Best Practices

The Relevance of Fair Value Measurements for Property Tax Valuation Purposes

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There have been a large number of merger and acquisition (M&A) transactions completed during the last decade. The required financial accounting treatment of these M&A transactions is to allocate the total purchase price paid for the target company to the fair value of the target company individual assets acquired and liabilities assumed. This so-called "purchase price allocation" process is based on the total price the acquirer paid to acquire the target company. That price may include expected post-merger synergies, the present value of growth opportunities, and identifiable intangible assets and goodwill. The standard of value for the financial accounting purchase price allocation is fair value. The fair value standard of value is not the same as the fair market value standard of value that is most commonly used for property tax purposes. There are important differences between fair value and fair market value. These differences may or may not cause the fair value of an acquired company's asset(s) to be different than the fair market value of these same asset(s). Taxpayers should not accept on faith alone the taxing authority's claim that fair value is equal to fair market value. This discussion explains situations where (1) fair value analyses are not relevant to a fair market value valuation and (2) fair value analyses may be relevant to a fair market value valuation.

Introduction

Many state and local taxing authorities use the "unit" principle to value utilities, railroads, telecommunication companies, and other utility-type companies that are "centrally assessed" for ad valorem property tax purposes.

The unit principle values all of the taxpayer operating assets collectively (as a single "unit"). The total bundle of taxpayer operating assets is valued in the aggregate as one integrated going-concern business enterprise.

The application of the unit principle often starts with the valuation of the business enterprise, using some combination of the cost, income, and/or market approach valuation methods. Then, the value of any nonoperating assets and any exempt (from property taxation) property is deducted.

Property tax assessors often attempt to use market information from merger and acquisition (M&A) transactions as evidence of the fair market value of the taxpayer company's taxable unit. These M&A transactions could involve companies that are unrelated to the taxpayer. Or, these M&A transactions could involve the taxpayer itself, such as when the taxpayer company is acquired by another company.

Property tax assessors often rely on the subject company M&A transaction purchase price to estimate the fair market value of the acquired taxpayer company. Or, they may rely on the purchase price allocation performed following the subject transaction as evidence of the fair market value of the taxpayer company's taxable unit.

This discussion summarizes the valuation differences between

1. the estimation of the fair value of a taxpayer company's unit of assets for purchase accounting purposes and
2. the estimation of the fair market value of a taxpayer company's unit of assets for property tax purposes.

"... it is not appropriate to assume, without specific analysis, that a valuation conducted for GAAP purchase accounting purposes would produce the same results as a fair market value valuation conducted for unit principle property tax compliance purposes."

The focus of this discussion is to compare (1) the fair value standard of value as it relates to purchase price allocation financial accounting with (2) the fair market value standard of value as it relates to ad valorem property tax assessments.

This discussion also addresses whether the transaction purchase price always represents the fair market value of the acquired business enterprise. When it does not, then that transaction purchase price will not provide relevant evidence of the fair market value of the taxpayer company's total unit.

However, even if the transaction purchase price represents the fair market value of the business total assets, the purchase price allocation may not. This is because the standard of value used in the financial accounting purchase price allocation is fair value, and not fair market value.

For purposes of this discussion, when we refer to "purchase accounting purposes," we are referring to a purchase price allocation fair value valuation analysis prepared for compliance with U.S. generally accepted accounting principles (GAAP). In particular, we are referring to the provisions of GAAP that relate to the fair value measurement of the acquired company assets for purposes of the purchase method of accounting.

When we refer to property tax purposes, we are referring to a fair market value valuation prepared for state or local ad valorem tax purposes. In particular, we are referring to a property tax valuation prepared using the unit valuation principle with regard to a centrally assessed taxpayer corporation.

For purposes of this discussion, when we refer to valuation differences, we are referring to any differences related to the following:

1. The generally accepted valuation principles that would apply for each of the two abovementioned purposes
2. The application of the individual generally accepted valuation approaches, methods, and procedures that would apply for each of the two abovementioned purposes

For the reasons discussed herein, it is not appropriate to assume, without specific analysis, that a valuation conducted for GAAP purchase accounting purposes would produce the same results as a fair market value valuation conducted for unit principle property tax compliance purposes.

In addition, it is not appropriate to assume that a transaction purchase price necessarily represents fair market value of the acquired assets.

An analysis of a transaction purchase price relative to the fair market value standard of value is presented in the next section of this discussion.

The valuation differences between purchase accounting valuations and property tax valuations are addressed in a subsequent section of this discussion.

Standard of Value Definition Differences

Within the valuation analyst's lexicon, the definition of value is typically referred to as the "standard of value." The next section discusses three different standards of value:

1. Fair value
2. Fair market value
3. Investment value

We note that the differences between these standards of values are not merely semantic (i.e., technical wording differences). Rather, these standard of value differences relate to differences in the valuation analyst's application of generally accepted valuation approaches, methods, and procedures. These standard of value differences may result in a different quantitative value conclusion for the same bundle of acquired assets.

Fair Value for Purchase Accounting Purposes

The standard of value used by both accounting and valuation professionals for purchase accounting purposes is fair value, as described in Accounting Standards Codification (ASC) 820, "Fair Value Measurements and Disclosures."

The Financial Accounting Standards Board (FASB) issued SFAS No. 157 (renamed ASC 820 after the implementation of the FASB accounting standards codification project) for the purpose of "increased consistency and comparability in fair value measurements and for expanded disclosure about fair value measurements."[1]

M&A transactions must be accounted for under the purchase method of accounting, as described in ASC 805. ASC 805 requires that the M&A transaction purchase price be allocated to the target company acquired assets based on the fair value of those acquired assets.

A valuation prepared for financial reporting purposes under ASC 805 estimates the fair value of the target company assets acquired (and the liabilities assumed) as part of a business combination.[2]

According to ASC 820, fair value is defined as:

> The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The transaction . . . is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. Therefore, the objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price).[3]

As explained in this discussion, the fair value standard of value is different from (1) the fair market value standard of value and (2) the investment value standard of value.[4]

Fair Market Value for Unit Principle Property Tax Purposes

For ad valorem tax purposes, nearly all states require that taxpayer property be valued at fair market value (or at some conceptually similar standard of value). Many states use different terms to describe their statutory valuation standard, such as "actual value" or "true cash value."[5] These different state-specific terms, however, are typically defined to mean fair market value.

A common definition of fair market value is: the price paid in a transaction between a hypothetical willing seller and a hypothetical willing buyer, with neither party being under any compulsion to buy or sell and with both parties having reasonable knowledge of the relevant facts.

Investment Value

A third standard of value is investment value. According to *The Appraisal of Real Estate*:

> Investment value represents the value of a specific property to a particular investor. As used in appraisal assignments, investment value is the value of a property to a particular investor based on that person's (or entity's) investment requirements. In contrast to market value, investment value is value to an individual, not necessarily value in the marketplace.[6]

If the acquirer in an M&A transaction expects to realize synergies or other benefits that are not shared by other buyers in the marketplace, then the transaction price may represent investment value.

Investment value is not consistent with the definition of fair market value. That is, investment value should not be included in a fair market value analysis.[7] This is because, "from a common sense approach, the synergistic buyer will always be willing to pay more than a financial buyer because the synergistic buyer has personal and unique advantage that the financial buyer does not have."[8]

The "personal and unique" advantages mentioned in the above quote include, for example, the ability of the strategic buyer to reduce corporate overhead expenses. A buyer with a "personal and unique advantage" is not a hypothetical willing buyer, which is the buyer that should be considered under the fair market value standard of value.

M&A Transaction Prices and Fair Market Value

In a unit principle valuation for property tax purposes, property tax assessors or tax administrators often rely on the M&A transaction purchase price as the fair market value of the taxpayer company's tangible and intangible assets. If the transaction purchase price represented investment value (and not fair market value), then this reliance will be problematic.

It is important to evaluate the motivations of the parties to an M&A transaction in order to determine the usefulness of pricing data derived from a merger or acquisition. These motivations should be analyzed in order to make comparisons between (1) the M&A transaction purchase price and (2) the fair market value of the taxpayer company's taxable unit.

In recent years, there has been a wave of M&A transactions between companies in the telecommunications industry and, to a lesser extent, companies in the energy and transportation industries. In some cases, the M&A transactions are the result of (1) deregulation in the respective industries or (2) the desire to expand and/or defend a company's market position.

Property tax assessors may (1) calculate an M&A transaction pricing multiple (e.g., value to megawatts of capacity, miles of rail line, miles of gas distribution pipeline, telecommunications capacity, or telecommunications customer volume) and (2) apply that pricing multiple to the taxpayer's business enterprise. This temptation should be resisted, or at least tempered significantly. This is because of (1) the myriad of problems in comparing the taxpayer company to the merged or acquired companies and (2) the other economic, competitive, and financial considerations involved.

The first problem with using M&A transactions for property tax purposes is that they typically involve the acquisition of shares of stock and the assumption of debt, rather than an acquisition of the taxpayer company's taxable assets. These stock and debt securities enjoy attributes of value, such as liquidity, that are not necessarily shared by the company's operating property.

The second problem is that the aggregate stock and debt price includes all property of the acquired company, not just the operating property subject to assessment. Extracting the value of only the taxable property from the aggregate stock and debt price can be a difficult process.

The third problem with using M&A transactions for property tax purposes is that the transaction purchase price may include value considerations that are not appropriate in ad valorem taxation. For instance, M&A transaction prices often include the present value of future growth opportunities, which cannot be realized without the purchase of assets after the assessment date. Those assets are not subject to property taxation, because those assets have not yet been purchased.

For example, in *Union Pacific Railroad v. State Board of Equalization*, the court held that the taxpayer was not required to produce information from its strategic plans that related to future income from its future property.[9]

The fourth problem with using M&A transactions for property tax purposes is that mergers and acquisitions are often completed at investment value, use value, or some other standard of value that is different from fair market value. In the ad valorem tax context, however, assessors should not consider an alternative definition of value. Rather, assessors should estimate fair market value.

In *Matter of Southern Railway Co.*,[10] the court concluded that valuing a railroad from the perspective of the present owner and to the exclusion of a willing buyer was erroneous.

In another case, the court noted that, "This approach abandons the concept of market value or value in exchange and looks to the value to the owner. While there may be circumstances where this is appropriate, they must be extremely rare."[11]

To the extent that there are synergies that have justified certain M&A transactions, the analyst can assume that those synergies are specific to the parties involved. If there were comparable synergies available between the subject company and some potential acquirer, the analyst may assume that an acquisition would already have occurred. Since it has not, the analyst can conclude (1) that there are no comparable synergies available and (2) that other M&A transactions are of limited or of no value in appraising the subject company for property tax compliance purposes.

Even with regard to M&A transactions involving the subject company, the existence of synergies or buyer-specific investment considerations should preclude reliance on the transaction purchase price as evidence of fair market value.

This conclusion may not affect the relevance of the purchase price allocation. This is because the value recognized from synergies may affect only the goodwill measurement and may not affect the other assets included in the purchase price allocation.

We will now explore that subject—whether values determined for purchase accounting purposes are relevant for ad valorem property tax purposes.

Differences between Fair Value Analyses for Purchase Accounting Purposes and Fair Market Value Analyses for the Assets Acquired

The following factors should be considered in an analysis of any valuation differences between fair value valuations of individual asset groups for purchase accounting purposes and fair market value valuations of those assets for unit valuation property tax purposes:

1. Standard of value definition differences (i.e., fair value for purchase accounting purposes compared to fair market value for unit principle property tax purposes)
2. Differences in the assumed buyer and the assumed seller
3. Differences in the assumed unit of account (i.e., the appraisal subject unit)

4. Differences in the assumed highest and best use of the unit of account
5. Differences between the valuation approaches and methods relied on

The following section discusses the conceptual differences between the estimation of (1) taxpayer property fair value for purchase accounting purposes and (2) taxpayer property fair market value for unit principle property tax purposes.

Differences in the Assumed Buyer and the Assumed Seller

The assumed buyer and the assumed seller in a fair value valuation for purchase accounting purposes are different than the assumed buyer and the assumed seller in a fair market value unit valuation for property tax purposes. As discussed below, the major difference is that the buyer in a fair value valuation may include a strategic buyer.

In a fair value valuation, the assumed buyer and the assumed seller are "market participants." According to ASC 805, market participants are defined as "buyers and sellers in the principal (or most advantageous) market for the [target] asset or liability." Such market participants have all of the following characteristics:

- They are independent of the reporting entity (that is, they are not related parties).
- They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction based on all available information, including information that might be obtained through due diligence efforts that are usual and customary.
- They are able to transact for the asset or liability.
- They are willing to transact for the asset or liability (that is, they are motivated but not forced or otherwise compelled to do so).[12]

The fair value standard market participants are any of a multitude of actual industry participants, each with potentially different strategic and/or financial motives. That is, the market participants assumed under the fair value concept include both strategic buyers and financial buyers.[13]

In contrast, the fair market value standard is based on a transaction between a hypothetical willing seller and a hypothetical willing buyer, neither being under any compulsion to buy or sell and both having reasonable knowledge of the relevant facts.

In other words, "Fair market value assumes conditions as they actually exist and a hypothetical buyer and seller, with no special, unique motivations or circumstances."[14]

One significant valuation difference between the fair market value standard and the fair value standard is that the fair market value willing buyers/willing sellers are assumed to be (1) hypothetical persons and (2) financially motivated—and not strategically motivated.

This requirement excludes the investment value transactions previously discussed.

These differences in the assumed buyer and the assumed seller—and, in particular, the inclusion or exclusion of the strategic buyer—can lead to significantly different value conclusions for the same bundle of taxpayer assets. For this reason, the fair value standard of value is appropriate for GAAP purchase accounting compliance purposes. However, for the unit principle valuation of a centrally assessed taxpayer for property tax purposes, fair value is not the appropriate standard of value.

Nonetheless, where a merger involves a strategic buyer and creates investment value, the financial accounting purchase price allocation may still provide evidence useful in the property tax context—if the entire extra increment of synergistic value is included in goodwill.

Furthermore, the values for tangible assets and many intangible assets may not be materially different for a strategic buyer compared to for other buyers. This will depend on how that strategic buyer intends to use the assets. For instance, when two electric utilities merge, one would not expect the valuation of the generating assets, transmission assets, or customer relationships to be different for fair value purchase accounting purposes than for fair market value property tax purposes. This conclusion is typically true even if there are other synergies involved in the transaction.

For other intangible assets, the conclusion may be different. For example, if the buyer plans to use its own computer software systems for the com-

Further Reading

L. Paul Hood Jr. "Must Synergistic Buyers Be Considered in Fair Market Value Analysis?" *Valuation Strategies* 13, no. 6 (July/August 2010): 29–33.

bined company, then the software intangible asset may have a lower value in a fair value valuation prepared for purchase accounting purposes than in a fair market value valuation prepared for property tax purposes.

A careful analysis of (1) the transaction purchase price and (2) the purchase price allocation should be conducted in order to determine if it is appropriate to rely on transaction-related data/evidence in an ad valorem property tax assessment.

Differences in the Assumed Unit of Account

The unit of account can be the integrated assemblage of the taxpayer company operating assets (i.e., the total unit). Or, the unit of account can be the individual real estate and personal property assets of the taxpayer company. The unit of account is the lowest level at which (1) the valuation analysis is performed and (2) the valuation conclusion is reached.

Under the fair value standard for purchase accounting purposes, the unit of account is defined as, "that which is being measured by reference to the level at which an asset or liability is aggregated (or disaggregated)."[15] In other words, the unit of account for fair value accounting purposes is each individual asset (both tangible and intangible) general ledger account of the acquired business enterprise. This fair value concept of the general ledger unit of account is analogous to the summation valuation principle.

Under the summation valuation principle, each individual asset component of a company is valued separately—and then summed to estimate the value of the taxpayer's total property. However, this summation valuation principle is different from the unit valuation principle.

Under the unit valuation principle, the unit of account is the entire business entity, viewed on a unitary basis, (i.e., as an integrated business enterprise without functional or geographic division of the whole).[16] This integrated business enterprise/total taxpayer unit includes all of the tangible assets and all of the intangible assets of the overall taxpayer business enterprise.

". . . an analysis of the total taxpayer unit may reveal obsolescence that is not revealed in an analysis of the taxpayer's individual assets."

The assumed unit of account may be different depending on the valuation purpose and the valuation standard of value. For example, the valuation analyst may use summation valuation methods in a fair value valuation for GAAP accounting purposes and unit valuation methods in a fair market value valuation for property tax purposes.

If summation valuation methods and unit valuation methods are applied consistently (i.e., using the same standard of value), both the summation principle methods and the unit principle methods should theoretically reach the same total value conclusion for the taxpayer company total assets. However, if the valuation standard of value is different, then use of summation valuation methods and unit valuation methods may result in *different values* for the same bundle of taxpayer company assets. This conclusion is primarily because of differences related to

1. the measurement of obsolescence and
2. the assumed highest and best use (HABU) of the unit of account.

One difference between the unit valuation principle and the summation valuation principle is that, under the unit valuation principle, obsolescence is considered at the taxpayer overall unit level. In contrast, under the summation valuation principal, obsolescence is typically measured at the individual asset level.

Consider, for example, an inefficient railroad company track structure. A valuation analyst who analyzed one mile of the subject track would not necessarily discover that the railroad company's track structure was inefficient. This obsolescence conclusion would only be reached by analyzing the total railway unit. In this example, an analysis of the total taxpayer unit may reveal obsolescence that is not revealed in an analysis of the taxpayer's individual assets.

A second difference between the unit valuation principle and the summation valuation principle relates to the assumed HABU of the unit of account. Under the unit valuation principle, all of the subject operating assets, collectively, are assumed to contribute to the total business enterprise value.[17] Therefore, all of the taxpayer operating assets are valued collectively, assuming one overall HABU for the unit of taxpayer total assets.

In contrast, under the summation valuation principle, a value is estimated for each individual component of the taxpayer asset or property assuming a separate HABU for each individual taxpayer asset account. Therefore, under the summation valuation principle, the valuation analyst determines the HABU for each taxpayer unit of account—and not for the unit of total assets.

The account-by-account summation valuation principle is appropriate (and, in fact, required) for fair value accounting GAAP purposes. In contrast, the summation principle of value is not always appropriate for the unit principle valuation of a centrally assessed taxpayer for property tax purposes.

First, a summation approach is not necessary unless the valuation analyst needs to value the specific components of the unit in addition to valuing the total unit. Second, if the HABU of some of the individual asset accounts is not the same as for the total unit, then there is a matching issue—or "apples and oranges" problem. If the individual asset accounts in a summation principle valuation have a different HABU than the overall business enterprise, then the summation principle fair value valuation may not be relevant to a fair market value valuation for property tax purposes.

However, if the HABU of the individual asset accounts is the same as the HABU in the unit valuation, then the account-by-account summation principle valuation may not preclude the use of the purchase accounting valuation for property tax purposes. This conclusion is further discussed in the next section.

The conceptual differences in the assumed unit of account—summation (for financial accounting) versus unit (for centrally assessed property tax)—is a primary valuation difference between

1. fair value valuations for financial accounting purposes and
2. fair market value unit valuations for property tax purposes.

Differences in the Assumed HABU of the Unit of Account

The HABU analysis and conclusion in a fair value valuation for GAAP accounting purposes may be different from the HABU analysis and conclusion in a fair market value unit valuation for property tax purposes.

Under the fair value standard of value, the concluded HABU of the subject asset is defined as: "the use of an asset by market participants that would maximize the value of the asset or the group of assets within which the asset would be used."[18] In other words, the concluded HABU is considered at the individual asset unit of account level.

This level of detail corresponds to the general ledger asset account level (as discussed above). In other words, for fair value accounting purposes, the valuation analyst is required to consider the HABU for each individual unit of account (i.e., general ledger asset account). The various taxpayer asset accounts (including the various PP&E accounts) could each have a different HABU.

". . . in some states, the value in continued use HABU conclusion is required for unit valuation purposes."

Under the fair market value standard for property tax purposes, the concluded HABU of the taxpayer unit is considered at the total business entity level—and not at the individual asset (or asset account) level. That is, for a centrally assessed taxpayer, the HABU of the total assets is typically the current use of the total assets within the taxpayer business (e.g., value in use)—and not the HABU of each individual asset account for possible alternative uses (e.g., value in exchange).

Therefore, for a unit valuation, the analyst will conclude one HABU for the total taxpayer unit. This HABU is typically "value in continued use." In fact, in some states, the value in continued use HABU conclusion is required for unit valuation purposes. In contrast, for financial accounting valuations, the analyst may conclude a different HABU for each individual taxpayer asset account.

These differences in the assumed HABU of the unit of account can lead to significantly different value conclusions for the same bundle of assets. For example, let's consider the unit principle property tax valuation of a golf course. For property tax purposes, the HABU of the land would be as a golf course business enterprise—and not as some alternative use (such as residential housing development).[19] This is because the HABU of the subject taxpayer total unit is "value in continued use."

In contrast, the fair value of the land used in the golf course would be based on the higher of its value in-use (as a golf course) or its value in-exchange (assuming some alternative use, such as residential development).[20] This is because the HABU of the land is "value in exchange" even though the HABU of the golf course total business unit is "value as a going concern."

Let's combine the unit of account and HABU concepts and compare two situations. One situation shows differences between fair value and fair market value. The other situation shows no significant differences between the two standards of value.

> **"The greater the differences between the HABU of the subject assets and the assets valued in continued use, the greater the differences between fair value for purchase accounting purposes and fair market value for property tax purposes."**

The first example involves a merger of companies in the railroad industry. The purchase accounting for this hypothetical merger may require an examination of the land account, and the appropriate unit of value would be distinct parcels of land in that account.

The HABU of the urban parcels of railroad land may be in a commercial, highly valuable use (for downtown office buildings, for instance), rather than in continued use as part of the railroad operation. When all of these urban parcels are valued in this manner and then totaled with all other land in the summation principle fair value analysis, the value would likely be far greater than the fair market value of all the land when valued as part of the operating unit fair market value valuation.

The second example is a merger of two telecommunication companies. The purchase accounting for this hypothetical merger may require an examination of the real property account. Telecommunication company real property is comprised mostly of central offices that would be considered special purpose buildings—with high ceilings and reinforced floors to handle heavy equipment. In this case, the HABU of the central offices would be the same as for the unit as a whole. This is because of the special purpose nature of these buildings. Therefore, in this example, fair value may approximate fair market value.

The greater the differences between the HABU of the subject assets and the assets valued in continued use, the greater the differences between fair value for purchase accounting purposes and fair market value for property tax purposes.

Differences between the Valuation Approaches and Methods Relied On

Under the fair value standard, the market approach, income approach, and cost approach may be used by the valuation analyst, depending on the circumstances of the valuation.[21] ASC 820, however, prioritizes the valuation approaches and methods that the valuation analyst should use to conduct a purchase accounting valuation under ASC 805.

As promulgated in ASC 820, "the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3)."[22] Under this GAAP–related valuation guidance, the valuation analyst is generally directed to rely principally on the market approach in a fair value valuation performed for purchase accounting purposes. However, where there is no market for the property being valued, the valuation analyst may use other methods.

Conversely, in a fair market value unit valuation for property tax purposes, the valuation analyst is not bound by a GAAP or other regulatory hierarchy to prioritize one valuation approach over any other valuation approach. Therefore, in the unit valuation, the valuation analyst has more judgmental discretion to select any appropriate valuation approach or method.

Naturally, the extent to which these differences are significant depends on the methods that would be used in the fair value analysis compared to the methods that would be used in the fair market value analysis.

To return to the telecommunications company, although the market approach is generally preferred for fair value accounting, there is no efficient secondary market for used network equipment. Therefore, this large category of telecommunications property would likely be valued using a cost approach in a purchase price allocation, which is also the preferred approach to estimate the fair market value of this type of property.

Summary and Conclusion

This discussion examined whether M&A transactions, including transactions involving taxpayer companies, are useful for property tax purposes.

Specifically, this discussion considered whether it is appropriate to rely on a valuation conducted for GAAP purchase accounting purposes to estimate the fair market value of the taxpayer company property for property tax purposes.

As presented throughout this discussion, we believe it is often problematic to rely on an M&A transaction purchase price for property tax purposes.

This conclusion is because an M&A transaction purchase price may represent investment value (and not fair market value).

In addition, we believe it is not appropriate to rely on a valuation for purchase accounting purposes to estimate the fair market value taxpayer corporation property for property tax purposes—without analyzing and understanding the many differences that exist between (1) the fair value standard of value (under ASC 820) and (2) the fair market value standard of value.

The differences between these two standards of value primarily relate to the following:

1. The motive of the hypothetical transaction
2. The highest and best use of the subject property
3. The assumed buyer and assumed seller
4. The assumed unit of account (or level of the appraisal subject)

A qualified and experienced valuation analyst should analyze both (1) the transaction purchase price and (2) the purchase price allocation. This analysis is necessary in order to determine if it is appropriate to rely on transaction-related data/evidence in a fair market value valuation for unit principle property tax purposes.

Notes:

1. Statement of Financial Accounting Standards No. 157, "Fair Value Measurements."
2. ASC 805, Business Combinations, 805-10-05.
3. ASC 820, Fair Value Measurements and Disclosures, 820-10-35-2, 820-10-35-3.
4. JPMorgan Chase & Co. v. Comm'r, 458 F.3d 564 (7th Cir. 2006).
5. *Property Taxation,* 3rd ed., (Atlanta: Institute for Professionals in Taxation, 2004): 640.
6. *The Appraisal of Real Estate* 13th ed. (Chicago: Appraisal Institute, 2008): 28–29.
7. Mike Pellegrino, "Misusing Fair Market Value," *Valuation Strategies* (March/April 2008): 13–48.
8. Paul L. Hood, Jr. "Must Synergistic Buyers Be Considered in Fair Market Value Analysis?" *Valuation Strategies* (July/August 2010): 29–33.
9. Union Pacific Railroad v. State Bd. of Equalization, 776 P.2d 267 (Cal. 1989).
10. In Matter of Southern Railway Co., 328 S.E.2d 235, 243 (N.C. 1985).
11. Joseph Hydro Assoc. v. Dept. of Revenue, 10 Or. Tax 277, 283 (Or. Tax Ct. 1986). *See also* Matter of Wabash Valley Power Assoc., 72 F.3d 1305, 1312 (7th Cir. 1995) (the value of Wabash to its members exceeds the value to any third-party buyer).
12. ASC 805-10-20.
13. ASC 820-10-55-27.
14. Shannon P. Pratt, *The Market Approach to Valuing Businesses* 2nd ed. (New York: John Wiley & Sons, 2005): 148.
15. ASC 820-10-20.
16. *Property Taxation* 3rd ed.: 583.
17. Ibid.
18. ASC 820-10-20.
19. *Property Taxation* 3rd ed.: 436.
20. ASC 820-10-55-54.
21. ASC 820-10-35-28.
22. ASC 820-10-35-37.

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