



EFFECTIVE DATE

(09-22-2020)

PURPOSE

- (1) This transmits revised IRM 4.48.3, Engineering Specialty, Tangible Personal Property Valuation Guidelines.

BACKGROUND

- (1) This material is the product of the Engineering and Appraiser IRM update team that was established to assist IRS leadership in setting direction for appraisal policy that cuts across functional lines, and in identifying process improvements to improve compliance and better utilize resources.
- (2) This IRM provides specific guidance for:
 - a. Developing the valuation issue
 - b. Resolving the issue when possible
 - c. Preparing reports
 - d. Reviewing a third-party valuation

MATERIAL CHANGES

- (1) IRM 4.48.3.1 was rewritten to include internal control information at the beginning of the IRM.
 - a. Changed title to Program Scope and Objectives
 - b. Added new paragraphs (2) and (3) to describe audience, policy owner and program owner.
 - c. Added new sub-sections IRM 4.48.3.1.1 through IRM 4.48.3.1.5 to include “Background”, “Authority,” “Roles and Responsibilities,” “Program Objectives and Review,” and “Related Resources.”
- (2) Other significant changes are summarized in the following table:

IRM Cite	Title	Description
4.48.3	Throughout	Changed the term “valuator” to “appraiser”
4.48.3.1.5	Related Resources	Added link to Engineering website here and throughout.
4.48.3.2.1	Planning	Expanded to include the use of engagement letter and risk analysis
4.48.3.2.2	Identifying	Added additional item to consider “Partial or joint ownership”
4.48.3.2.3	Documenting	Changed title to “Defining and Documenting”
4.48.3.2.6	Reviewing	Changed the term “develop” to “support”
4.48.3.3	Resolution Guidelines	Added penalty consideration requirement
4.48.3.4	Reporting Guidelines	Added cross-reference to IRM 4.48.1.1.3.4, Role of the Engineering Manager

IRM Cite	Title	Description
4.48.3.4.3	Statement	Reduced to one sentence.

EFFECT ON OTHER DOCUMENTS

This IRM supersedes IRM 4.48.3, dated July 1, 2006.

AUDIENCE

All IRS employees who provide valuation services or review the valuations and appraisals prepared by others.

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4.48.3

Tangible Personal Property Valuation Guidelines

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4.48.3.1
(09-22-2020)
Program Scope and Objectives

- (1) **Purpose:** The purpose of this IRM is to provide guidelines applicable to all IRS personnel that are engaged in valuation practice (hereinafter referred to as appraisers) relating to the development, resolution and reporting of issues involving tangible personal property valuations and similar valuation issues. Within these guidelines the term “personal property” refers to tangible personal property. Appraisers must be able to reasonably justify any departure from these guidelines.
- (2) **Audience:** IRS employees who provide valuation services, review the valuations and appraisals prepared by others, or request such services.
- (3) **Policy Owner:** Director, Eastern Compliance Practice Area.
- (4) **Program Owner:** Director of Field Operations (DFO), Engineering

4.48.3.1.1
(09-22-2020)
Background

- (1) Tangible personal property includes items such as vehicles, antiques, silver, artwork, collectibles, furniture, machinery, and equipment. Tangible personal property is anything other than real property or intangible personal property which includes items such as patents, copyrights, stocks, and the goodwill value of a business. See IRM 4.48.3.1.5 for additional guidance. The guidelines provided here regarding identifying, documenting and analyzing the property are applicable to all types of personal property. The information cannot provide specific details for every type of personal property, but a similar detailed breakdown can be outlined for any kind of property.
- (2) IRM 4.48.2, Valuation Assistance for Cases Involving Works of Art, which requires all taxpayer cases selected for audit with taxpayer claimed values of \$20,000 or more per item of art to be sent to Art Appraisal Services for review by the Commissioner’s Art Advisory Panel is still applicable.
- (3) Valuation of assets owned and/or transferred by or between controlled taxpayers (within the meaning of 26 CFR 1.482–1(i)(5)) may present substantive issues that are not addressed in these guidelines. See IRM 4.61.3, Development of IRC 482 Cases, which provides general guidelines in the development of IRC 482 cases

4.48.3.1.2
(09-22-2020)
Authority

- (1) See IRM 4.48.1.1.2, Overview of Engineering Program, Authority.
- (2) This document incorporates by reference the ethical and conduct provisions, contained in the Office of Government Ethics (OGE) Standards of Ethical Conduct, applicable to all IRS employees.

4.48.3.1.3
(09-22-2020)
Roles and Responsibilities

- (1) See IRM 4.48.1.1.3, Overview of Engineering Program, Roles and Responsibilities.

4.48.3.1.4
(09-22-2020)
Program Objectives and Review

- (1) See IRM 4.48.1.1.4, Overview of Engineering Program, Program Objectives and Review.

4.48.3.1.5
(09-22-2020)

Related Resources

- (1) The Engineering website is <https://irssource.web.irs.gov/LBI/SitePages/ENG.aspx>.
- (2) Other IRMs in this chapter include:

IRM No.	Title
IRM 4.48.1	Overview of Engineering Program
IRM 4.48.2	Valuation Assistance for Cases Involving Works of Art
IRM 4.48.4	Business Valuation Guidelines
IRM 4.48.5	Intangible Property Valuation Guidelines
IRM 4.48.6	Real Property Valuation Guidelines

4.48.3.2
(09-22-2020)

Development Guidelines

- (1) Successful development of a valuation engagement includes defining the purpose, issue and valuation scope, , planning, identifying critical factors, documenting specific information, and analyzing all relevant information necessary to define and complete the engagement. The appraiser must document all relevant activities in the workpapers.
- (2) A review appraisal may be the best service to provide in the engagement.

4.48.3.2.1
(09-22-2020)

Planning

- (1) An initial risk analysis to determine the purpose, issue and scope of engagement services should be conducted as the initial planning of the engagement.
- (2) If an “engagement letter” is needed, the initial letter should be a risk analysis of the engagement. SB/SE requires a risk analysis and engagement letter within 30 days of engagement. See IRM 4.25.12.4, Estate and Gift Tax, Valuation Assistance, Referrals to Engineering Services. An additional risk analysis should be conducted mid-way through the engagement. See IRM 4.10.3.2.2, Mid-Audit Decision Point (50% Rule).
- (3) Appraisers will adequately plan the valuation services to be provided in the engagement. Their managers will supervise the staff involved in the valuation process.
- (4) Quality planning is a continual process throughout the valuation engagement.
- (5) Reference the Engineering website at <https://irssource.web.irs.gov/LBI/SitePages/ENG.aspx>.

4.48.3.2.2
(09-22-2020)

Identifying

- (1) To determine a valuation conclusion, appraisers must determine the scope of work which should identify the following:
 - a. Property to be valued
 - b. Interest to be valued
 - c. Effective valuation date
 - d. Purpose of valuation
 - e. Use of valuation
 - f. Statement of value

- g. Standard and definition of the value
- h. Assumptions
- i. Limiting conditions
- j. Scope limitations
- k. Restrictions, agreements and other factors that may influence value
- l. Sources of information

(2) The interest to be valued includes:

- a. Fee simple, leased fee, etc.
- b. Fractional interest
- c. Partial or joint ownership
- d. Personal property held in partnerships, corporations and trusts

4.48.3.2.3
(09-22-2020)
**Defining and
Documenting**

(1) In developing a valuation conclusion, appraisers should obtain the relevant information necessary to complete the engagement.

(2) Personal property item information should include, where applicable:

- Name of the artist, culture, maker or place or origin
- Title, type or subject matter
- Medium, such as oil on canvas, or material, such as silver, porcelain, oak, etc.
- Age or date created
- Size/dimensions or weight if applicable
- Any marks, signatures, distinguishing features or labels on the item
- History (provenance) of the item
- A record of any exhibitions at which the item was displayed
- Any reference source citing the item
- The physical condition of the item
- A professional quality photograph of a size and quality fully showing the item
- Other information deemed to be relevant to the specific property being valued

(3) The photograph should be an 8x10 inch color photograph or a color transparency not smaller than 4x5 inches.

(4) Property information for vehicles, machinery and equipment should include:

- Manufacturer, model and serial number of property.
- Year, age and condition of property or identifying code of property.
- Legal description of property, including ownership or licensing.
- Description of property including name, physical features, dimensions, capacity access, etc.
- Description of improvements, modifications, repairs or restoration, including features, condition, and any forms of physical, functional or economic obsolescence.
- Type of use(s) to which the property is being put, including but not limited to, value as a stand-alone or as part of an entire plant or larger manufacturing, research or development system,
- The owner of record and, if practical or available, copies of bill of sale, technical specifications, placed in service date, and auction or other sale dates.

- The property history, including any sales in the five (5) years preceding the valuation date or any sales since the valuation date to the present. Both periods of sales should include the sales dates, prices and the names of the sellers and buyers.
- If the property was leased prior to or after the valuation date, then obtain the dates when the property was leased, lease terms, copies of original lease contracts, revised contracts and renewals, itemized lease schedules and a history of income and expenses.
- Quality photograph of the subject property showing the item and improvements and modifications.

(5) Regardless of the type of property, additional information should be obtained:

- The valuation date
- The cost, date and manner of acquisition
- The appraised fair market value
- The date (or dates) on which the property was appraised
- Information of any agreements or understandings entered into (or expected to be entered into) that relates to the use, sale or other disposition of the property, including, for example, the sales of property since the valuation date
- The economic outlook of the market in general and the outlook of the specific property in particular
- Other factors which, in the opinion of the appraiser, are appropriate for consideration such as tariffs, shipping costs and acquisition fees

4.48.3.2.4
(09-22-2020)
Analyzing

- (1) In developing a valuation conclusion, appraisers should analyze the relevant information necessary to accomplish the engagement.
- (2) All factors that affect the value should be considered.
- (3) The specific valuation approach, such as the market approach, the income approach, the replacement/reproduction cost approach should be considered for relative propriety of its application. Professional judgment should be used to select the approach(es) ultimately used and the method(s) within such approach(es) that best indicate the value of the property. When valuing personal property the income approach is often not applicable. The relationship between these approaches and fair market value must be demonstrated in the analysis and report.
- (4) Analysis of relevant public and/or private sales around the valuation date must provide the specific basis for the valuation (ideally including complete descriptions and illustrations).
- (5) The market (or trends) conditions near the valuation date should be considered.
- (6) The market demand for the subject property and the importance of the property and its relationship to its relevant artist/type/group etc. should be considered. In case of art and graphics, artist's trends of sales of the artwork over time should be analyzed.
- (7) The effects of condition, style, quality, medium, artist or culture, provenance, restorations and rarity should be considered.
- (8) The effects of relevant contractual or legal restrictions should be considered.

- (9) The appraiser should clearly explain and provide reasoning for the value conclusion.
- (10) Any additional information or special circumstances that may affect the fair market value of the property should be considered.

Note: While the foregoing items listed represent the ideal information required, it is understood that each item of information will not be readily available in every case.

4.48.3.2.5
(09-22-2020)
Workpapers

- (1) Workpapers should document the steps taken and techniques used, and provide the evidence to support the facts and conclusions in the final report. See IRM 4.10.9.7, Workpapers and IRM 4.46.6, Workpapers and Reports Resources.
- (2) Appraisers will maintain a detailed case activity record (Form 9984, Examining Officer's Activity Record) which:
 - Identifies actions taken and indicates time charged.
 - Identifies contacts, including name, phone number, subject, commitments, etc.
 - Documents delays in the examination.
- (3) The case activity record, along with the supporting workpapers, must document activities and should include sufficient detail to justify the time spent is commensurate with work performed. See IRM 4.48.1.4, Workpapers.

4.48.3.2.6
(09-22-2020)
Reviewing

- (1) In reviewing a personal property valuation and reporting the results of that review, an appraiser should form an opinion as to the adequacy and appropriateness of the report being reviewed and clearly disclose the scope of work of the review process undertaken.
- (2) In reviewing a personal property valuation, an appraiser should:
 - a. Identify the taxpayer and intended use of the opinions and conclusions, and the purpose of the review engagement.
 - b. Identify the report under review, the property and property interest being valued, the effective date of the valuation, and the date of the review.
 - c. Identify the scope of the review process conducted.
 - d. Determine the completeness of the report under review.
 - e. Determine the adequacy and relevance of the data and the propriety of any adjustments to the data.
 - f. Determine the appropriateness of the comparable data and/or valuation methods and techniques used and support the reasons for any disagreement.
 - g. Determine whether the analyses, opinions, and conclusions in the report under review are appropriate and reasonable, and support the reasons for any disagreement.
- (3) In the event of a disagreement with the report's factual representations, underlying assumptions, methodology, or conclusions, the appraiser should conduct additional fact-finding, research, and/or analyses necessary to arrive at a credible value conclusion.

- 4.48.3.3
(09-22-2020)
Resolution Guidelines
- (1) Appraisers will, in a supporting role to the internal customer, make efforts to obtain a resolution of the case after fully considering all relevant facts.
- 4.48.3.3.1
(09-22-2020)
Objective
- (1) The objective, if possible, is to resolve the issue as early in the examination as possible to facilitate resolution of issues without litigation.
 - (2) The appraiser will work in concert with the internal customer and taxpayer to attempt to resolve all outstanding issues.
- 4.48.3.3.2
(09-22-2020)
Arriving at Conclusions
- (1) Once the appraiser has all the information to be considered in resolving the issue, the appraiser will use his/her professional judgment in considering this information to arrive at a value conclusion.
 - (2) Appraisers may not have all of the information they would like to have to definitively resolve an issue. Appraisers, therefore, should decide when substantially enough information is available to make a reasonable determination.
 - (3) Appraisers will employ independent and objective judgment in reaching conclusions and will decide all matters on their merits, free from bias, advocacy, and conflicts of interest.
- 4.48.3.4
(09-22-2020)
Reporting Guidelines
- (1) Appraisers should prepare reports of their findings.
 - (2) This section requires specific information to be included or addressed in each report.
 - (3) See IRM 4.48.1.1.3.4, Role of the Engineering Team Manager.
- 4.48.3.4.1
(09-22-2020)
Overview
- (1) The primary objective of a valuation report is to provide convincing and compelling support for the value conclusions.
 - (2) Depending upon the scope of work, valuation reports must contain sufficient information necessary to allow a clear understanding of the valuation analyses and demonstrate how the conclusions were reached in the report.
- 4.48.3.4.2
(09-22-2020)
Report Contents
- (1) The content of the report prepared depends on the scope of work agreed to between appraiser and client.
 - (2) Depending upon the scope of work, valuation reports must clearly communicate the results and identify the information relied upon in the valuation process. The report must effectively communicate the methodology and reasoning, as well as identify the supporting documentation.
 - (3) Subject to the type of report written, valuation reports should generally contain sufficient information to ensure consistency and quality related to the items described in IRM 4.48.3.2.2, Identifying, IRM 4.48.3.2.3, Defining and Documenting, and IRM 4.48.3.2.4, Analyzing.
 - (4) Reports written in compliance with IRM 4.48.3.2.6, Reviewing, must contain, at a minimum, information necessary to support the revised assumptions, analyses, and/or conclusions of the appraiser and relating to those items in the previously referenced IRM subsections, Identifying and Analyzing.

4.48.3.4.3
(09-22-2020)
Statement

- (1) Each written valuation report should contain a signed statement that the report complies with applicable IRS Valuation Guidelines.

