condition

Provenance

IRS Art Appraisal Services (AAS) & Art Advisory Panel (AAP)

Transactions involving art objects are closely scrutinized by the government

Need a “qualified appraisal” performed by a “qualified appraiser”

Must be compliant with Uniform Standards of Appraisal Practice (USPAP) for 706 and 8283 forms



Collection Management



Figure. The Studio of Joan Miró (1893–1983) in Majorca, Spain from: Juergen Held via Alamy.

Why Up-To-Date Appraisals Are Critical

Categories Behave Differently

Markets Fluctuate Regularly

Values Vary Tremendously

Changes To Scholarship

Leaseback Agreements

Similar Concept Used for Real Property

Art Gifted to Entity then Leased Back

Fair Market Value & Lease Rate Needed

No Industry Standard Lease Rate Methodology

Establish Fair Market Value



1. CHRIS OFILI (British, b. 1968)

Fair Market Value: \$450,000

Blue Smoke (Pipe Dreams), 2011
Signed, titled and dated on the reverse
Oil on canvas
110 1/2" x 76 1/2"

CONDITION

The appraiser inspected the work at Crozier Fine Arts, Newark on October 29, 2019.

The work was viewed under normal ambient and ultraviolet light. The work was mounted in its packing crate, therefore, the appraiser did not inspect the reverse of the work.

The work appears to be in overall very good condition. There are dust accretions throughout the surface of the work. There is a small area of scuff marks to the upper right corner. There is a 2" area of possible retouching, located 24" from the top edge and 19 1/2" from the left edge. There is a small 1/8" accretion located 37" from the top edge and 11 1/2" from the left edge.

PROVENANCE

The artist and David Zwirner
Christie's New York, Artists for Haiti, September 22, 2011, Lot 4

EXHIBITED

New York, David Zwirner, Artists for Haiti, September 6-14, 2011.
New York, New Museum, Chris Ofili: Night and Day, October 29, 2014 - February 1, 2015; traveled to Aspen, Colorado, Aspen Art Museum, July 17 - October 18, 2015.

LITERATURE

New Museum and Rizzoli, New York, texts by
Minna Moore Ede, Massimiliano Gioni, Glenn Ligon, Alicia Ritson, Matthew Ryder, Robert Storr, and Lynette Yiadom-Boakye, Chris Ofili: Night and Day, exhibition catalog, pp. 78, 80-81 (detail), illustrated, and p. 211.

Artwork Comparables



Comparable:

1. CHRIS OFILI (British, b. 1968)
Blue Lazarus, 2007
Acrylic on canvas
36" x 24"
Signed and inscribed
Christie's New York, Post War and Contemporary Art
Afternoon Session, May 11, 2016, Lot 511
Estimate: \$50,000 - \$70,000
Sold for: \$137,000 (including buyer's premium)

This work is approximately 1/3 the size of the subject work and is a less engaging composition.



Comparable:

1. CHRIS OFILI (British, b. 1968)
Blue Riders, 2006
Oil, acrylic and charcoal on canvas
109 1/2" x 78 3/4"
Signed and inscribed
Sotheby's London, Contemporary Art Evening Auction, June 30, 2014, Lot 5
Estimate: 150,000 - 200,000 GBP (\$256,541 - \$342,055)
Sold for: 290,500 (\$496,835) (including buyer's premium)

This comparable sold approximately 3 years after the subject work traded at auction and illustrates a sustained market interest in the artist's series of blue paintings from the 2000s.



Selling

Figure. Gustav Klimt (1862-1918), *Bauernstaaten* (detail), 1907, 110 cm x 110 cm, oil on canvas. Sold by Gurr Johns on behalf of a private client.

Auction Commissions

Example I. Seller's Commission & Buyer's Premium

10% Seller's Commission

Seller Receives: \$900,000

Hammer

\$1,000,000

10% Buyer's Premium

Buyer Pays: \$1,100,000

Auction House Makes: \$200,000

Example II. Buyer's Premium Only

Hammer

Seller Receives: \$1,000,000

20% Buyer's Premium

Buyer Pays: \$1,200,000

Auction House Makes: \$200,000

Example III. Enhanced Hammer

Hammer

\$1,000,000

Enhanced Hammer

Seller Receives: \$1,050,000

10% Buyer's Premium

Buyer Pays: \$1,200,000

Auction House Makes: \$150,000



Art Advisors

Figure. Wayne Thiebaud (1920-2021), Cakes, 1963, oil on canvas.

Reputable Professional Organizations



The Appraisal
FOUNDATION

Authorized by Congress as the Source of Appraisal
Standards and Appraiser Qualifications

**Uniform Standards of Professional
Appraisal Practice (USPAP)**

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ISA
INTERNATIONAL
SOCIETY of APPRAISERS



ASA
American Society of Appraisers
Providing Value Worldwide



QUESTIONS?



JON JACKSON

*Central Region Practice Leader
Estate Settlement Services*

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GURRJOHNS
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Business Development, Midwest*

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Managing Art and Other Tangible Personal Property within Business Entities

*Lizzie Amundsen – Gurr Johns
Jon Jackson – Northern Trust*

I. Introductions

II. Art and Other Tangible Assets (5 min)

- a. Types of Tangible Personal Property
 - i. Art
 - 1. Contemporary Art, Modern Art, Impressionist Art
 - 2. Asian Art, Pre-Columbian Art, African & Oceanic Art
 - 3. Decorative Art
 - ii. Furniture
 - 1. Antiques
 - 2. Mid-20th Century Design
 - iii. Jewelry and watches
 - iv. Memorabilia – Sports, entertainment, pop culture, political
 - v. Collector cars and motorcycles
 - vi. Coins, stamps, books, manuscripts
- b. Other (e.g., yachts, airplanes)

III. Inventory (< 5 min)

- a. Prior inventories, appraisals, insurance schedule
- b. What to exclude

IV. Appraisals (10 min)

- a. Authenticity, provenance, title, rarity, condition
- b. IRS Art Appraisal Services & Commissioner's Art Advisory Panel

V. Collection Management (10 min)

- a. Collection tracking systems
- b. Loans to museums / exhibitions
- c. Insuring
- d. Recurring appraisals
- e. Leaseback agreements to individuals

VI. Selling (15 min)

- a. Direction to Sell?
- b. Auctions vs Private Sales
- c. Buyer's Premium & Seller's Commission
- d. Selecting auction house and negotiating terms
- e. Sales Guarantees
- f. Conservation and restoration
- g. Reserves and extended payment terms

VII. Art Advisors (5 min)

- a. Stratification, types of advisors, and variety of services
- b. How to select an advisor

VIII. Questions (5 min)



JON JACKSON

Regional Mgr, Est Settlement
Wealth Management

BIOGRAPHY

As Estate Settlement Services Practice Leader for the Central Region based in Chicago, Jon's team is responsible for all aspects of complex, death-related administration of estates and trusts when Northern acts as fiduciary, or agent for fiduciary, for clients who have died. Jon also serves as primary Senior Estate Administrator for certain complex relationships.

Prior to joining Northern Trust in 2018, Jon was the Estate Administration Manager for the Midwest Region of JPMorgan in Chicago and as well as the Head of Personal and Corporate Trust and Estate Administration for the Illinois operations of Commerce Bank. Jon started his career in New York and was formerly a Senior Estate Administrator and Senior Trust Officer for U.S. Trust Company of New York.

Jon received his B.A. from Northwestern University and his MBA from Bradley University.

He's actively involved with the Elmhurst History Museum and volunteers for DupagePads homeless agency.

He's married with children and enjoys the theater with his wife. He still plays in a competitive basketball league and is an avid NU Wildcats fan



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JJ223@ntrs.com



Elizabeth Amundsen
Vice President, Business Development,

Lizzie works closely with attorneys, private bankers, wealth managers, insurance professionals, and collectors on the valuation of fine and decorative art, jewelry, wine, memorabilia, and other tangible personal property including the general contents of an estate. She oversees appraisals for the purposes of estate planning and estate tax, charitable giving, family division, litigation, insurance coverage and claims, art leasing, and loan collateral. Lizzie also facilitates private sales on behalf of collectors and fiduciaries.

Prior to joining Gurr Johns, Lizzie worked with facade architects on cultural institutions and landmark buildings including the Steppenwolf Theater and Willis Tower. Previously, she co-founded a media company to help museums expand their digital footprint and offset the expense of printed member communications through advertising partnerships with world-class institutions including the Art Institute of Chicago, the Getty, the High Museum of Art, and the Museum of Fine Arts, Boston. She has further experience in art advisory, gallery management, and curatorial roles.

Lizzie holds a BFA in Art History, Theory, and Criticism from the School of the Art

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**THE MANAGEMENT AND
SALE OF PRIVATE
AIRCRAFT: A FIDUCIARY'S
GUIDE TO MAXIMIZING
ASSET VALUE**

THE MANAGEMENT AND SALE OF PRIVATE AIRCRAFT

A FIDUCIARY'S GUIDE TO MAXIMIZING ASSET VALUE

DAVID COLEMAN
PRESIDENT, COLEMAN JET SOLUTIONS

CONTENTS

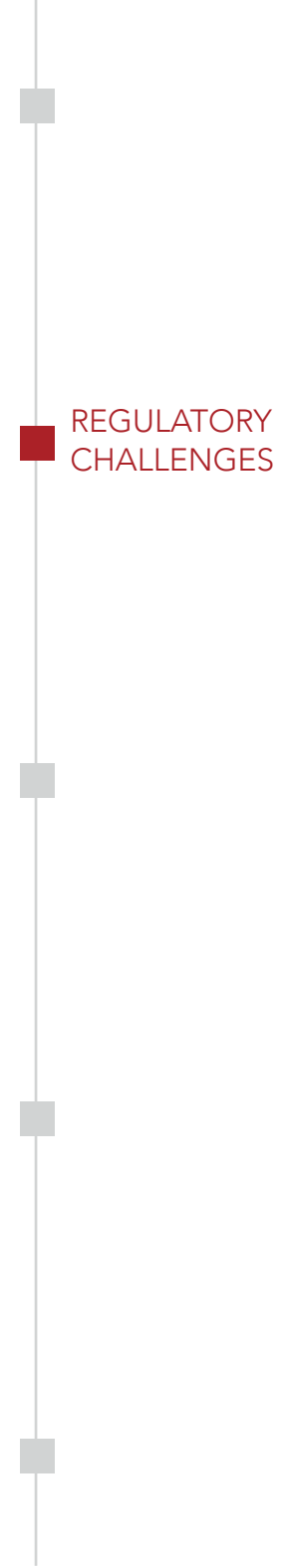
- Summary
- Challenges
 - Regulatory
 - Operational
 - Technical
 - Additional Challenges

SUMMARY

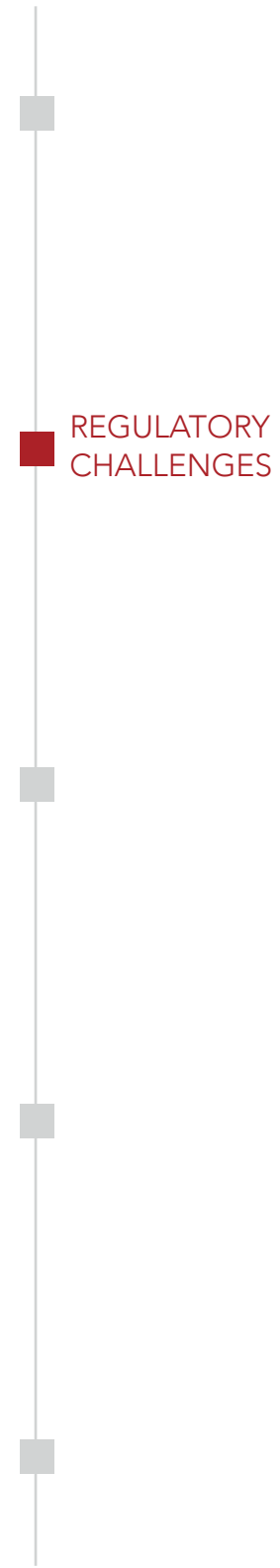
■ SUMMARY

Operational, technical, and regulatory challenges will complicate the sale of an aircraft. If handled incorrectly, it can likely result in **diminished value** of the asset.

REGULATORY CHALLENGES

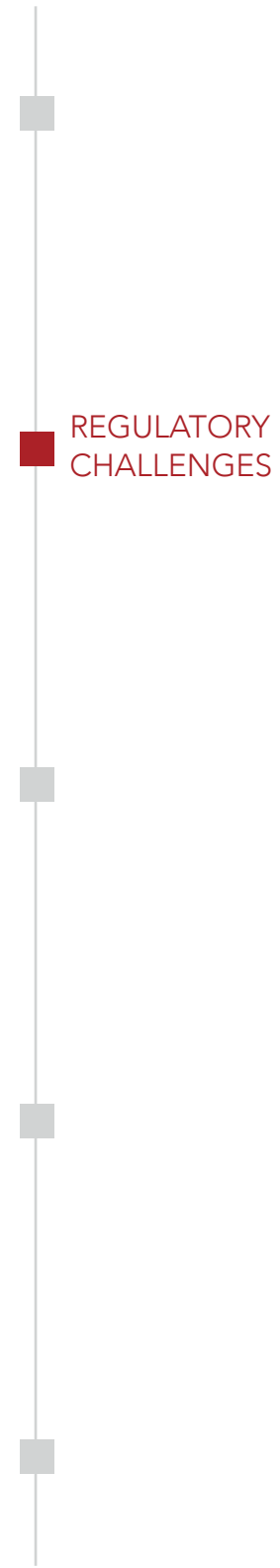


Aviation is **highly regulated** but **self-policed**.



Self-Policed
Highly Regulated

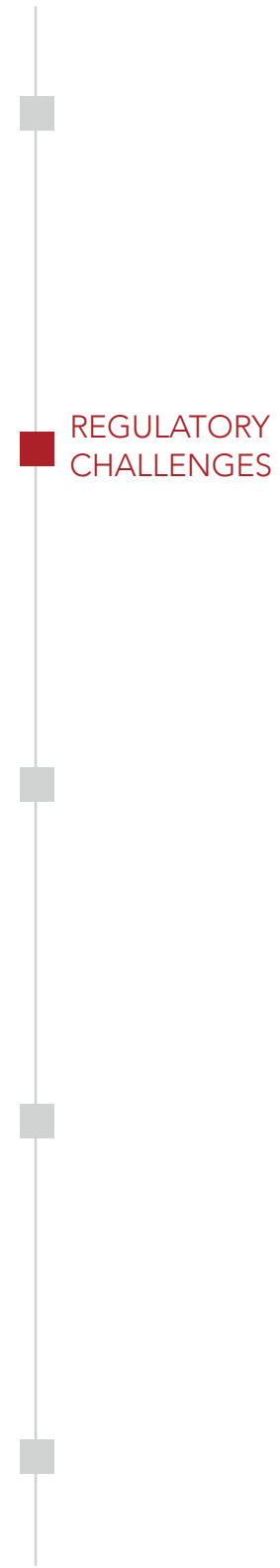
If it can **impact safety**, it is regulated.



**Self-Policed
Highly Regulated**

If it can **impact safety, it is regulated.**

No protection for the financial interests of owners



Self-Policed
Highly Regulated

If it can **impact safety, it is regulated.**

No protection for the financial interests of owners

FAA does not arbitrate disputes

REGULATORY
CHALLENGES

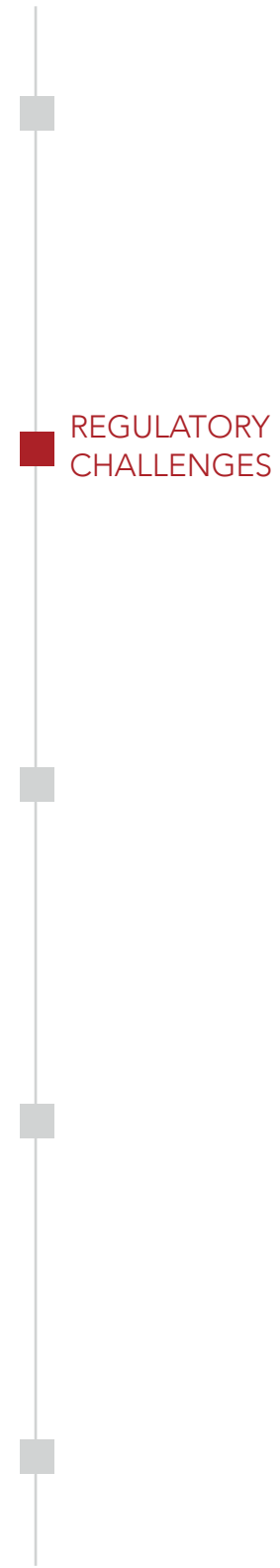
Self-Policed
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If it can **impact safety, it is regulated.**

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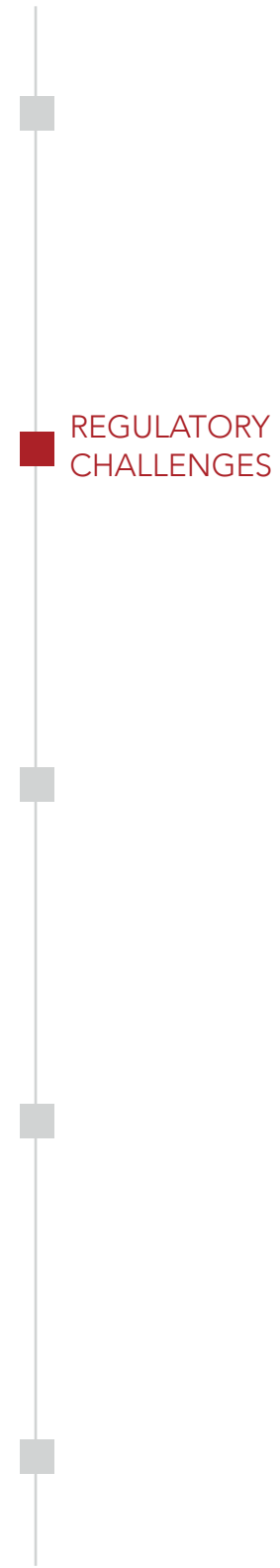
FAA does not arbitrate disputes

Expect conflicting guidance



REGULATORY QUAGMIRE

This is a niche industry **OPERATED BY AND FOR INSIDERS.**



REGULATORY
CHALLENGES

TRAP

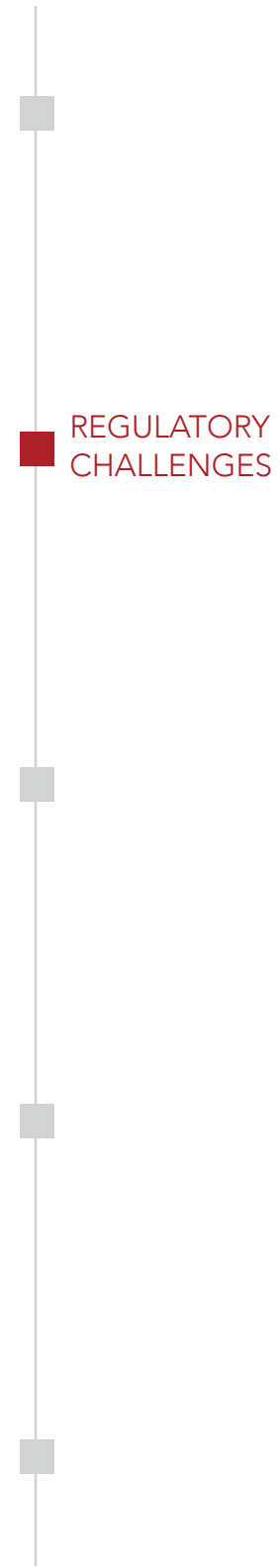
Relying upon the regulatory interpretation of someone who has
a **financial stake in the outcome.**

REGULATORY CHALLENGES



BACK TO BIRTH INTERPRETATION

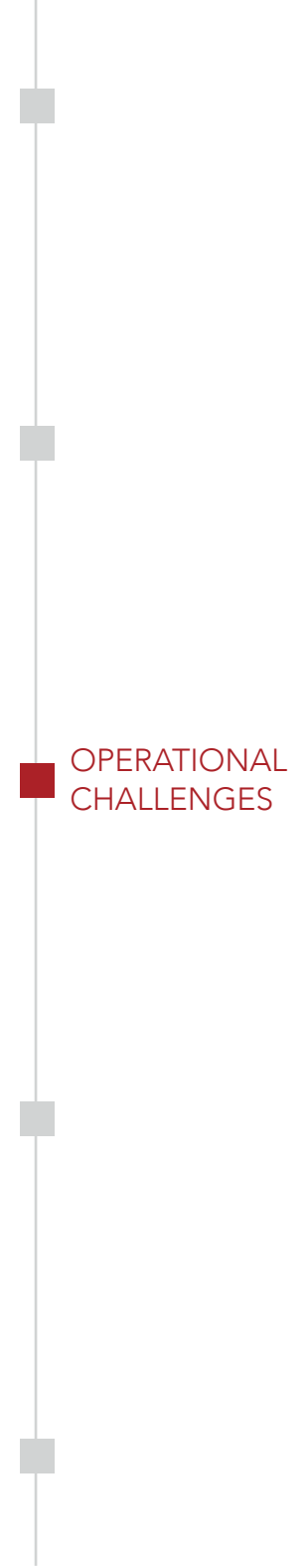
Source: Kulljet.aero



BOTTOM LINE

Engage an industry professional.

OPERATIONAL CHALLENGES



Operational Control is defined as the exercising of **authority over initiating, conducting, or terminating a flight.**

The **owner** of the plane has Operational Control



OPERATIONAL
CHALLENGES



PRIVATE
US FAR Part 91
"In-House" Flight
Department

The **owner** of the plane has Operational Control
Pilots/Mechanics **report directly** to the Owner



PRIVATE
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"In-House" Flight
Department

The **owner** of the plane has Operational Control
Pilots/Mechanics **report directly** to the Owner
Operation and support is managed **in house**



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The **owner** of the plane has Operational Control
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Operation is governed by **FAA operating rules**, industry
best practices, and **manufacturers' recommendations**



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The **owner** of the plane has Operational Control
Pilots/Mechanics **report directly** to the Owner
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Maximum flexibility and control over the asset



PRIVATE
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The **owner** of the plane has Operational Control
Pilots/Mechanics **report directly** to the Owner
Operation and support is managed **in house**
Operation is governed by **FAA operating rules, industry best practices, and manufacturers' recommendations**
Maximum flexibility and control over the asset
Fiduciary Perspective: Has **highest (day to day) workload, simple organizational structure**



OPERATIONAL
CHALLENGES



Operational Control ceded to a FAA Aircraft
Operators **Certificate Holder**



Operational Control ceded to a FAA Aircraft Operators **Certificate Holder**

Generate revenue to offset ownership costs



COMMERCIAL
US FAR Part 135
**Charter/Management
Company**

Operational Control ceded to a FAA Aircraft
Operators **Certificate Holder**

Generate revenue to offset ownership costs

The owner is only **a passenger**



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US FAR Part 135
Charter/Management
Company

Operational Control ceded to a FAA Aircraft
Operators **Certificate Holder**

Generate revenue to offset ownership costs

The owner is only **a passenger**

Pilots/Mechanics are **employees of the AOC Holder**

OPERATIONAL
CHALLENGES

COMMERCIAL
US FAR Part 135
Charter/Management
Company

Operational Control ceded to a FAA Aircraft
Operators **Certificate Holder**

Generate revenue to offset ownership costs

The owner is only **a passenger**

Pilots/Mechanics are **employees of the AOC Holder**

Operation is governed by policies approved by **local FAA office**

OPERATIONAL
CHALLENGES



Operational Control ceded to a FAA Aircraft Operators **Certificate Holder**

Generate revenue to offset ownership costs

The owner is only **a passenger**

Pilots/Mechanics are **employees of the AOC Holder**

Operation is governed by policies approved by **local FAA office**

Policy is implemented by the AOC Holder

OPERATIONAL
CHALLENGES



Operational Control ceded to a FAA Aircraft
Operators **Certificate Holder**

Generate revenue to offset ownership costs

The owner is only **a passenger**

Pilots/Mechanics are **employees of the AOC Holder**

Operation is governed by policies approved by **local FAA office**

Policy is implemented by the AOC Holder

Fiduciary Perspective: **Challenging structure to navigate**



HYBRID
US Part 91
**Charter/Management
Company (but
not Chartered)**

Owner has **operational control**, but details are coordinated by third party



HYBRID
US Part 91
Charter/Management
Company (but
not Chartered)

Owner has **operational control**, but details are coordinated by third party

The **scope of services** provided varies from Agreement to Agreement



HYBRID
US Part 91
Charter/Management
Company (but
not Chartered)

Owner has **operational control**, but details are coordinated by third party

The **scope of services** provided varies from Agreement to Agreement

Fiduciary Perspective: Whoever writes the paychecks, **call the shots**



OPERATIONAL
CHALLENGES

OPERATIONAL QUAGMIRE

Charter company may have the authority to **fly the plane**
without the owner's approval.

OPERATIONAL QUAGMIRE

Charter company may have the authority to **fly the plane without the owner's approval.**

The **more the plane flies, the more money the charter company makes.**

OPERATIONAL
CHALLENGES



TRAP

Assume charter revenues will cover ownership costs **(it won't).**

TRAP

Assume charter revenues will cover ownership costs **(it won't)**.

Increased likelihood of an expensive unscheduled maintenance event.

OPERATIONAL
CHALLENGES

TRAP

Assume charter revenues will cover ownership costs **(it won't)**.

Increased likelihood of an expensive unscheduled maintenance event.

Inherent Conflict of Interest - decedent's aircraft is the source of income for charter company.

OPERATIONAL
CHALLENGES

-
-
- **OPERATIONAL CHALLENGES**
-
-



Source: Bombardier.com

OPERATIONAL QUAGMIRE

Aircraft Services Agreement **is not a comprehensive list**
of the rights/responsibilities of the owner or management company.

OPERATIONAL
CHALLENGES



OPERATIONAL
CHALLENGES

TRAP

Assuming there are safeguards protecting the decedent's estate in the Aircraft Services Agreement.

OPERATIONAL QUAGMIRE

Owner may not be party to Vendor Agreements required
to maintain value of asset.

OPERATIONAL
CHALLENGES



OPERATIONAL
CHALLENGES

TRAP

Terminating the Aircraft Services Agreement **before initiating an orderly transfer** of third-party agreements to the owner.



OPERATIONAL
CHALLENGES

TRAP

Assuming that the Management company is **current**
on its obligations to vendors.

TRAP

Assuming that the Management company is **current**
on its obligations to vendors.

Assuming these obligations don't impact the value of the asset.

OPERATIONAL
CHALLENGES

- OPERATIONAL CHALLENGES



SECOND PARTNER REFUSED TO ASSUME OBLIGATIONS

Source: Privatejetcardcomparisons.com

OPERATIONAL QUAGMIRE

Personnel will start looking for new positions
unless told otherwise.

OPERATIONAL
CHALLENGES



OPERATIONAL
CHALLENGES

TRAP

Encouraging personnel to seek alternative employment
**before considering the management, maintenance,
or relocation of the aircraft.**

- OPERATIONAL CHALLENGES



AIRCRAFT, HANGAR, TOOLING EQUIPMENT, ABANDONED

Source: Bjtonline.com

BOTTOM LINE

OPERATIONAL
CHALLENGES

Before changing existing relationships, or performing cost-cutting,
engage an industry professional.

TECHNICAL CHALLENGES

An aircraft can only be flown if:
a) it's in the **proper technical condition,**

■ TECHNICAL
CHALLENGES

- An aircraft can only be flown if:
- a) it's in the **proper technical condition,**
 - b) if all **required inspections are up to date,**

■ TECHNICAL
CHALLENGES



■ TECHNICAL
CHALLENGES

An aircraft can only be flown if:

- a) it's in the **proper technical condition,**
- b) if all **required inspections are up to date,**
- c) if **paperwork has been executed** by an appropriately rated person or shop **attesting to the airworthiness of the aircraft.**

AIRWORTHY

The status of an aircraft, engine, propeller or part when it **conforms to its approved design and is in a condition for safe operation.**

TECHNICAL
CHALLENGES

INSPECTIONS

Work that **must be accomplished** regardless of the condition of the aircraft. Inspections can be hour driven, landing driven, and/or calendar driven.

TECHNICAL
CHALLENGES

INSPECTIONS

Work that **must be accomplished** regardless of the condition of the aircraft. Inspections can be hour driven, landing driven, and/or calendar driven.

Directly impact the value of the asset.

TECHNICAL
CHALLENGES

TIME/LIFE LIMITED COMPONENTS

These components **must be overhauled or replaced with new,** regardless of their condition.

TECHNICAL
CHALLENGES

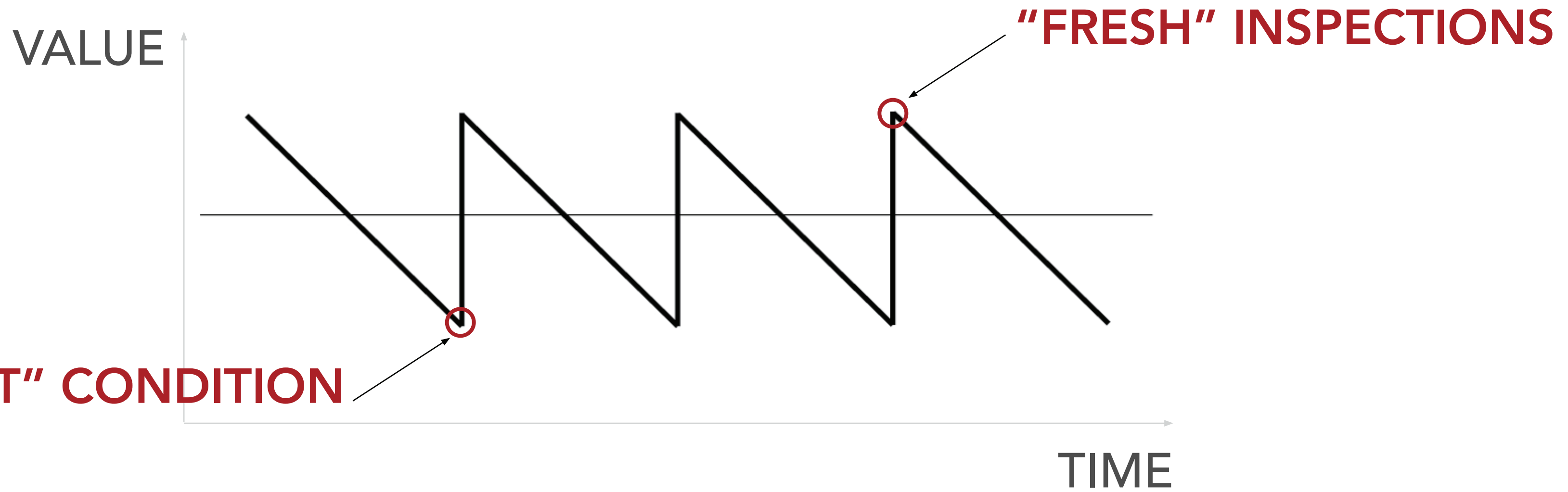
TIME/LIFE LIMITED COMPONENTS

These components **must be overhauled or replaced with new,** regardless of their condition.

Directly impact the value of the asset.

■ TECHNICAL
CHALLENGES

SAWTOOTH



TECHNICAL CHALLENGES

SCHEDULED MAINTENANCE

UN-SCHEDULED MAINTENANCE

Maintenance has **minimal impact** on the value of the plane.

TECHNICAL
CHALLENGES

TRAP

Authorizing excessive unnecessary use of aircraft.

TECHNICAL
CHALLENGES

TRAP

Authorizing excessive unnecessary use of aircraft.

It diminishes the aircraft's value due to **increased wear/tear** and **reduced component life**.

■ TECHNICAL
CHALLENGES

TRAP

Authorizing excessive unnecessary use of aircraft.

It diminishes the aircraft's value due to **increased wear/tear** and **reduced component life**.

It also increases the probability of **an unscheduled maintenance** event.

■ TECHNICAL
CHALLENGES

- TECHNICAL CHALLENGES



Source: Legacyaviationgroup.com

PRESERVATION

Exotic materials are common in aviation. They **save weight** and **handle extreme temperatures and pressures.**

■ TECHNICAL
CHALLENGES

PRESERVATION

Exotic materials are common in aviation. They **save weight** and **handle extreme temperatures and pressures**.

They tend to **deteriorate rapidly** if the plane is **not flown**, **improperly stored** or **neglected**.

TECHNICAL
CHALLENGES

PRESERVATION

Exotic materials are common in aviation. They **save weight** and **handle extreme temperatures and pressures**.

They tend to **deteriorate rapidly** if the plane is **not flown, improperly stored or neglected**.

The manufacturer requires that the **aircraft be flown** within a specified interval, or **enrolled in a preservation program**.

TECHNICAL
CHALLENGES

TRAP

Parking an aircraft without a preservation plan.

■ TECHNICAL
CHALLENGES

TRAP

Parking an aircraft without a preservation plan.

Best case: the **aircraft deteriorates**. Worst case: maintenance and service **contracts are voided**, engines and components **require pre-mature overhauls** (at owners expense), and **buyers' perceive** a neglected aircraft.

TECHNICAL
CHALLENGES

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-
- TECHNICAL CHALLENGES
-



Source: Bjtonline.com

BOTTOM LINE

Aircraft have more in common with **expensive racehorses** than other property.

TECHNICAL
CHALLENGES

BOTTOM LINE

Aircraft have more in common with **expensive racehorses** than other property.

Avoid the temptation to cut expenses at any cost.

■ TECHNICAL
CHALLENGES

BOTTOM LINE

Aircraft have more in common with **expensive racehorses** than other property.

Avoid the temptation to cut expenses at any cost.

Engage an industry professional for options to maintain asset value at minimal expense.

TECHNICAL
CHALLENGES

ADDITIONAL CHALLENGES

APPRAISAL VS MARKET EVALUATION

There is no clearing house or open **data sources for aircraft sales prices.**

■ ADDITIONAL
CHALLENGES

APPRAISAL VS MARKET EVALUATION

There is no clearing house or open **data sources for aircraft sales prices.**

Business aircraft are **custom built** when new, and **significantly modified** over time.

■ ADDITIONAL
CHALLENGES

CASE FOR APPRAISAL

An aircraft appraiser is reliant on **valuation reference guides**. These have one/two quarters **publication delay**.

■ ADDITIONAL
CHALLENGES

CASE FOR APPRAISAL

An aircraft appraiser is reliant on **valuation reference guides**. These have one/two quarters **publication delay**.

An appraisal is an objective evaluation but will **reflect the past**.

■ ADDITIONAL
CHALLENGES

CASE FOR MARKET EVALUATION

Brokers track and monitor **a narrow range** of business aircraft **daily**.

■ ADDITIONAL
CHALLENGES

CASE FOR MARKET EVALUATION

Brokers track and monitor **a narrow range** of business aircraft **daily**.

Brokers have comparable sales data to estimate what
the aircraft will trade **for now**.

■ ADDITIONAL
CHALLENGES

TRAP

Using an appraisal to **establish aircraft ask/take prices,**
or to determine a sales strategy.

■ ADDITIONAL
CHALLENGES

The number of third-party vendors that are necessary to support an aircraft is considerable.

■ ADDITIONAL
CHALLENGES

The number of third-party vendors that are necessary to support an aircraft is considerable.

An unpaid vendor can **withhold services and limit access to the aircraft**. They can render the aircraft **unairworthy** and **unmarketable**.

■ ADDITIONAL
CHALLENGES

TRAP

Litigating a payment dispute rather than settling it.

■ ADDITIONAL
CHALLENGES



FAA CLAIM OF LIEN

Source: Nationalinterest.org

■ ADDITIONAL
CHALLENGES

TRAP

No regulations governing Aircraft Brokers.

■ ADDITIONAL
CHALLENGES

TRAP

No regulations governing Aircraft Brokers.

Current accreditation is **"pay to play"** and self-governed. References and Referrals are critical.

■ ADDITIONAL
CHALLENGES

TRAP

No regulations governing Aircraft Brokers.

Current accreditation is **"pay to play"** and self-governed. References and Referrals are critical.

Selecting a Broker without checking references.

■ ADDITIONAL
CHALLENGES



BACK TO BACK

Source: Aionline.com

■ ADDITIONAL
CHALLENGES

ENGINE MAINTENANCE PROGRAMS

Similar to a reserve account.

■ ADDITIONAL
CHALLENGES

ENGINE MAINTENANCE PROGRAMS

Similar to a reserve account.

Provides **support** for the engine throughout its life,
and **ownership and maintenance cost certainty.**

■ ADDITIONAL
CHALLENGES

ENGINE MAINTENANCE PROGRAMS

Similar to a reserve account.

Provides **support** for the engine throughout its life,
and **ownership and maintenance cost certainty.**

The market value of an aircraft with an engine program
is **dramatically more than one without.**

■ ADDITIONAL
CHALLENGES

TRAP

Terminating an engine program without considering the impact it will have on the aircraft's value.

■ ADDITIONAL
CHALLENGES



■ ADDITIONAL
CHALLENGES



Source: Privatejetcardcomparisons.com



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David Coleman
President, Coleman Jet Solutions



With over 35 years of experience in the aviation industry, David Coleman has extensive experience in technical oversight, flight operations, and transaction management.

Dave was one of the first brokers in the world to earn “Certified Broker” status from the International Aircraft Dealers Association. Dave is an expert in complex international transactions and has the capability to assist clients including banks and leasing companies in the acquisition and disposal of overseas and distressed aircraft.

Dave is a current ATP-rated pilot with over 7,000 Hours of flying time in over 40 aircraft models including type ratings in turboprops, jets, and seaplanes.

**ENHANCING ASSET
VALUES THROUGH A
COST SEGREGATION
STUDY**

Enhancing Asset Values Through A Cost Segregation Study

National Trust Closely Held Business Association



September 20, 2023

Presenter

Daniel McGrath

Tax Senior Director – Tangible Property Services

National Leader – Fixed Asset Management

Chicago

312.634.5305

daniel.mcgrath@rsmus.com



Agenda

Topic	Minutes
Introduction and Learning Objectives	5
Cost Segregation	20
Depreciation	20
Other Considerations	5
Q&A	10

Objectives

By the end of this session, you will be able to:

- Understand the purpose of a Cost Segregation Study
- Identify types of properties that are good candidates
- Describe the process and timing for performing a study
- Determine proper depreciation recovery periods
- Apply special rules associated with bonus depreciation and Qualified Improvement Property

Cost Segregation

Cost Segregation >

Overview

Cost Segregation Overview

- Federal income tax deferral strategy
- Analysis of a capital project to identify components and assign their associated costs
- Cost of capitalized items recovered over time via depreciation
- Types of projects and dollar thresholds
 - New construction
 - Acquisition
 - Renovations
 - Dispositions

Cost Segregation Overview

- Buildings depreciated over long lives
 - Commercial = 39-years
 - Residential rental = 27.5-years
- Land improvements and personal property depreciated over shorter lives
 - Land improvement = 15-years
 - Personal property = 5- and 7-years
- Bonus depreciation
- Applicable to projects placed in service during current or prior tax years

Cost Segregation Overview

Benefits of performing a study

- Increase depreciation deductions earlier in life of property
- Reduce taxable income/tax liability
- Increase cash flow
- Utilize increased cash flow to generate additional income
- Low risk/high reward
- Mitigate risks from improper depreciation lives and methods

Cost Segregation Overview

Taxpayers who might benefit include those who...

- Own any type of income producing building
- Expand or renovate owned buildings
- Provide tenant improvement allowances
- Lease space and incur expenditures on leasehold improvements
- Have taxable income or expect to in the near future

Cost Segregation Overview – Types of Properties

- Manufacturing/Industrial
- Office buildings – owner occupied
- Office buildings – multi-tenant
- Medical office buildings
- Retail
- Apartment buildings
- Restaurants
- Hotels
- Auto dealerships
- Dry storage warehouses
- Cold storage warehouses
- Ski resorts
- Golf courses
- Ethanol plants
- Casinos
- Pharmaceutical laboratories
- Data centers
- Multi-use properties
- VA Clinics
- Border patrol stations

Cost Segregation Overview – Benefit Example

Acquired apartment property in 2023

- Assumptions:
 - \$5,000,000 purchase price
 - Land value of \$1,000,000
 - 39% tax rate and 8% discount rate
 - Reclassify 5% to land improvements and 10% to personal property
- Benefits
 - Additional deductions on 2023 return = \$490,000
 - 2023 tax savings = \$190,000
 - NPV benefit = \$130,000

Cost Segregation >

Identifying Real and Personal Property

Section 1250 Real Property

- Buildings
 - Building structural components
 - Building systems
- Improvements to buildings
- Tenant (leasehold) improvements
- Qualified improvement property (QIP)
- Land (not depreciable)
- Improvements to land

Typical building assets

- Acoustical ceilings
- Ceramic/marble tile
- Paint
- Doors, frames, and hardware
- Toilet and bath accessories
- Fire protection equipment
- Leasehold improvements
- Plumbing
- HVAC (chiller, ductwork, air conditioner, boiler)
- Lighting
- Electrical system
- Electrical switchgear
- Elevators/escalators
- Excavation (i.e. excavation under building)
- Masonry
- Metals/steel
- Curtain wall
- Glass and glazing
- Exterior siding
- Concrete (foundations, walls, slab)
- Roof
- Insulation
- Skylights
- Rough carpentry
- Drywall

Land improvements / Section 1245 personal property

Land Improvements

- Excavation (portion under parking lot and other site improvements)
- Site concrete (roads, sidewalks, parking lots, patios, light pole bases)
- Storm sewers
- Asphalt paving
- Pre-cast concrete parking bumpers
- Landscaping and irrigation systems
- Man-made lakes and retention ponds

Section 1245 Personal Property

- Machinery/equipment
- Furniture and fixtures
- Automobiles
- Computers
- Other tangible personal property

Tests used to determine other tangible personal property

- Accessorial nature of the item to the conduct of the business
 - Electrical power to specific machinery & equipment
- Incidental use (not related to normal operation & maintenance of building)
 - Decorative lighting
- Sole justification
 - Computer room air conditioning unit
- Concept of movability
 - Certain floor coverings

Typical personal property

- Certain cabinets/countertops/shelving
- Furniture/fixtures/equipment
- Carpeting/VCT/resilient floor tile
- Window treatments
- Tack/chalk/white boards
- Vinyl wall coverings/wall paper
- Lockers
- Kitchen exhaust hoods
- Kitchen equipment plumbing
- Parking control equipment
- Certain signs and graphics
- Electrical to personal property
- Break room appliance utilities
- Folding partitions
- Audio visual equipment
- Cubicles
- Display cases
- Compactors
- Certain emergency generators
- Uninterruptible power supply (UPS)
- Speaker systems
- Computer network cabling
- Data center raised flooring
- Computer room cooling, power and fire suppression
- Data cabling
- Lab equipment plumbing
- Concrete foundations, pits and trenches for equipment
- Decorative lighting

Case law on classifying an asset

- *Scott Paper Company* – whether an item relates to the operation or maintenance of a building
- *Hospital Corporation of America* – whether an item serves a function accessory to a business
- *Whiteco Industries* – 6 factors as to whether an item has permanence (though not overriding factors)
- *Metro National* – whether an item has no more than an incidental relationship to the operation or maintenance of a building (i.e., decoration or ornamentation)

Indirect costs

- Architect fees
- Engineering
- Permits
- General conditions
- Construction/project management
- Temporary Utilities
- Testing/inspection
- Real estate taxes during construction

Cost Segregation >

Process and Timing

New construction, expansion or renovation

- Obtain documentation
 - Overall project budget
 - Contractor payment application, change orders and subcontractor detail
 - Other vendor invoices
 - Full-scope blueprints
 - Contracts
 - Lease agreements and rent roll (if applicable)
- Analyze documentation, identify assets and actual costs
- Conduct site inspection (interviews, notes and photos)
- Estimate necessary costs not identified on invoices
- Allocation indirect costs
- Generate draft written report and review with client
- Issue final report

Acquired property

- Obtain documentation
 - Purchase agreement and closing statement
 - Appraisals (including land value) and property condition reports
 - Historical photographs
 - Blueprints and site survey
 - Lease agreements and rent roll (if applicable)
- Analyze documentation and identify assets
- Conduct site inspection (interviews, extensive notes and photos)
- Estimate asset replacement costs (new and less depreciation)
- Allocate costs to depreciable purchase price
- Generate draft written report and review with client
- Issue final report

Timing considerations

- New construction
 - Access to general contractor/subcontractors
 - Final costs
- Acquisitions
 - Pre-closing
 - Post-closing
- Tax planning purposes

Ultimately results needed for tax return associated with year placed in service

Depreciation

Depreciation overview

- Depreciation lives generally meant to match the timing of income and expenses related to producing income but less than perfect
- Must own asset to depreciate it
- Asset bought/sold same year = no allowable depreciation
- Typically use software programs to calculate tax depreciation

General Depreciation System (GDS)

- ACRS
 - Accelerated Cost Recovery System
 - Used for assets placed in service before 1987
- MACRS
 - Modified Accelerated Cost Recovery System
 - Used for assets placed in service after 1986
- Use of straight-line method or accelerated methods

Alternative Depreciation System (ADS)

- Required for:
 - Nonresidential real property, residential rental property and qualified improvement property when making Real Property Trade or Business election under IRC Section 163(j)
 - Assets used predominately outside of the US
 - Tax-exempt use property
 - Tax-exempt ownership
 - Property with tax-exempt bond financing
- Generally requires use of straight-line method
- Can be elected by any taxpayer
- Required v. elective use dictates certain provisions (i.e., bonus depreciation)

Depreciation >

Recovery periods

Recovery periods §1250 property

GDS	ADS
15 years	20 years
27.5 years	30 years
39 years	40 years

Common recovery periods §1245 property

GDS	ADS
3 years	3 years
5 years	5 years
5 years	9 years
7 years	10 years
7 years	12 years

Asset classes & recovery periods

- Revenue Procedure 87-56
 - Establishes GDS & ADS lives for assets
- Table B-1
 - Depreciable assets used in all business activities
- Table B-2
 - Depreciable assets used in specific industries or activities

Asset classes & recovery periods – Revenue Procedure 87-56

Example of Table B-1

Asset class	Description of assets included	Class Life (in years)	Recovery Periods (in years)	
			General Depreciation System	Alternative Depreciation System

[Table B-1]

SPECIFIC DEPRECIABLE ASSETS USED IN ALL BUSINESS ACTIVITIES, EXCEPT AS NOTED:

00.11	Office Furniture, Fixtures, and Equipment: Includes furniture and fixtures that are not a structural component of a building. Includes such assets as desks, files, safes, and communications equipment. Does not include communications equipment that is included in other classes.....	10	7	10
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Asset classes & recovery periods – Revenue Procedure 87-56

Example of Table B-2

Asset class	Description of assets included	Class Life (in years)	Recovery Periods (in years)	
			General Depreciation System	Alternative Depreciation System
24.4	<p>Manufacture of Wood Products, and Furniture:</p> <p>Includes assets used in the production of plywood, hardboard, flooring, veneers, furniture, and other wood products, including the treatment of poles and timber.....</p>	10	7	10
57.0	<p>Distributive Trades and Services:</p> <p>Includes assets used in wholesale and retail trade, and personal and professional services. Includes section 1245 assets used in marketing petroleum and petroleum products.....</p>	9	5	9 ^[8]

Additional guidance on recovery periods

- IRS Publication 946
- IRS Cost Segregation Audit Technique Guide
 - Casinos
 - Restaurants
 - Retail Industries
 - Biotech & Pharmaceutical Industry
 - Auto Dealerships
 - Auto Manufacturing
- US Master Depreciation Guide (published yearly by CCH Inc.)
- Case law

Depreciation >

Qualified Improvement Property (QIP)

Qualified improvement property (QIP)

- CARES Act corrected Tax Cuts and Jobs Act (TCJA) drafting error
- Any **improvement** made by the **taxpayer** to an **interior** portion of a building
 - which is **nonresidential** real property
 - if improvement placed in service **after** the building was first placed in service (by any taxpayer)
- Exclusions
 - enlargement of the building
 - any elevator or escalator
 - **internal structural framework** of the building
 - personal property

Qualified improvement property

- Examples of building/leasehold improvements that don't qualify
 - Rooftop heating, ventilation and air conditioning (HVAC) units
 - Exhaust fans for kitchen hoods
 - HVAC units on concrete pads adjacent to the building
 - Roof replacement
 - Building-mounted exterior lights
 - Façade improvements (i.e. stucco, brickwork, siding, EIFS, etc.)
 - Grease interceptors
 - New exterior doors or windows
 - Glass storefront assemblies
 - Emergency generators located outside the building

Qualified improvement property

- Improvements made on or after January 1, 2018
- Recovery period = 15-years for GDS and 20-years for ADS
- Eligible for bonus depreciation

Depreciation >

§168(k) bonus depreciation

§168(k) bonus depreciation

- Increased percentage of depreciation in the year the qualifying asset is placed in service
- Remaining asset basis is depreciated normally under MACRS rules
- §168(k) is **required** and NOT an election
- Allowed to elect out on class-by-class basis
- Sometimes (previously) referred to as “full expensing”

§168(k) bonus depreciation

- Qualified property
 - Must have MACRS recovery period of 20 years or less
 - New property
 - Used property if certain acquisition requirements are met
 - Includes depreciable computer software

§168(k) bonus depreciation

Placed in Service Year	Qualified Property	Longer Production Period Property and Certain Aircraft
*after Sept. 27, 2017 to Dec 31, 2022	100 percent	100 percent
2023	80 percent	100 percent
2024	60 percent	80 percent
2025	40 percent	60 percent
2026	20 percent	40 percent
2027	None	20 percent

* Property must be acquired after Sept. 27, 2017.

§168(k) bonus depreciation under prior rules

- Generally relied on placed in service date
- Placed in service dates and applicable bonus depreciation included:
 - 09/11/2001 to 05/05/2003: 30%
 - 05/06/2003 to 12/31/2004: 50%
 - 01/01/2008 to 09/08/2010: 50%
 - 09/09/2010 to 12/31/2011: 100%
 - 01/01/2012 to 12/31/2017: 50%
 - 01/01/2018 to 12/31/2018: 40%
 - 01/01/2019 to 12/31/2019: 30%

Other considerations

Other considerations >

Missed Depreciation

How to correct common depreciation issues

- File automatic accounting method change (Form 3115)
 - change #7 for standard depreciation and change #244 for QIP
 - missed depreciation for an asset placed in service in a prior year
 - improper recovery period / method
 - changing from non-depreciable to depreciable
 - failed to claim bonus depreciation (and didn't elect out)
 - change in placed in service date
 - calculate §481(a) adjustment
- Amend the return if:
 - error is mathematical in nature

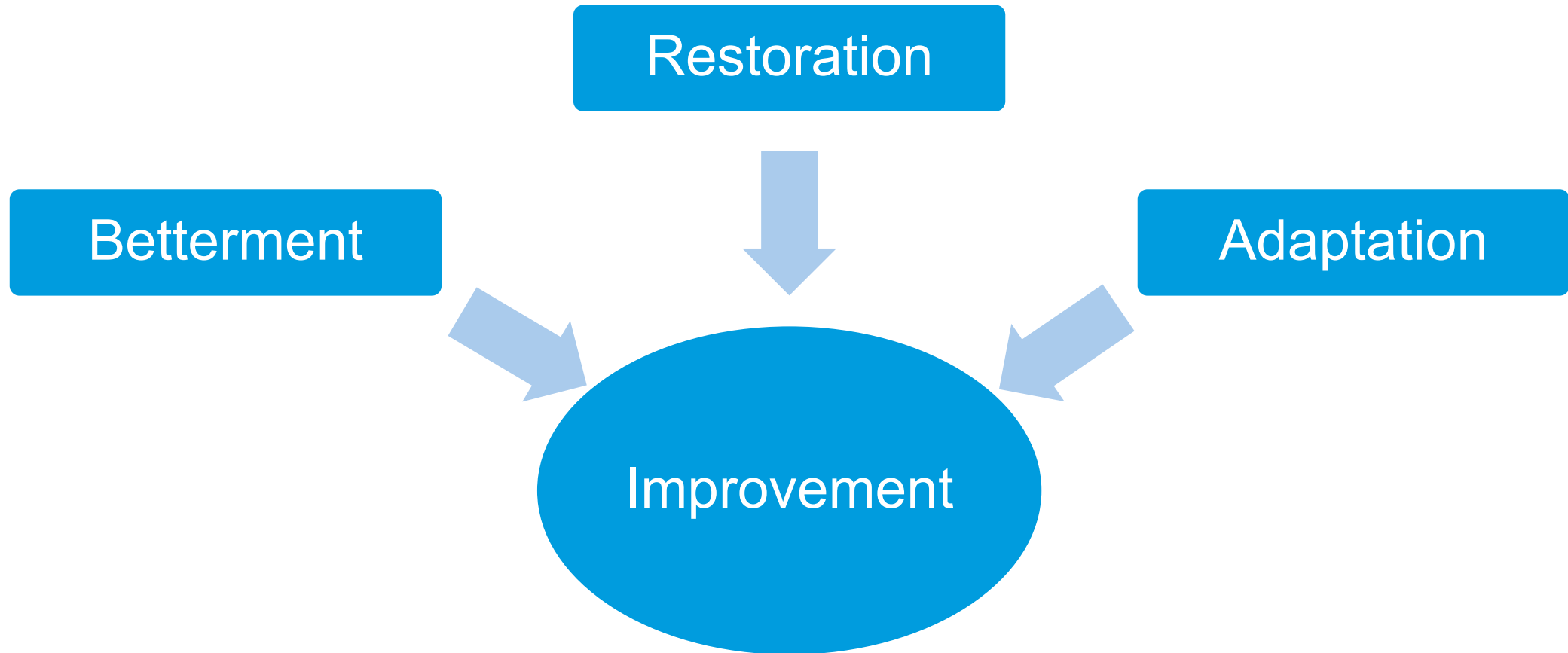
Other considerations >


Tangible Property Regulations

Amounts paid to improve tangible property vs repair expense

- Capitalize all direct costs of the improvement
- Capitalize indirect costs that directly benefit or are incurred by reason of the improvement
- If costs don't result in an improvement, they can be deducted as a repair
- If costs result in an improvement and need to be capitalized, demolished/disposed assets can be written off and associated removal costs expensed
- Significant set of rules to consider and factors to evaluate

Amounts paid to improve tangible property vs repair expensing





QUESTIONS AND ANSWERS

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Summary of experience

Dan provides federal income tax consulting services related to tangible property and has over 25 years of experience in public accounting assisting clients with tax depreciation issues including review of historical and current year expenditures through repair and maintenance studies, cost segregation, maintaining fixed asset depreciation, accounting methods and purchase price allocation. As the Tangible Property Services team's national leader of Fixed Asset Management services, he serves clients throughout the Great Lakes region and nationally. Dan has analyzed properties nationwide, including many types of manufacturing facilities, grocery stores, restaurants, hotels, office buildings, tenant improvement build-outs, auto dealerships, apartment complexes, riverboat casinos, data centers, pharmaceutical laboratories and retail stores.

Prior to joining RSM, Dan worked at a Big Four firm, another major international accounting firm and a real estate appraisal and consulting firm, focusing on fixed asset reviews, cost segregation and repair and maintenance studies. At each of these previous firms, he was the regional or national leader for tax fixed asset services. This included assisting clients with understanding the rules, overseeing engagement teams and ensuring that reports issued by the firm complied with applicable regulations.

Professional affiliations and credentials

- Bloomberg Tax Fixed Assets Certified Implementer
- American Society of Cost Segregation Professionals

Education

- Bachelor of Science, Building Construction Management, Purdue University
- Master of Business Administration, Keller Graduate School of Management – DeVry University

**DEVELOPING MORE
POWERFUL PLANS AND
PLANNING PROCESSES**

Planning For What Comes Next

1

**DEVELOPING MORE POWERFUL PLANS AND
PLANNING PROCESSES**

**NATIONAL TRUST CLOSELY HELD BUSINESS
ASSOCIATION**

SEPTEMBER 20, 2023



Spitulnik Advisors

Why Are We Here?

Let's Begin
With Three
Questions For
You And Your
Clients:

- **Where Do You Want To Get To?**
- **By When?**
- **And Perhaps Most Critical -- Why There?**

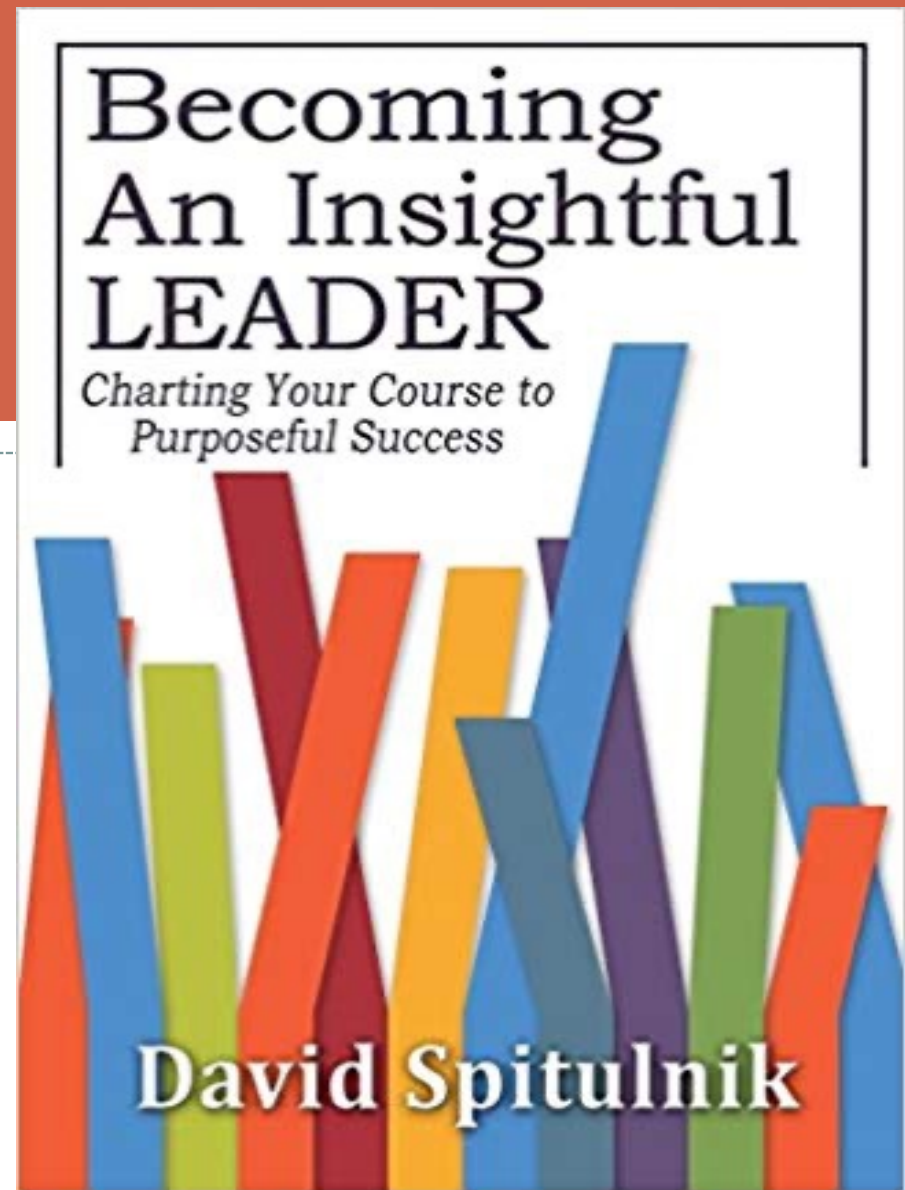


Setting
Ourselves
Up For
Inspiration
And
Insight

**Faster Alone.
Further Together.**



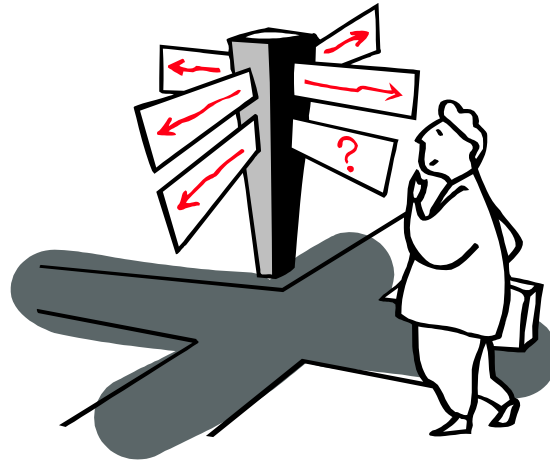
My Book On Leadership



Why The 5 Questions Matter?

5

If You Don't Know Where You Want To Go...



...It Doesn't Matter In Which Direction You Start.



Spitulnik Advisors

Before We Get Too Far, A Couple of Thoughts

6

- **Financial Plans Don't Stand On Their Own. Rather They Need To Be Part Of A Larger Picture.**
- **I Understand That What I Will Talk About May Be Outside The Scope Of Fiduciary Responsibilities, But In Order To Have A Sound Plan, Someone Needs To Have These Conversations.**



Question #1

What Do You Consider Long Term?

7

Next Week?

Next Month?

Next Year?

Three To Five Years From Now?



So Let's Take A Quick Poll

8

What Is Long Term For Your Clients?



Question #2

9

- **What Do They Want To Look Like When They Get There?**
- **And The Underlying Driver, Why Do They Want That?**



Question #3: How Ready Are They For This Journey?

10



Where Are They Starting From?



What Do They Want To Have Happen?



**“Nice To Know” Vs. “Need To Know”
in context of long-range plan.**



Question #4: What Are The Milestones And Tasks?

11



**Destination
Checklist**



**Essential
Conversations**



**Just Who Do You
Think You're
Talking To?**



ChartingThe
Path -

Question 5

**Are You Ready To Help Them
Define Their Process?**

**Critical Both For The Base
Plan And Opportunity
Assessment Along The Way**



**A Few More
Questions For
Your Clients**

- **How Often Do You Formally Look At/Review Your Plan?**
- **What Are The Elements Of The Formal Review?**
- **When Was The Last Time The Plan Was Updated?**



**While Our Conversation Today Is
About Planning,
Let's Take A Quick Look At Things You
Need To Do And Be
To Have A Solid Planning Strategy.**



The Three “I’s” Of An Insightful Leader

15

- **INTELLIGENCE**
- **INCLUSION**
- **INFLUENCE**



Intelligence

Go Beyond
Understanding
What They've
Done Before.

- **What Solution Fits Best In The Current Environment?**
- **Presence Of Mind To Know Their Strengths. Recognizing Where They Need Help In Other Areas And Where To Focus Their Continuing Development Today And Tomorrow**



Inclusion

Variety Is An
Incredibly
Valuable Asset.

Encourage Them
To Use It To
Their Advantage.

- **Inclusion Of Others In The Thought Process Will Help Build Understanding of What They Have**
- **Inclusion Will Also Help People Understand What They Don't Have**
- **Embrace Any And All Differences For A Complete Perspective**



Influence

It's About Who
You Know.

And Who Your
Connections
Know.

- **Asking For Help When It Is Needed, Without Any Shame In Doing So.**
- ***“I Don't Know Someone With The Skills I Need To Add To Help Our Family Or To Mentor Me... But WE Can Find Somebody Who Does.”***
- **Influence By Mutual Referral: Build Your Network. Keep Doing So In Order To Have Outsiders Available To Ask Questions Of And To Refer And Be Referred**



Now For Your Client's Five Questions

19

- 1. What Is Long Term For Your Client?**
- 2. What Do They Want To Look Like When They Get There?**
- 3. Where Are They Starting From?**
- 4. What Are The Milestones And Objectives For Them On This Journey?**
- 5. What Is Their Process For Planning? For Evaluating New Opportunities? And For Deciding What To Stop Doing?**



One Final Thought

20

While The Focus Of Today's Discussion Has Been Primarily On Your Client's Planning, Keep In Mind That These Questions Are Also Relevant For You As You Contemplate Your Career And Life Journeys



Any Questions?

21



Thank You

22



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Spitulnik Advisors



David Spitulnik
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David Spitulnik is a successful executive with over 40 years of experience in both large technology companies and in consulting to and leadership of mid-market, closely held and family-owned businesses across a variety of industries. Drawing from a broad range of experience in the United States and internationally, David is called upon to advise, coach and mentor business leaders, to work with companies to develop and implement their long-range plans and to advise businesses on board creation, structure and effectiveness so that the individual, the board and the company can maintain powerful forward momentum. David published a book on leadership, [Becoming An Insightful Leader: Charting Your Course To Purposeful Success](#) which focuses on the journey from managing to leading to advising and reflects David's belief in communicating and questioning how individuals and teams will define and then accomplish their goals and objectives.

David served on the Board of several international joint ventures he led the development of while at Motorola. He also led the development of initial board charters and served on the advisory boards for six closely held businesses ranging in revenues from \$15 million to \$600 million while at Blackman Kallick. Most recently, David served on the Board of ACERTD Media Group, an early-stage application development company.

He has been an active volunteer with the Private Directors Association, previously serving as chair of the Family Business Center Outreach Committee and on the programming and membership committees. David is active in the community, currently serving on the Executive Committee of the Board of the Youth Job Center whose mission is "Success for Young People in Their Careers and in Life." He also is an Alumni Volunteer for both the Kellogg School of Management (MBA Finance and Accounting) and Haverford College (BA Economics).

Previous positions Include:

Board Leadership with Not for Profit, early stage and international Joint Ventures.

President - Maine Plastics and A Greener Solution

Managing Director - Strategic Services , Blackman Kallick

Vice President -Strategy and Business Development, Motorola

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