



EFFECTIVE DATE

(09-22-2020)

PURPOSE

- (1) This transmits revised IRM 4.48.6, Engineering Specialty, Real 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 document provides specific guidance for:
 - a. Planning the valuation assignment
 - b. Analyzing relevant information
 - c. Preparing work papers
 - d. Reviewing a third-party valuation

MATERIAL CHANGES

- (1) Rewrote IRM 4.48.6.1 to conform to new requirement to include internal control information at the beginning of the IRM.
 - a. Title changed 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 4.48.6.1.1 through IRM 4.48.6.1.5 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
4.48.6	Throughout	Changed the term “valuator” to “appraiser”
4.48.6.1.5	Related Resources	Added link to Engineering website here and throughout.
4.48.6.2.1	Planning	Expanded to include the use of engagement letter and risk analysis
4.48.6.2.5	Workpapers	Added citations and links to related IRM sections.
4.48.6.2.6	Reviewing	Changed the term “develop” to “support”
4.48.6.3	Resolution Guidelines	Added penalty consideration requirement
4.48.6.4	Reporting Guidelines	Added reference to IRM 4.48.1.1.3.4, Role of the Engineering Manager
4.48.6.4.3	Statement	Reduced to one sentence

- (3) Editorial corrections made throughout.

EFFECT ON OTHER DOCUMENTS

This IRM supersedes IRM 4.48.6, 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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4.48.6

Real Property Valuation Guidelines

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4.48.6.1
(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 real property valuations and similar valuation issues. 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.

4.48.6.1.1
(09-22-2020)
Background

- (1) Valuations of assets owned and/or transferred by or between controlled taxpayers (within the meaning of Treasury Regulation 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.

4.48.6.1.2
(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.

4.48.6.1.3
(09-22-2020)
Roles and Responsibilities

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

4.48.6.1.4
(09-22-2020)
Program Objectives and Review

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

4.48.6.1.5
(09-22-2020)
Related Resources

- (1) The Engineering website is: <https://irsource.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 4.48.3	Tangible Personal Property Valuation Guidelines
IRM 4.48.4	Business Valuation Guidelines
IRM 4.48.5	Intangible Property Valuation Guidelines

- 4.48.6.2
(09-22-2020)
Development Guidelines
- (1) Successful completion of a valuation assignment includes defining the valuation scope, purpose and issue, planning, identifying critical factors, documenting specific information, and analyzing the relevant information. All relevant activities will be documented in the workpapers.
 - (2) A review appraisal may be the best approach to the assignment.
- 4.48.6.2.1
(09-22-2020)
Planning
- (1) An initial risk analysis to determine the scope of the engagement should be conducted as the initial planning of the engagement. Also see IRM 4.25.5.4.6.5, Technical Guidelines for Estate and Gift Tax Issues, Risk Analysis, and IRM 4.10.3.2, Examination of Returns, Examination Techniques, Risk Analysis.
 - (2) If an “engagement letter” is needed, the initial letter should include a risk analysis of the engagement. SB/SE requires an engagement letter within 30 days of engagement. See IRM 4.25.12.4 Estate and Gift Tax, Valuation Assistance, Referrals to Engineering Services.
 - (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. Quality planning is a continual process throughout the valuation engagement. Additional risk analysis should be conducted mid-way through the engagement per IRM 4.10.3.2.2, Mid-Audit Decision Point (50% Rule).
 - (4) Refer to the Engineering web page <https://irsource.web.irs.gov/LBI/SitePages/ENG.aspx> for available valuation resources.
- 4.48.6.2.2
(09-22-2020)
Identifying
- (1) To determine a valuation conclusion, appraisers should define the assignment and 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 value
 - h. Subject to be valued
 - i. Assumptions
 - j. Limiting conditions
 - k. Scope limitations
 - l. Restrictions, agreements and other factors that may influence value
 - m. Sources of information
 - (2) The interest to be valued at a minimum includes:
 - a. Fee simple, leased fee, life estates, easements, rights-of-way, etc.
 - b. Fractional interests
 - c. Real property held in partnerships, corporations and trusts
- 4.48.6.2.3
(09-22-2020)
Documenting
- (1) In developing a conclusion, appraisers should obtain the relevant information necessary to complete the engagement, including:

- A complete description and location of the property.
- Any consideration of rights or encumbrances such as water, riparian, mineral, easements, and rights-of-way.
- The owner of record and, if practical or available, copies of deeds, plat maps, blueprints and surveys.
- The history of the property, including any sales within 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, mortgage amounts, and the names of the sellers, buyers and mortgage lenders.
- If the property was rented prior to or after the valuation date, then the dates the property was leased, rental terms, copies of original lease contracts, revised contracts and renewals, rent rolls and a history of income and expenses.
- Information and, if available, photographs of the subject property and neighborhood if applicable.
- The cost, date and manner of acquisition.
- The appraised fair market value.
- The date (or dates) on which the property was appraised.
- Information relating to any other 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, any sale of the property since valuation date.
- The economic outlook in general and the condition and outlook of the specific property in particular.
- Such other factors which, in the opinion of the appraiser, are appropriate for consideration.

(2) A complete description and location of the property includes:

- Street and number, if one exists
- Section, block and lot number, if one exists
- Legal description
- Description of land, including physical features, dimensions, access, etc.
- Description of improvements, including features, condition, and any forms of physical, functional or economic obsolescence
- Use(s) to which the property is being put
- Zoning and permitted uses
- Assessment and tax data

4.48.6.2.4
(09-22-2020)
Analyzing

- (1) In developing a valuation conclusion, appraisers should analyze the relevant information necessary to accomplish the engagement.
- (2) **Approach to Value --- The Valuation Process:** The appraiser should determine which methodologies are to be utilized in developing the opinion of value of the subject property. The appraiser should consider the appropriate valuation approaches, such as the market approach, the income approach and the cost approach. 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.
- (3) **Market or Sales Comparison Approach:** Sales illustrating a highest and best use similar to the subject property and sold close to the valuation date are analyzed for comparison to the subject property. Adjustments are made for financing, condition of sale, date of sale, physical characteristics, location and

any other significant differences to determine the value of the subject property. Care should be taken to consider the number of sales available, their relative comparability, the degree and rationale for adjustments to the sales and the relative correlation and reliability of the value indication from the sales.

- (4) **Cost Approach:** The value should be computed as of the date of valuation. A reproduction or replacement cost of the improvements is computed and then adjusted for physical depreciation, and economic and functional obsolescence. To this result, is added the value of the underlying land. This approach is generally useful for specialty properties where other approaches lack sufficient supporting data and where land value and depreciation amounts are reasonably determinable.
- (5) **Income Approach:** An income stream is projected based on analysis of historical financial income and expense statements, vacancy rates, rent rolls, terms and length of existing leases and market conditions. Value is derived by converting net income/cash flow projections to present value using an applicable capitalization technique reflective of typical investors for the type of property in question. Care should be taken to justify and support projections of income and expenses including any unusual or non-recurring items. Adjustments to income and expense data should be made as necessary to reflect the appropriate income streams consistent with the selected valuation methodology. All discount/capitalization rates should be justified with reliable market data, industry surveys or market supported technical methodology and computations.
- (6) The reconciliation and final opinion of value should consider the appropriateness of each approach to the value of the specific property, the quantity, veracity and reliability of the data supporting each approach, and should logically lead the reader to the final opinion of value. If one or more approaches are not utilized or ignored, the appraiser should explain the reasons for omitting any approaches. The appraiser should provide reasoning for significant differences between approach conclusions and recognize the most reliable approach or approaches to conclude value.
- (7) As appropriate for the engagement, and if not considered in the process of determining and weighing the indications of value provided by other procedures, the appraiser should separately consider the following factors in reaching a final conclusion of value:
 - Marketability, control, or lack thereof
 - The legal form of ownership
 - The security of ownership interest
 - The effect of relevant contractual and legal restrictions
 - The market conditions
 - Other appropriate factors, in the opinion of the appraiser
- (8) The appraiser should clearly explain and provide reasoning for the value conclusion.
- (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 time spent is commensurate with work performed. See IRM 4.48.1.4, Workpapers.

4.48.6.2.6
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Reviewing

- (1) In reviewing a real property valuation, and reporting the review results, an appraiser should form an opinion as to the adequacy and appropriateness of the report being reviewed, and must clearly disclose the scope of work of the review process undertaken.
- (2) In reviewing a real property valuation, an appraiser should:
 - a. Identify the taxpayer and intended uses of the appraiser's opinions and conclusions, and the purpose of the review engagement.
 - b. Identify the report under review, the property interest being valued, the effective date of the valuation, and the date of the review.
 - c. Identify and state the scope of the review process conducted.
 - d. Determine the completeness of the report under review within the scope of work applicable in the review engagement.
 - 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 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, an appraiser should conduct additional fact-finding, research and/or analyses necessary to arrive at an appropriate value for the property.

4.48.6.3
(09-22-2020)
Resolution Guidelines

- (1) Appraisers will make efforts to obtain a resolution of the case after fully considering all relevant facts.
- (2) The appraiser will consider, the applicability of penalties due to incorrect appraisals per IRM 20.1.12.7, Referrals and Penalty Case Review Procedures.

4.48.6.3.1
(09-22-2020)
Objective

- (1) The objective 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.

- 4.48.6.3.2
(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.
- 4.48.6.4
(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.
- 4.48.6.4.1
(09-22-2020)
Overview
- (1) The primary objective of a valuation report is to provide convincing and compelling support for the conclusions reached.
 - (2) Depending upon the scope of work, valuation reports should contain all the information necessary to allow a clear understanding of the valuation analyses and demonstrate how the conclusions were reached.
- 4.48.6.4.2
(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 valuation report should effectively communicate the methodology and reasoning, as well as identify the supporting documentation.
 - (3) Subject to the type of report being written, valuation reports should generally contain sufficient information to ensure consistency and quality relating to the items in IRM 4.48.6.2.2, Identifying; IRM 4.48.6.2.3, Documenting; and IRM 4.48.6.2.4, Analyzing.
 - (4) Reports written with respect to IRM 4.48.6.2.6, Reviewing, shall contain, at a minimum, information relating to those items necessary to support the revised assumptions, analyses and/or conclusions of the appraiser.
 - (5) The individual report format should conform to internal format guidelines. Internal format guidelines are generally such things as standard letterhead, qualifying statement, or signature block requirements.
- 4.48.6.4.3
(09-22-2020)
Statement
- (1) Each written valuation report should contain a signed statement that the report complies with applicable IRS Valuation Guidelines, as discussed in IRM 4.48.6.