

California Society of CPAs The IRS Appraisal Program

Brenda Woolbert
Internal Revenue service
Engineer/Valuation Team Manager
August 18, 2011



IRS LARGE BUSINESS AND
INTERNATIONAL DIVISION

Welcome

Thank you to the California Society of CPAs for inviting us to your meeting today.

Our goal for the day is to inform and strengthen our working relationships.

Brenda Woolbert
Engineering and Valuation
Team Manager, Laguna Niguel, CA

Licenses: CPA, CVA

Work Experience:

33 years with IRS

Revenue Agent, Business Valuation Specialist, Team Manager

Responsible for review and concurrence on all valuation reports issued by my team.

Support valuation issues at all levels – examination, appeals and trial.

Areas of emphasis include Appraiser Professional Responsibility, Non-cash Charitable Contributions and Research Credit

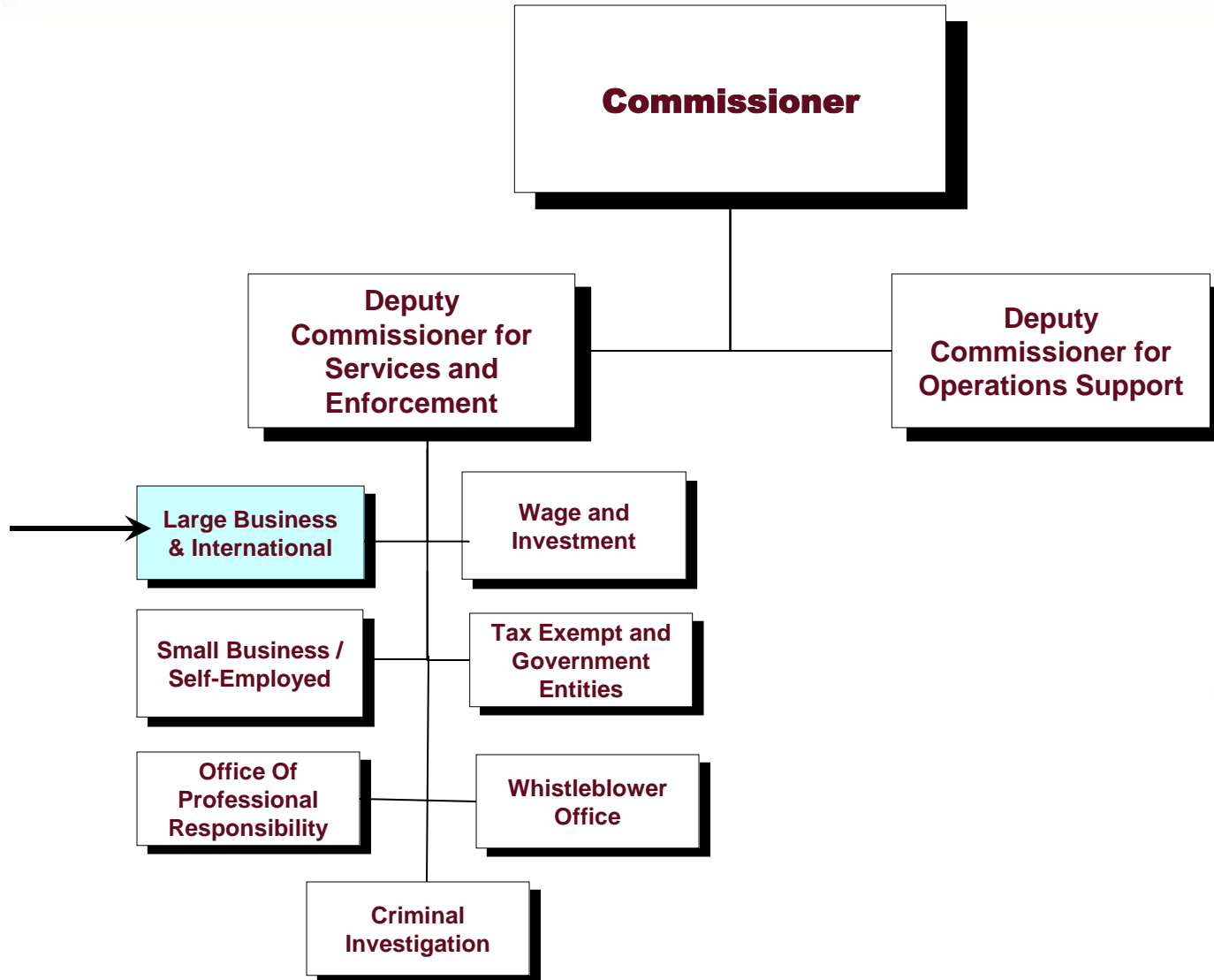
Topics

- ❖ Introductory Remarks
- ❖ Engineering and Valuation Specialists in the IRS
 - ❖ Who we are-What we do
- ❖ Origination of our work
- ❖ Issue resolution

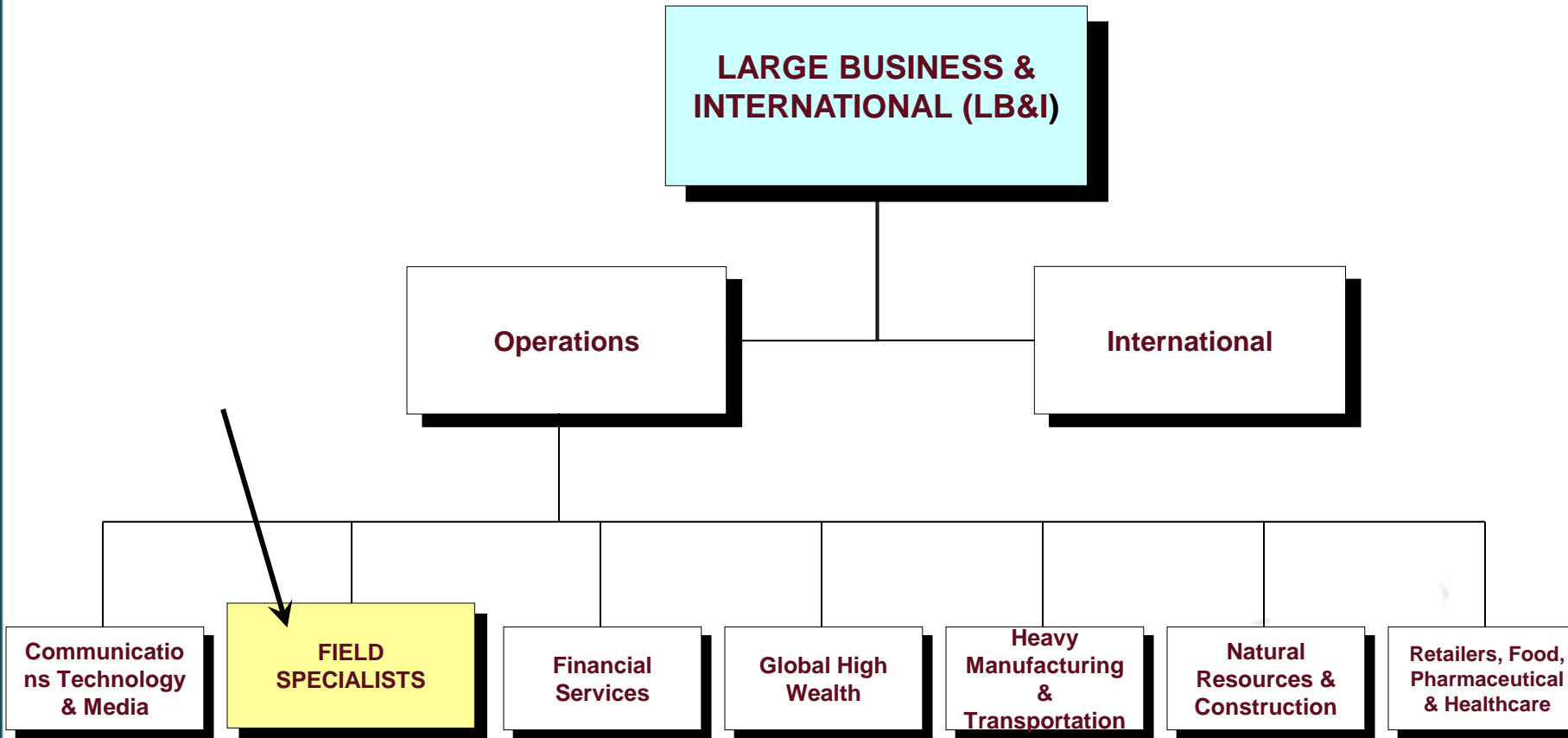
History

- ❖ **Engineering Program was started as a result of Revenue Act of 1916 and 1918.**
- ❖ **It introduced the concept of cost basis, fair market value, and depreciation into the tax system.**
- ❖ **The need for specialists in the natural resources and utilities field was created immediately.**
- ❖ **By the end of 1920's, IRS employed about 45 Engineering Specialists in Washington, DC.**
- ❖ **As demand for Engineers grew, more Engineering and Valuation Specialists were added to work in other major cities.**
- ❖ **We currently have approximately 300 specialists Across the country within the Engineering Program.**

WHERE ARE WE IN THE ORGANIZATION ?



LB&I ORGANIZATION



Field Specialists

- ❖ **LB&I Field Specialists - 4 specialty programs**
 - **Computer Audit Specialist (CAS)**
 - **Employment Tax**
 - **Engineering & Valuation**
 - **Financial Products**

Engineering and Valuation

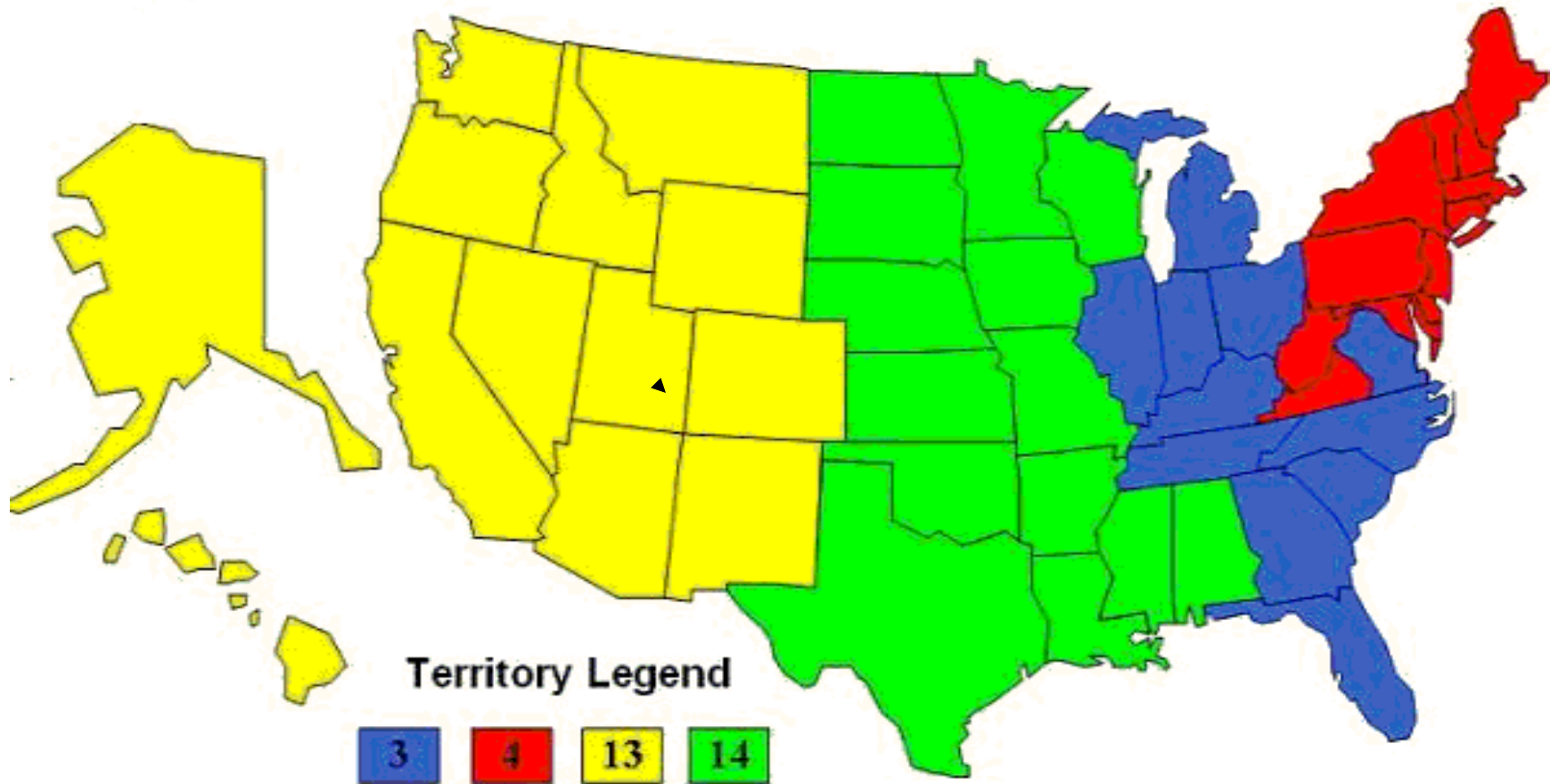
Primary Functions:

- ❖ **Provide issue specialists**
- ❖ **Provide valuation services**
- ❖ **Coordinate Outside Fee Program**

Specialties

- ❖ **Engineering and Valuation Staff**
 - **General Engineers**
 - **Geologists, Mining Engineers**
 - **Petroleum Engineers**
 - **Foresters**
 - **Real Estate Appraisers**
 - **Valuation Specialists/Financial Analysts**
 - **Software Engineers**
- ❖ **Collectively referred to as “Engineers”.**

Engineering and Valuation Specialists Territory Map



Engineering Program Technical Staffing

• Engineers	231
• Appraisers	67
• BV/Financial Analysts	19
• Foresters	<u>7</u>
• Total	324

Engineering & Valuation Territory 13

Teams	Specialists
– Colorado	10
– Seattle	7
– San Francisco	8*
– San Francisco	8
– Los Angeles	7
– Los Angeles	9
– Laguna Niguel	7*
– Phoenix/LN	<u>12</u>
Total	68

* Valuation Teams

Valuation

<u>Office</u> <u>Analysts</u>	<u>Appraisers</u>	<u>BV Spec./Fin</u>
Denver	2	2
Seattle	1	
Honolulu	1	1
San Francisco	6	1
Los Angeles	3	2
Laguna Niguel	2	2
Phoenix	1	
	-----	-----
Totals	16	8

Appraisal Valuation Standards

- **Applicable Standards for IRS Valuers**
- **Generally Accepted Appraisal Standards**
 - **USPAP, NACVA, AICPA SSVS**
 - **IRS Valuation Standards**

Where do we get our work?

- Estate and Gift Tax Program
- SBSE
- LB&I
- TEGE
- Collection
- Counsel

What we do

- Real Estate Appraisers
 - Income tax and Estate and Gift Tax issues
 - **Write Appraisals**
 - **Review of Real Property Appraisals**
 - **Experts in litigation**
 - **Appraiser Penalty Investigations**
 - **Outreach**
 - **Contact representatives (COTR)**

What we do (cont)

- **BV Specialists/Financial Analysts**
 - **Income tax and Estate and Gift Tax issues**
 - **Write Appraisals**
 - **Review of Business Appraisals (Reasonableness)**
 - **Calculation Engagements**
 - **Executive Compensation**
 - **Transfer pricing**
 - **Appraiser Penalty Investigations**
 - **Outreach**
 - **Contract representatives (COTR)**

Referral for appraisal assistance

- **Valuator requests and reviews report**
 - **Report well written and support?**
 - **Does it flow logically?**
 - **Conclusions supported by facts and analysis?**
 - **Do assumptions make sense?**
 - **Is the issue worth pursuing?**

E&G Examinations

- Internal Communications
 - Valuator and IRS Client – Attorney, Agent
 - Engagement letter
 - Service may include
 - Review appraisal
 - Review with opinion of value
 - Calculation engagement
 - Appraisal

Writing

- It is important that appraisals written by IRS appraisers and taxpayers' appraisers are well written. A well written appraisal is easy to follow and will hold the reader's interest.

Grammar

- “The residence was a merely composed of homesteaders, miners, loggers and cattle and sheep ranchers.”

Grammar

- “As mentioned several times throughout this review, the valuation of the subject property consisting of 40 acres and should have concluded from the fee simple valuation on page 155 at a value of \$110,000 based on the appraiser’s calculations.”

Is this the word you want to use?

- “The subject property consists of two contiguous tracts which contain 41 acres and 76 acres, respectfully.”

What are you saying?

- “The appraisers’ approach, which is labeled as Scenario “B,” the foregone development opportunity, is the before value, and that the after value, Scenario “A,” value of the raw land less the cost to remove the land from the flood plain, is the after value. In fact, Scenario “B” is not applicable, Scenario “A”, without deducting the cost to remove the land from the flood plain, is the before value, and there is no after value calculated.”

Some Valuation Red Flags

- Conclusions based on opinion and not facts
- **Facts Trump Opinion**
- Reliance on unconventional analysis
- Extreme discounts not supported by data
 - Entity level – Marketability, minority
 - Fractional interest - undivided interest
 - Blockage

Red Flags - Continued

- **Depth of analysis – complete or sketchy?**
- **Full disclosure of all facts considered?**
- **Bias in selecting assumptions/adjustments?**
- **Are assumptions reasonable?**
- **Logical conclusions?**

The Point

- **If**
 - Appraisal well written
 - Easy to follow
 - Logically presented
 - Full disclosure of pertinent facts and data
 - Conclusions supported by facts and analysis
- **Then**
 - Appraisal will likely be accepted

Thoughts on Issue Resolution

Stages where resolution considered

- During the examination
- Appeals – Post examination
- Trial – Post appeals

Issue Resolution

- In General
 - 30% of valuation issues resolved at examination
 - Varies by geographical location
 - E&G vs. Income Tax Issues
 - E&G more likely to resolve at examination level

Opportunities for Agreement (While not all inclusive)

- **Valuation is the primary issue**
- **Mutual agreement on facts**
- **Differences attributable to**
 - use of comparable sales
 - identified assumptions within individual methods.
- **Small entity level discount differences**
- **Flexibility and a desire to reach agreement**
- **Valuation – More art than science**

Key to resolution

- Communicate
 - Taxpayer/Representative meet IRS Valuator
 - Bring valuation specialists to discussion
 - Identify areas of agreement
 - Identify areas of disagreement
 - Narrow the gap
- Agreement
 - Agree on value
 - Agree to disagree

Questions
