



October 24, 2003

Ms. Dorothy Taylor
Engineering Territory Manager
Internal Revenue Service
7850 SW 6th Court
Mail Stop 4322
Fort Lauderdale, FL 33324

Dear Ms. Taylor,

On behalf of the members of the American Society of Farm Managers and Rural Appraisers, the Appraisal Institute and the National Association of REALTORS®, thank you for the opportunity to comment on the Internal Revenue Service (IRS) DRAFT Real Property Valuation Guidelines. We commend the IRS for embarking on this project, as consistency between IRS and generally accepted appraisal standards is important to protect the rights of taxpayers with respect to real property issues.

We understand the IRS is implementing this initiative to improve consistency and provide guidance to IRS employees through the development of valuation standards. Once implemented, all IRS employees with responsibility for preparing appraisals, or reviewing and critiquing appraisals, will be held responsible for understanding and complying with these standards. We also understand that Business Valuation Guidelines have already been finalized and are currently being implemented by the IRS.

Many of our members believe that the Uniform Standards of Professional Appraisal Practice (USPAP) should be the cornerstone of valuations prepared by IRS valuers (in-house appraisers). As you know, per the Financial Institutions Reform, Recovery and Enforcement Act of 1989, real property appraisers are required to be licensed or certified by state appraisal regulatory agencies and to perform specified appraisal assignments in compliance with USPAP. Consequently, many tax returns that contain a deduction for a donation of real property are submitted with an appraisal performed in conformance with USPAP. If the IRS appraiser is not able to attest to compliance with USPAP under the Real Property Valuation Guidelines, the IRS may be at a disadvantage. From the public's view, without the specific statement of compliance with USPAP the IRS appraiser's opinion of value may not garner the same credibility as it would with that statement.

It is feasible for the IRS to adopt USPAP and add Supplemental Standards where the agency felt necessary, similar to many other federal agencies such as the Department of Justice or Veterans Administration. This way, the taxpayer's appraiser and the IRS appraiser would be valuing the property subject to the same set of standards.

At the same time, we understand the IRS faces time and financial constraints that may make it difficult to adopt USPAP in its Real Property Valuation Guidelines. In light of this, should the IRS defer to adopt USPAP, we recommend the IRS consider *referencing* USPAP in the Introduction section with a statement

to the following effect: *“that IRS appraisers are required to practice in a manner that is consistent with the current standards for professional real property valuation practice in the United States reflected in the ethics and competency requirements and real property appraisal and appraisal review standards expressed in the Uniform Standards of Professional Appraisal Practice.”* Referencing USPAP in this manner would foster enhanced public trust in real property valuations by IRS appraisers in determining tax obligations.

We also have a concern regarding the inclusion of Resolution Guidelines in the Real Property Valuation Guidelines. It may not be appropriate to include resolution guidelines with guidelines for performing valuation assignments. If an appraiser has formed an opinion, thereby becoming an advocate for that opinion, can that person be objective in negotiating a resolution?

Many of our members are uncomfortable with words and phrases like "reaching," "determination," and "resolving an issue." In general, appraisers solve problems, not resolve issues. Appraisers do not "reach" or "determine" value. Instead, they "develop," "derive," "extract," or "form an opinion." With this, we believe the IRS may want to consider delegating this function to another individual and remove the Resolution Guidelines from the Real Property Valuation Guidelines.

Beyond these general comments, we would like to offer the services of our organizations to the IRS as it continues to try and improve its real property operations. Each of our organizations is respected in the real estate appraisal community as being leaders in research, education and training. We have worked with numerous federal agencies and specifically tailored training programs for their employees on real estate appraisal issues. These agencies include the Federal Highway Administration, Department of Agriculture, Department of Housing and Urban Development and the Veterans Administration, to name a few. Similar programs could be established to assist the IRS in understanding USPAP, appraisal review or other valuation issues, methods or techniques.

Finally, we offer the following technical suggestions to the DRAFT Real Property Guidelines.

- Eliminate the term "valuators" and replace consistently with either "appraisers" or "valuers"
- Add, "if practical or available" after "...and mortgage brokers" (2.3.1.4)
- Add, "if practical or available" after "...of income and expenses" (2.3.1.5)
- Change, "The appraised fair market value" to "the appraised market value" (2.3.1.8)
- Change, "The economic outlook in general and the condition...." to "The economic outlook in the general market and the condition...." (2.3.1.11)
- Delete all references to "market approach" and replace with "sales comparison approach" (2.4.3, 2.4.3.1)
- Add "capitalization" to all references to "income capitalization approach" (2.4.3)

- Change, “Adjustments are made for date of sale, physical characteristics...” to “Adjustments are made for property rights appraised, financing, condition of sale, date of sale, physical characteristics....” (2.4.3.1)
- Change, “In the Income Approach, the Appraiser Projects projects an income stream....” to “In the Income Approach, an income stream is projected based on analysis....” (2.4.3.3)
- Change, “The Appraiser should justify all discount/capitalization rates with reliable market data....” to “All discount/capitalization rates should be justified with reliable market data....” (2.4.3.3)
- Change, “...the amount, veracity and reliability of the data....” to “quantity, veracity and reliability of the data....” (2.4.3.4)
- Change, “Workpapers” to “Workfile” (2.5, 2.5.1, 2.5.3)
- Change 2.6.1 to read: “In reviewing a real property valuation, and reporting the results of that review, an (appraiser or valuer) 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.”
- Replace “extent” with “scope of work” (2.6.2.3)
- Add the following sentence to 2.6.2.6: “If the (appraiser or valuer) concurs or disagrees, the analysis must comply with the requirements of an appraisal.”
- Add the following sentence to 4.1.1: “Each valuation report should: (a) be set forth in a manner that will not be misleading; (b) contain sufficient information to enable the intended users of the valuation report to understand the report properly; and (c) clearly and accurately disclose any extraordinary assumption, hypothetical condition, or limiting condition that directly affects the valuation report and indicate its impact on value.”

Thank you for the opportunity to comment on the IRS DRAFT Real Property Valuation Guidelines. Please continue to rely on our organizations as resources for appraisal and valuation issues. If you have any questions relating to these comments, please contact Don Kelly, Vice President of Public Affairs, Appraisal Institute at 202-298-5583 or dkelly@appraisalinstitute.org, Doug Slothower, Executive Vice President, American Society of Farm Managers and Rural Appraisers at 303-758-3513 or dslothower@agri-associations.org, or Peter Morgan, Senior Regulator Liaison, National Association of REALTORS at 202-383-1233 or pmorgan@realtors.org. We would be happy to elaborate on the rationale for our recommendations if called upon to do so.

Sincerely,

American Society of Farm Managers and Rural Appraisers
Appraisal Institute
National Association of REALTORS®