

# INTERNAL REVENUE SERVICE REAL PROPERTY VALUATION GUIDELINES

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# **INTERNAL REVENUE SERVICE REAL PROPERTY VALUATION GUIDELINES**

## **1. INTRODUCTION**

The purpose of this document is to provide guidelines applicable to all IRS personnel engaged in valuation practice (hereinafter referred to as “Valuators”) relating to the development, resolution and reporting of issues involving real property valuations and similar valuation issues. Valuators must be able to reasonably justify any departure from these guidelines.

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.

## 2. DEVELOPMENT GUIDELINES

### 2.1 Planning

- 2.1.1 Valuators will adequately plan and their managers will supervise the staff involved in the valuation process.
- 2.1.2 Quality planning is a continual process throughout the valuation assignment.

### 2.2 Identifying

2.2.1 In developing a valuation conclusion, Valuators should define the assignment and determine the scope of work necessary by identifying the following:

- 2.2.1.1 Subject to be valued;
- 2.2.1.2 Interest to be valued, including, but not limited to:
  - 2.2.1.2.1 Fee simple, leased fee, life estates, easements, rights-of-way, etc.;
  - 2.2.1.2.2 Fractional interests;
  - 2.2.1.2.3 Real property held in partnerships, corporations and trusts;
- 2.2.1.3 Effective date of valuation;
- 2.2.1.4 Purpose of valuation;
- 2.2.1.5 Use of valuation;
- 2.2.1.6 Statement of value;
- 2.2.1.7 Standard and definition of value;
- 2.2.1.8 Assumptions;
- 2.2.1.9 Limiting conditions;
- 2.2.1.10 Scope limitations;
- 2.2.1.11 Restrictions, agreements and other factors that may influence value;
- 2.2.1.12 Sources of information;

## 2.3 Documenting

2.3.1 In developing a valuation conclusion, Valuators should obtain the relevant information necessary to accomplish the assignment, including:

- 2.3.1.1 A complete description and location of the property, including:
  - 2.3.1.1.1 Street and number, if one exists;
  - 2.3.1.1.2 Section, block and lot number, if one exists;
  - 2.3.1.1.3 Legal description;
  - 2.3.1.1.4 Description of land, including physical features, dimensions, access, etc.;
  - 2.3.1.1.5 Description of improvements, including features, condition, and any forms of physical, functional or economic obsolescence;
  - 2.3.1.1.6 Use(s) to which the property is being put;
  - 2.3.1.1.7 Zoning and permitted uses;
- 2.3.1.2 Any consideration to rights or encumbrances such as water, riparian, mineral, easements, and rights-of-way;
- 2.3.1.3 The owner of record and, if practical or available, copies of deeds, plat maps, blueprints and surveys;
- 2.3.1.4 The history of the property, 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, mortgage amounts, and the names of the sellers, buyers and mortgage lenders;
- 2.3.1.5 If, during either of the two preceding periods, the property was rented, then the dates when the property was leased, rental terms, copies of leases, rent rolls and a history of income and expenses;
- 2.3.1.6 Information and, if available, photographs of the subject property and neighborhood if applicable;
- 2.3.1.7 The cost, date and manner of acquisition;

- 2.3.1.8 The appraised fair market value;
- 2.3.1.9 The date (or dates) on which the property was appraised;
- 2.3.1.10 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 property since valuation date;
- 2.3.1.11 The economic outlook in general and the condition and outlook of the specific property in particular;
- 2.3.1.12 Such other factors which, in the opinion of the Valuator, are appropriate for consideration.

## **2.4 Analyzing**

- 2.4.1 In developing a valuation conclusion, Valuators should obtain and analyze the relevant information necessary to accomplish the assignment.
- 2.4.2 Determine the Highest and Best Use of the property as vacant and as improved.
- 2.4.3 Approach to Value---The Valuation Process. The Valuator 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.
  - 2.4.3.1 In the Market or Sales Comparison Approach, properties similar to the subject properties that have been sold near and before the date of valuation are compared to the subject property. Adjustments are made for financing, condition of sale, date of sale, physical characteristics and location to indicate the value of the subject. 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 indications from the sales.
  - 2.4.3.2 In the Cost Approach, an estimated reproduction or replacement cost of the improvements are computed as of the valuation date and then reduced for physical, economic and functional depreciation. To this result, an amount is added for 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.

2.4.3.3 In the Income Approach, an income stream is projected based on analysis of historical financial income and expense statements, vacancy rates, rent rolls and terms of existing leases. 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 valuation methodology selected. All discount/capitalization rates should be justified with reliable market data, industry surveys or market supported technical methodology and computations.

2.4.3.4 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 a particular approach is not utilized or ignored the Appraiser should explain the reasons for doing so. Large differences between conclusions from different approaches should be explained.

2.4.4 As appropriate for the assignment, and if not considered in the process of determining and weighing the indications of value provided by other procedures, the Valuator should separately consider the following factors in reaching a final conclusion of value:

2.4.4.1 Marketability and/or control or lack thereof, the legal form of ownership, the security of ownership interest, the effect of relevant contractual and legal restrictions and the market conditions;

2.4.4.2 Such other factors which, in the opinion of the Valuator, are appropriate for consideration.

2.4.5 The Valuator should clearly explain and provide reasoning for the value conclusion.

## **2.5 Workpapers**

2.5.1 Workpapers must document the steps taken and techniques used, and provide the evidence to support the facts and conclusions in the final report.

2.5.2 Valuers will maintain a detailed case activity record (Form 9984) which:

- 2.5.2.1 Identifies actions taken and indicates time charged;
  - 2.5.2.2 Identifies contacts, including name, phone number, subject, commitments, etc., and
  - 2.5.2.3 Documents delays in the examination.
- 2.5.3 The case activity record, along with the supporting workpapers, should justify time spent is commensurate with work performed.

## **2.6 Reviewing**

- 2.6.1 In reviewing a real property valuation, and reporting the results of that review, a Valuator 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.
- 2.6.2 In reviewing a real property valuation, a Valuator should:
- 2.6.2.1 Identify the taxpayer and intended uses of the Valuator's opinions and conclusions, and the purpose of the review assignment;
  - 2.6.2.2 Identify the report under review, the property interest being valued, the effective date of the valuation, and the date of the review;
  - 2.6.2.3 Identify and state the scope of work of the review process conducted;
  - 2.6.2.4 Form an opinion as to the completeness of the report under review within the scope of work applicable in the review assignment;
  - 2.6.2.5 Form an opinion as to the adequacy and relevance of the data and the propriety of any adjustments to the data;
  - 2.6.2.6 Form an opinion as to the appropriateness of the comparables and/or valuation methods and techniques used, and develop the reasons for any disagreement;
  - 2.6.2.7 Form an opinion as to whether the analyses, opinions and conclusions in the report under review are appropriate and reasonable, and develop the reasons for any disagreement; and
  - 2.6.2.8 In the event of a disagreement with the report's factual representations, underlying assumptions, methodology or conclusions, conduct additional fact-finding, research and/or analyses necessary to make corrections or revisions to arrive at an appropriate value for the property.

## **3. RESOLUTION GUIDELINES**

### **3.1 Objective**

- 3.1.1 The objective is to resolve the issue as early in the examination as possible. Credible and compelling work by the valuator will facilitate resolution of issues without litigation.
- 3.1.2 The Valuator will work in concert with the internal customer and taxpayer to resolve all outstanding issues.

### **3.2 Arriving at Conclusions**

- 3.2.1 Once the Valuator has all the information to be considered in resolving the issue, the Valuator will use his/her professional judgment in considering this information to arrive at a conclusion.
- 3.2.2 Valuators may not have all of the information they would like to have to definitively resolve an issue. Valuators, therefore, should decide when substantially enough information is available to make a proper determination.
- 3.2.3 Valuators 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. REPORTING GUIDELINES**

### **4.1 Overview**

- 4.1.1 The primary objective of a valuation report is to provide convincing and compelling support for the conclusions reached.
- 4.1.2 Valuation reports should contain all the information necessary to allow a clear understanding of the valuation analyses and demonstrate how the conclusions were reached.

### **4.2 Report Contents**

- 4.2.1 The extent and content of the report prepared depends on the needs of each case.

- 4.2.2 Valuation reports should 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.
- 4.2.3 Subject to the type of report being written, valuation reports should generally contain sufficient information relating to the items in Sections 2.2, 2.3 and 2.4 above, to ensure consistency and quality of valuation reports issued by IRS Valuators.
- 4.2.4 Reports written with respect to Section 2.6.2.8 above shall contain, at a minimum, information relating to those items in Sections 2.2, 2.3 and 2.4 necessary to support the revised assumptions, analyses and/or conclusions of the Valuator.

### **4.3 Statement**

4.3.1 Each written valuation report should contain a signed statement that is similar in content to the following:

To the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.
- I have no bias with respect to the subject of this report or to the parties involved with this assignment.
- I have (or have not) made a personal inspection of the property that is the subject of this report.
- My compensation is not contingent on an action or event resulting from the analyses, opinions or conclusions in, or the use of, this report.
- My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the applicable Internal Revenue Service Valuation Guidelines.