

2012 Appraisal Institute Annual Meeting
Common Problems in Valuation
Internal Revenue Service

Panelists:

Steve Whiteaker

Ron Cerruti

Robert Dietrich

Eric Garfield

Frank Molinari, SRA

Louis J. Garone, MAI, SRA



IRS LARGE BUSINESS AND
INTERNATIONAL DIVISION

Writing

“If you can’t explain something simply, you don’t understand it well. Most of the fundamental ideas of science are essentially simple, and may, as a rule, be expressed in a language comprehensible to everyone. Everything should be as simple as it can be. Yet no simpler.”

Albert Einstein

“Do not accustom yourself too use big words for little matters. A man who uses a great many words to express his meaning is like a bad marksman who instead of aiming a single stone at an object takes up a handful and throws at it in hopes that he may hit.”

Samuel Johnson

A Good Report

- Follows Generally Accepted Appraisal Practices and Procedures.
- Is factually based, with market evidence as support.
- Follows appropriate guidelines.
 - IRS Code and Regulations.

A Good Report

- Is well written and easily understood.
- Conveys the message you're intending to deliver to the reader.
- Logically leads the reader from the initial presentation of the data to the value conclusion.
- Writing is important!

A Bad Report

- Internal Inconsistency
- Lacks Support and Analysis
- Are the computations correct?
- If it said it followed USPAP, did it?
- Did it follow IRS Guidelines?
- Is the analysis / approach used recognized as generally accepted appraisal practices?

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.”

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.”

Highest and Best Use

- **Estate Gift- 10-acre marina on the ocean**
- **Highest and Best Use- Marina on the Ocean**
- **Problem areas-land value too low- zoning allows for residential development.**
- **Oceanfront land in demand for residential development. Value higher if appraised as vacant for residential development.**
- **Problem- appraiser states in the report: Specific development plan needs to be defined and is beyond the scope of this appraisal assignment.**

Mock Testimony Topics

- Voir Dire
- The Report in General
- Property Identification
- Market Analysis and Highest and Best Use
- General Valuation Questions