



MANUAL TRANSMITTAL

Department of the Treasury
Internal Revenue Service

5.10.9

SEPTEMBER 14, 2020

EFFECTIVE DATE

(09-14-2020)

PURPOSE

- (1) This transmits revised IRM 5.10.9, Property Appraisal and Liquidation Specialists (PALS) Valuation Standards and Guidelines

MATERIAL CHANGES

- (1) IRM 5.10.9.1, inserted Program Scope and Objectives.
- (2) IRM 5.10.9.1.1, inserted Background.
- (3) IRM 5.10.9.1.2, inserted Authority.
- (4) IRM 5.10.9.1.3, inserted Responsibilities.
- (5) IRM 5.10.9.1.4, inserted Program Management and Review.
- (6) IRM 5.10.9.1.5, inserted Program Controls.
- (7) IRM 5.10.9.1.6, inserted Acronyms and Definitions.
- (8) Editorial updates were made throughout to correct citations, broken links, etc.

EFFECT ON OTHER DOCUMENTS

This material supersedes IRM 5.10.9 dated June 19, 2014.

AUDIENCE

The intended audience is Property Appraisal and Liquidation Specialists and managers in SB/SE Collection.

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5.10.9

Property Appraisal and Liquidation Specialists (PALS) Valuation Standards and Guidelines

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5.10.9.1
(09-14-2020)
Program Scope and Objectives

- (1) **Purpose:** This section provides procedural guidance for Property Appraisal and Liquidation Specialists (PALS) on valuation standards.
- (2) **Audience:** This section is for Property Appraisal and Liquidation Specialists (PALS).
- (3) **Policy Owner:** Director, Collection Policy, SBSE.
- (4) **Program Owner:** Collection Policy, SBSE, Enforcement.
- (5) **Primary Stakeholders:** Property Appraisal and Liquidation Specialists (PALS).
- (6) **Program Goals:** Provide policy and procedural guidance to Property Appraisal and Liquidation Specialists (PALS) on valuation standards.

5.10.9.1.1
(09-14-2020)
Background

- (1) Internal Revenue Manual 5.10.9, Property Appraisal and Liquidation Specialists (PALS) Valuation Standards and Guidelines, contains procedural guidance on valuation standards and guidelines. The procedures contained in this section relate to
 - value estimates
 - time and case code reporting
 - planning and analysis
 - conclusions and reports

5.10.9.1.2
(09-14-2020)
Authority

- (1) Congress has delegated to the IRS the responsibility of administering the tax laws, known as the Internal Revenue Code, found in Title 26 of the United States Code. Congress enacts these tax laws and the IRS enforces them.

5.10.9.1.3
(09-14-2020)
Responsibilities

- (1) The Director, Collection Policy is the executive responsible for the policies and procedures in this IRM.
- (2) The PALS are responsible for following valuation standards laid out in this IRM
- (3) Managers are responsible for ensuring valuations by PALS are in accordance with current law, policy and IRM procedures.

5.10.9.1.4
(09-14-2020)
Program Management and Review

- (1) **Program Reports:** Per IRM 1.4.53, Advisory and Property Appraisal and Liquidation Specialist Group Manager Operational Aid, CEASO Group Managers are required to review ICS to ensure cases are being effectively worked. The PALS charge time worked on appraisals to time codes 151, 157 and 122; open 151, 157 and/or 122 OI reports are available to monitor open appraisal cases.
- (2) **Program Effectiveness:** Civil Enforcement Advice and Support Operations (CEASO) conducts operational and performance reviews to ensure case actions are taken in accordance with applicable laws, policy and IRM procedures. National quality and consistency reviews are conducted to ensure consistency and effectiveness in case actions.

5.10.9.1.5
(09-14-2020)
Program Controls

- (1) Per IRM 1.4.53.4.6.6.1, CEASO Group Managers will consistently review:

- 151 PALS Appraisals Reports
- 157 Judicial Appraisals Reports
- 122 Oral Opinions Reports / case hours
- Other ICS Current Inventory Reports.

- (2) The ENTITY Case Management System can also generate certain unique reports to assist in managing assigned inventory.

5.10.9.1.6
(09-14-2020)

Acronyms and Definitions

- (1) The table below lists common acronyms used in this section.

Acronym	Definition
PALS	Property Appraisal and Liquidation Specialist
RO	Revenue Officer
NFTL	Notice of Federal Tax Lien
FMV	Fair Market Value
UCC	Uniform Commercial Code
DMV	Department of Motor Vehicles
VIN	Vehicle Identification Number

5.10.9.2
(10-12-2010)

Definition and Purpose

- (1) This IRM establishes valuation standards to facilitate a consistent, professional-quality work product among all IRS valuation personnel. These standards represent the minimum requirements for all appraisal work performed by Property Appraisal and Liquidation Specialists (PALS). The results of PALS appraisals will be documented in the ICS case file history. This documentation should be concise yet complete.

5.10.9.3
(06-19-2014)

Value Estimates

- (1) PALS generally complete appraisals to:
- value assets for the purpose of liquidation after enforcement or redemption
 - assist the field in making an equity determination for potential enforcement and estimate expenses associated with such action, or
 - assist the Department of Justice in settlement discussions and other litigation issues, including judicial sales of property.

Note: PALS value estimates are prepared in a restricted use format and are not qualified appraisals.

- (2) PALS are available to discuss the valuation of assets but a formal appraisal is not necessary on every case. If equity is already well established there is no need for a pre-seizure appraisal. For additional guidance regarding pre-seizure valuations see IRM 5.10.1.5.3, Equity Determination.
- (3) Requests for valuation work are made through the PALS group manager, who will review the appraisal request and open an appraisal case if pre-seizure valuation work is warranted. These requests can be made via memorandum,

secure E-mail or telephonically. If the PALS manager determines a formal appraisal is not necessary, the manager will return the request to the originator with an explanation documented in the ICS history. If a formal valuation is warranted, the PALS should contact the originating RO and discuss at a minimum:

- What and where are the assets?
- Is a NFTL properly recorded?
- What is the purpose of the appraisal?
- Has the RO viewed the assets? Are they still available for observation?
- Are other appraisals, pictures or purchasing information available?
- Is the taxpayer trying to sell the assets? If so, at what price?
- If the taxpayer does not own the premises, has a copy of the lease been secured?
- What is the level of cooperation from the taxpayer?
- If the asset is real estate, what is its current use (e.g., commercial, residential)?

- (4) Generally the RO should have the results of public records checks, Form 433A/B, Collection Information Statements, for individuals and business respectively, any prior appraisals and updated balances due on senior encumbrances available for the discussion.

5.10.9.4 (06-19-2014) Equity determination examples

- (1) Example 1: A revenue officer contacts a PALS to request an appraisal of a single-family residential property and conveys the following information:
- Fair market value per county tax records is \$129,000.00
 - The RO has viewed the property and noted some minor deferred maintenance but nothing significant
 - The only known encumbrance is delinquent property tax in the amount of \$5,837.25

Note: In this case, the equity is well established and no appraisal is necessary.

Caution: County tax records should be checked to ensure they are not out-of-date or based on arbitrary determinations. Also, some records reflect only a set percentage of fair market value and indirectly adjust for the difference by setting a higher rate of tax.

- (2) Example 2: A revenue officer contacts a PALS to request an appraisal of a duplex for possible enforcement and provides the following information:
- Fair market value per county tax records is \$285,500.00
 - The RO viewed the property and it is in good to average condition.
 - Both sides of the duplex are currently occupied and copies of the lease agreements are available
 - The senior encumbrance is a mortgage with a current balance of \$205,000.00
 - There are no other known encumbrances

Note: In this case the equity is not well established because reduced forced sale value, based on 60 % of fair market value (FMV) is less than the amount

due on the senior encumbrance. The county valuation does not consider the revenue stream produced by this property and an appraisal is warranted to determine the value.

5.10.9.5
(06-19-2014)
Information required for valuation

- (1) The PALS should secure the following information from the RO for appraisals of **personal property** as applicable:
 - Inventory list
 - Copy of UCCs (security interests filed per the Uniform Commercial Code and held by other persons)
 - Copy of titles/DMV research
 - Directions to location of property
 - Information on access/availability including the contact name and telephone number
 - Copy of lease or information on realty ownership
 - Storage and Vendor Information
 - Copies of prior appraisals
 - Form 433A/B, Collection Information Statements and Tax Returns
 - Draft Form 2434-B , Notice of Encumbrances Against or Interests in Property Offered for Sale
 - Current balances on prior encumbrances
 - Partnership agreements
- (2) The PALS should secure the following information from the RO for appraisals of **real property** as applicable:
 - Copy of tax assessor's valuation
 - Copy of deed/mortgages or Deeds of Trust
 - Directions to property
 - Information on access
 - Current balance on priority encumbrances
 - Copy of any prior appraisal
 - Form 433A/B
 - Draft Form 2434-B or list of encumbrances
 - Lease information

5.10.9.6
(10-12-2010)
PALS Time and Case Code Reporting

- (1) PALS should report their time on cases as follows:

Time/Case Code	Definition	Description
151	PALS Appraisals	Time spent on appraisals other than judicial appraisals which are reported as 157.
157	Judicial Appraisals	Time spent on appraisals requested by the Department of Justice in support of litigation

Time/Case Code	Definition	Description
122	Oral Opinions	Time spent answering general questions from revenue officers on non-assigned cases concerning the value of property.

5.10.9.7

(06-19-2014)

Planning and Identifying

(1) Specialists will adequately plan and schedule valuation work based upon the priority of cases in their inventory.

(2) Work priorities are:

- a. Seizure Sale Case—Expenses are accruing
- b. Other Sale Cases—Expenses are accruing
- c. Judicial Sale Cases—Expenses are accruing or not accruing
- d. Appraisal & logistical work on potential perishable goods cases
- e. Appraisal Work—Redemption Investigations
- f. Seizure Sale Case—Expenses are not accruing
- g. Appraisal and Logistics Work on Potential Seizure Cases
- h. Other Sale Cases—Expenses are not accruing

Note: The importance of executing judicial sales with expediency, especially judicial sales resulting from IRS initiated actions, should be a factor for the PALS (and the PALS GM) to consider when determining work priority. The PALS should recognize the court, and in some cases the IRS, has spent valuable resources in bringing a case to judgment, therefore the PALS should take action on these cases as quickly as inventory constraints allow.

(3) In developing an appraisal, the PALS will determine the scope of work necessary depending on the facts of the case. At a minimum the following will be identified:

- Subject of appraisal
- Interest to be valued
- Effective date of appraisal
- Purpose
- Statement of Value
- Information sources
- Estimate of expenses of seizure and sale
- Statement of estimated net proceeds if seizure is made

(4) Descriptions of machinery and equipment should include:

- Manufacturer
- Model and Serial Numbers
- Age and Hours
- Condition

(5) Descriptions of automobiles should include:

- Make
- Model
- Vehicle Identification Number (VIN)
- Condition
- Odometer Reading

(6) Descriptions of real property should include:

- Legal and physical description, including address
- Description of improvements
- Current use

5.10.9.8
(10-12-2010)
Intangible Property

(1) Intangible property can assume many different forms, refer to IRM 5.17.3.6.3.2 , Tangibles - Intangibles, for more information. To have economic value, intangible property should be:

- specifically identified and described
- subject to legal existence and protection
- privately owned and legally transferable
- capable of generating some measurable economic benefit

(2) Examples of intangible property include:

- Patents, inventions, formulas, processes, designs, patterns, know-how
- Copyrights and literary, musical or artistic compositions
- Trademarks, trade names, or brand names
- Methods, programs, systems, procedures, surveys, studies, forecasts, customer lists, or technical data
- Franchises, licenses, or contracts
- Other similar items of value based on intellectual content

5.10.9.9
(10-12-2010)
Analysis

(1) In developing valuations, the PALS should obtain and analyze all relevant information readily available.

(2) In valuing real estate, a specific valuation approach (e.g., comparable sales, income, or cost) should be used as appropriate. Good judgment should be used to select the approach that most accurately defines the value of the subject property.

(3) When appraising personal property, the income and cost approaches rarely apply. The general market conditions near the valuation date should be considered as well as the market demand for the property. The appraiser should clearly identify and explain the data analyzed and conclusions reached. Specific data analyzed should be identified, such as:

- Comparable sales of like property from the internet, newspapers, or periodicals
- Information from an expert in the field
- Discussion with a dealer of similar properties

(4) In developing a valuation for a business, the PALS should obtain and analyze relevant information including:

- The nature and history of the business
- The general economic outlook and that of the specific industry
- The book value of the stock or interest

- The financial condition of the business
 - Any goodwill or other intangible value including a leasehold interest
 - The size of the stock holding or interest to be valued
 - The market price of stocks or interests of entities engaged in a similar line of business traded in an open market
 - Historical financial statements
 - Ownership control or interest in the asset to be sold
 - Value of tangible assets
- (5) The three generally accepted valuation methods for businesses are the asset-based, market, and income approaches. Consideration should be given to all three provided enough relevant data is available. Good judgment should be used to select the approach and methods that best indicate the value of the business interest.
- (6) The PALS will determine an appropriate discount and/or capitalization rate after considering all relevant factors, such as:
- the nature of the business
 - the risk involved
 - the stability or irregularity of earnings
- (7) As appropriate, the PALS should consider the following factors in reaching a final conclusion of value:
- Marketability attributable to the nature of the business, business ownership interest or security, the effect of relevant contractual and legal restrictions, and the condition of the markets
 - Ability of the appraised interest to control the operation, sale, or liquidation of the relevant business

5.10.9.10
(06-19-2014)
Value conclusions

- (1) PALS may not have all information desired to reach a value conclusion. The PALS must make a proper determination based on the information available and indicate any limitations in the report.
- (2) PALS value estimates are not for the purpose of determining tax or for potential tax litigation cases. They are used to assist the field, Counsel, and Department of Justice with equity determinations and to arrive at forced sale value for liquidation. Taxpayers may appeal PALS seizure and sale value conclusions through administrative procedures.
- (3) Some types of business valuations may exceed the expertise of the specialist. After consultation with the PALS manager, a professional appraisal may be obtained from a qualified third party or a referral made to the appropriate function within the Internal Revenue Service.

5.10.9.11
(10-12-2010)
Written reports

- (1) Valuation reports should contain all information necessary to ensure a clear understanding of the analyses. In addition, the report should establish a framework for the logistical issues associated with seizure and sale. The report should address estimated expenses and a statement as to the anticipated net proceeds if applicable.
- (2) There is no standard report format that applies to all cases. The format will vary depending on the assignment.

- (3) Reports should be well written, communicate the results and identify the information relied upon in the valuation process. The report should effectively communicate methods and reasoning and identify supporting documentation in a concise manner.
- (4) PALS value estimates are prepared in a restricted use format and are not qualified appraisals.
- (5) Specialists will follow the short form appraisal guidelines and all appraisal reports will contain the following:
 - Name, address and TIN of taxpayer
 - Purpose of the appraisal
 - Description of property or interest to be valued
 - Effective date of appraisal
 - Approaches to value
 - Reconciliation and final value estimate
 - Logistics and anticipated expenses of seizure and sale
 - Expected net proceeds statement
 - Statement certifying the report was prepared without bias
 - Signature and date
 - Photos of subject property, if available
 - Any other relevant information such as aerial photographs, plat maps, applicable zoning ordinances, crop subsidy information, minerals or mineral production

5.10.9.11.1
(10-12-2010)

**Scope of
Appraisal/Limiting
Conditions**

- (1) PALS appraisals should contain the following statements, as applicable:
 - The appraisal is based on a limited, exterior drive by viewing of subject property
 - An assumption is being made that the property rights of the comparable sales used were fee simple, all transactions were in cash or cash equivalents and all transactions were arm's length unless otherwise stated
 - Information relied upon for this report was furnished by other individuals or gathered from previously existing records or documents. Unless otherwise indicated, such information is deemed reliable. No responsibility is assumed for errors or omissions, or for information not disclosed which might otherwise affect said value estimate.
 - No opinion as to the title of subject property is rendered. Data related to ownership and legal description was obtained from public records and is considered reliable. Title is assumed to be marketable.
 - No opinion is expressed as to the value of subsurface oil, gas or mineral rights or whether property is subject to surface entry for the exploration of such materials unless otherwise stated.
 - No responsibility is assumed for hidden or unapparent conditions of the property. No information was provided regarding the presence of any material or substance which would prove to be hazardous or toxic. The value estimate is predicated on an assumption that no such material or substances are present. Unless otherwise stated, this report assumes subject is in compliance with all federal, state and local environmental laws. Subject is also assumed to be in compliance with all zoning and land use regulations.

- No opinion is intended to be expressed for matters which require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate appraisers.
- This report has been prepared in a restricted use format for internal use in determining value for the purpose of liquidation of the subject property pursuant to seizure or redemption. This is not a qualified appraisal.
- This report is intended to be used in its entirety and not in part. Reproduction of this report requires written permission from the author.
- This report is an internal use only document and the only intended user is the Internal Revenue Service and Department of Justice, if applicable.

5.10.9.11.2
(10-12-2010)

Certification Statement

- (1) Each written valuation report prepared by PALS should contain a signed statement that is similar in content to the following example:

Example: I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- 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.

