



EFFECTIVE DATE

(09-22-2020)

PURPOSE

- (1) This transmits revised IRM 4.48.4, Engineering Specialty, Business 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 valuation policy that cuts across functional lines, and in identifying process improvements to improve compliance and better utilize resources.
- (2) This document provides specific instructions to examiners with respect to:
 - a. Planning the valuation assignment
 - b. Analyzing relevant information
 - c. Preparing work papers
 - d. Reviewing and critiquing a third-party valuation

MATERIAL CHANGES

- (1) Rewrote IRM 4.48.4.1 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 4.48.4.1.1 through IRM 4.48.4.1.5 to include “Background,” “Authority,” “Roles and Responsibilities,” “Program Objectives and Review,” and “Related Resources.”
- (2) Significant changes are summarized in the following table:

IRM Cite	Title	Description
4.48.4	Throughout	Changed the term “valuator” to “appraiser”
4.48.4.1.5	Related Resources	Added link to Engineering website here and throughout.
4.48.4.2.1	Planning	Added reference and link to engineer resources
4.48.4.2.3	Analyzing	Added additional items to consider
4.48.4.2.4	Workpapers	Added reference to IRM 4.48.1.4
4.48.4.3	Resolution Guidelines	Clarified the appraiser’s role and added penalty consideration requirement
4.48.4.4	Reporting Guidelines	Added reference to IRM 4.48.1.1.3.4, Role of the Engineering Manager.
4.48.4.4.3	Statement	Added three new bullet items

- (3) Editorial corrections made throughout.

EFFECT ON OTHER DOCUMENTS

IRM 4.48.4 dated July 01, 2006 is superseded.

AUDIENCE

All IRS employees who provide valuation services or review the valuations and appraisals prepared by others.

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4.48.4

Business Valuation Guidelines

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4.48.4.1
(09-22-2020)
Program Scope and Objectives

- (1) The purpose of this document is to provide guidelines applicable to all IRS personnel engaged in valuation practice (herein referred to as “appraisers”) relating to the development, resolution and reporting of issues involving business 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.

4.48.4.1.1
(09-22-2020)
Background

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

4.48.4.1.2
(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.

4.48.4.1.3
(09-22-2020)
Roles and Responsibilities

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

4.48.4.1.4
(09-22-2020)
Program Objectives and Review

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

4.48.4.1.5
(09-22-2020)
Related Resources

- (1) The Engineering website is <https://irssource.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 4.48.5	Intangible Property Valuation Guidelines
IRM 4.48.6	Real Property Valuation Guidelines

- 4.48.4.2
(09-22-2020)
Development Guidelines
- (1) Successful completion of a valuation assignment includes defining the valuation issue, planning, identifying relevant factors, documenting specific information, and analyzing the relevant information. All relevant activities will be documented in the appraiser's workpapers.
- 4.48.4.2.1
(09-22-2020)
Planning
- (1) Appraisers will adequately plan the valuation assignment. Their managers will supervise the staff involved in the valuation process.
- (2) Quality planning is a continual process throughout the valuation assignment.
- (3) Refer to the Engineer web page <https://irsource.web.irs.gov/LBI/SitePages/ENG.aspx> for available valuation resources.
- 4.48.4.2.2
(07-01-2006)
Identifying
- (1) In developing a valuation conclusion, appraisers should define the assignment and determine the scope of work necessary by identifying 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. Assumptions
 - i. Limiting conditions
 - j. Scope limitations
 - k. Restrictions, agreements and other factors that may influence value
 - l. Sources of information
- 4.48.4.2.3
(09-22-2020)
Analyzing
- (1) In developing a valuation conclusion, appraisers should analyze the relevant information necessary to accomplish the assignment including:
- The nature of the business and the history of the enterprise from its inception
 - The economic outlook in general and the condition and outlook of the specific industry in particular
 - The book value of the stock or interest and the financial condition of the business
 - The earning capacity of the company
 - The dividend-paying capacity
 - Existence or non-existence of goodwill or other intangible value
 - Past sales of the subject stock or interest and the size of the block of stock to be valued
 - Subsequent sale of the subject stock or interest if it was reasonably foreseeable as of the valuation date
 - The market price of stocks or interests of corporations or entities engaged in the same or a similar line of business having their stocks or interests actively traded in a free and open market, either on an exchange or over-the-counter
 - Other relevant information
- (2) The three generally accepted valuation approaches are the asset-based approach, the market approach and the income approach. Consideration should be given to all three approaches. 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 business interest.

- (3) Historical financial statements should, if necessary, be analyzed and, if necessary, adjusted to reflect the appropriate asset value, income, cash flows and/or benefit stream, as applicable, to be consistent with the valuation methodologies selected by the appraiser.
- (4) The appraiser should select the appropriate benefit stream, such as pre-tax or after-tax income and/or cash flows, and select appropriate discount rates, capitalization rates or multiples consistent with the benefit stream selected within the relevant valuation methodology.
- (5) The appraiser will determine an appropriate discount and/or capitalization rate after taking into consideration all relevant factors such as:
 - The nature of the business
 - The risk involved
 - The company's industry
 - The stability or irregularity of earnings
 - Other relevant factors
- (6) 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 appraiser should separately consider the following factors in reaching a final conclusion of value:
 - a. Marketability, or lack thereof, considering the nature of the business, business ownership interest or security, the effect of relevant contractual and legal restrictions, and the condition of the markets.
 - b. Ability of the appraised interest to control the operation, sale, or liquidation of the relevant business.
 - c. Other levels of value considerations (consistent with the standard of value in IRM 4.48.4.2.2 (1) list item g) such as the impact of strategic or synergistic contributions to value.
 - d. Such other factors which, in the opinion of the appraiser, are appropriate for consideration.

4.48.4.2.4
(09-22-2020)
Workpapers

- (1) Workpapers should document the steps taken, techniques used, and provide the evidence to support the facts and conclusions in the final report.
- (2) Appraisers will maintain a detailed case activity record (Form 9984, Examining Officer's Activity Record) which is prepared consistent with IRM 4.48.1.4, Workpapers.
- (3) The case activity record, along with the supporting workpapers, should justify that the time spent is commensurate with work performed.

4.48.4.2.5
(09-22-2020)
Reviewing

- (1) In reviewing a business valuation and reporting the results of that review, an appraiser should form an opinion as to the adequacy and appropriateness of the report being reviewed and should clearly disclose the scope of work of the review process undertaken.
- (2) In reviewing a business valuation, an appraiser should:

- a. Identify the taxpayer and intended use of the opinions and conclusions, and the purpose of the review assignment.
 - 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 the scope of the review process conducted.
 - d. Determine the completeness of the report under review.
 - e. Determine the apparent adequacy and relevance of the data and the propriety of any adjustments to the data.
 - f. Determine the appropriateness of the valuation methods and techniques used and develop the reasons for any disagreement.
 - g. Determine whether the analyses, opinions, and conclusions in the report under review are appropriate and reasonable, and develop 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 a credible value conclusion.

4.48.4.3
(09-22-2020)
Resolution Guidelines

- (1) The appraiser will, in a supporting role to the internal customer, make efforts to obtain a resolution of the valuation issue after fully considering all relevant facts.
- (2) The appraiser will consider, per IRM 20.1.12.7, the applicability of penalties due to incorrect appraisals.

4.48.4.3.1
(09-22-2020)
Objective

- (1) The objective, if possible, is to resolve the valuation issue as early in the examination as possible.
- (2) The appraiser will work in concert with the internal customer and taxpayer to attempt to resolve all outstanding issues.

4.48.4.3.2
(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 conclusion.
- (2) Appraisers may not have all the information they would like to have to definitively resolve an issue. Appraisers, therefore, should decide when they have substantially enough information to make a proper 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.

4.48.4.4
(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) Role of the Engineering Team Manager – see IRM 4.48.1.1.3.4

4.48.4.4.1
(09-22-2020)
Overview

- (1) The primary objective of an appraisal report is to provide convincing and compelling support for the conclusions reached.

- (2) Appraisal reports should contain all the information necessary to allow a clear understanding of the valuation analyses and demonstrate how the conclusions were reached.

4.48.4.4.2
(09-22-2020)
Report Contents

- (1) The extent and content of the report to be prepared depends on the needs of each customer.
- (2) Appraisal reports should clearly communicate the results and identify the information relied upon in the valuation process. The appraisal report should effectively communicate the methodology and reasoning, as well as identify the supporting documentation.
- (3) Subject to the type of report being written, appraisal reports should generally contain sufficient information relating to the items in IRM 4.48.4.2.2, Identifying, and IRM 4.48.4.2.3, Analyzing, to ensure consistency and quality.
- (4) Reports written with respect to IRM 4.48.4.2.5, Reviewing, shall contain, at a minimum, information relating to those items in the previously referenced subsections, Identifying and Analyzing, necessary to support the revised assumptions, analyses, and/or conclusions of the appraiser.

4.48.4.4.3
(09-22-2020)
Statement

- (1) Each written appraisal 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.
- My compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.
- I have or have not performed services as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- My engagement in this assignment was not contingent on developing or reporting predetermined results.
- No one provided significant assistance to the person(s) signing this certification.
- My analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with the applicable Internal Revenue Service Valuation Guidelines.

- (2) Certification may be amended if appraisers are required to comply with professional designation and or state license requirement.

