

**Appraisal
Institute™**
*Professionals Providing
Real Estate Solutions*



601 13th Street N.W.
Suite 1120N
Washington, DC 20005
Tel 202-466-2221
Fax 202-466-4455

April 15, 2005

Honorable Charles Grassley, U.S. Senate
Chairman, Senate Committee on Finance
135 Hart Senate Building
Washington, DC 20510-1501

Dear Mr. Chairman:

The undersigned professional appraisal organizations are writing to you and the other members of the Senate Finance Committee in connection with last week's hearing on "Charities and Charitable Giving." Our principal interest in the hearing (and in certain proposals contained in a January 27th report from the Joint Committee on Taxation), involves the issue of the reliability of tax-related appraisals. Many provisions of the Internal Revenue Code require individual and business taxpayers to determine the fair market value of property or interests in property for a wide variety of tax purposes.

Of particular concern to our members (many of whom provide tax-related valuation services) are reports of unreliable appraisals of the fair market value of non-cash charitable contributions (e.g., donations of conservation and façade easements, land, closely-held stock and art); and questions about the manner in which valuation discounts are currently applied to inter-generational transfers of assets in Gift and Estate Tax situations.

Our organizations strongly support a continuation of current law permitting charitable giving of non-cash property – so long as appropriate safeguards – which we believe are readily available and easily implemented – are adopted to ensure the reliability of the fair market values assigned to these donations. We also support a continuation of the consensus that currently exists among professional business appraisers, tax practitioners, the U.S. Tax Court and the IRS over the appropriate way to determine the value of property subject to transfer taxes for Gift and Estate tax purposes.

Our position is that the key to ensuring the reliability of appraisals for all tax purposes – and to eliminating any current "tax gap" attributed to improper appraisals of fair market value – is for Congress to require the following two things:

- First, that individuals performing higher dollar value tax-related appraisals have meaningful valuation competency and adhere to uniform appraisal standards that are generally-accepted by all valuation professionals (preferably the well-established Uniform Standards of Professional Appraisal Practice (USPAP)).

As incredible as it may seem, under IRS' current definition of "Qualified Appraiser," anyone who self-declares that they are capable of performing tax-related valuations, no matter how complex the assignment, is permitted to do so. We were extremely pleased, therefore, that the Joint Taxation Committee's January report explicitly recognizes the need for a major strengthening of the term "Qualified Appraiser" and actually proposes a re-definition which our organizations fully support. While the establishment of sensible professional appraiser requirements on those who perform tax-related appraisals may not eliminate all problematic valuations, they will greatly reduce their numbers and the severity of their impact on our tax system. They will also reduce the incidence of valuation disputes between taxpayers and the IRS.

- Second, that IRS implement a reasonable program for reviewing or auditing high dollar value appraisals on a regular, ongoing basis.

We strongly support what appears to be the unanimous view of Senate Finance Committee members and witnesses at last week's hearing, in favor of more vigorous IRS enforcement activities, not just for tax-exempt organizations,

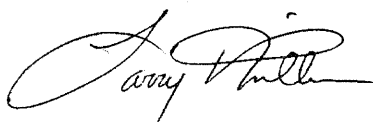
but also for appraisals supporting the fair market value of non-cash charitable contributions and for other tax purposes. An indication of the need for enhanced audits in the valuation area is that in a typical tax year there are approximately 100,000 tax returns reporting non-cash charitable contributions with claimed values above \$10,000. But, because of resource limitations, it is our understanding that none (or almost none) of the appraisals supporting these claimed values is reviewed by IRS valuation specialists.

Our organizations reject the notion that the appropriate response to problematic appraisals in the area of charitable contributions is repeal of long-standing Tax Code provisions that foster billions of dollars in non-cash donations to charities each year – typically 27% of all charitable giving and amounting to \$39 billion in TY 2001. With respect to asset valuations for family financial planning purposes, we also reject the suggestion by some that Congress should overturn a carefully developed consensus on the proper approaches to applying discounts to valuing family assets for Gift and Estate tax purposes.

We want to assure you that the community of professional appraisers we represent strongly supports effective measures to ensure the integrity of all tax-related appraisals, including the imposition of sanctions on appraisers who have been found to have performed abusive appraisals or to otherwise have engaged in professional misconduct. But, as stated above, the key to tax-related appraisal reform lies in enhanced audits of appraisals and a re-definition of the term “Qualified Appraiser.” We urge Congress to deal with the fact that for dozens of years, IRS has failed to correct its ineffectual qualification requirements for appraisers, even though that failure allowed individuals with little or no valuation-specific training or experience (and who do not adhere to generally-accepted appraisal standards and a strong Code of Ethics as professional appraisers are required to do) to perform appraisals for taxpayers; and, even though Congress explicitly directed the IRS more than 20 years ago, in the Deficit Reduction Act of 1984, to establish meaningful appraiser qualification requirements. We sincerely believe that if, in the 1980s, IRS had adopted the definition of “Qualified Appraiser” along the lines now being proposed by the Joint Taxation Committee (or, if it had modernized its appraisal requirements as many other federal agencies did in the early 1990s), very few of the valuation abuses now being observed would have occurred.

We would appreciate an opportunity to meet with you or your tax staff to explain our views in more detail and to provide you with information about our organizations and the legal and ethical responsibilities required for professional appraisal practice. We would also appreciate you putting this letter in the official hearing record as a statement of the views of our organizations.

Sincerely,



Larry D. Phillips, ASA
President, American Society of Appraisers
Master Gemologist Appraiser



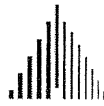
Thomas V. Boyer, AFM, ARA, AAC
President, American Society of Farm Managers
and Rural Appraisers



Bruce Kellogg, MAI
President, Appraisal Institute



Randall Kopfer, IFA
President, National Association of Independent Fee Appraisers



Appraisal
Institute™
*Professionals Providing
Real Estate Solutions*



601 13th Street N.W.
Suite 1120N
Washington, DC 20005
Tel 202-466-2221
Fax 202-466-4455

April 15, 2005

Honorable Max Baucus, U.S. Senate
Ranking Member, Senate Committee on Finance
511 Hart Senate Office Building
Washington, DC 20510

Dear Ranking Member Baucus:

The undersigned professional appraisal organizations are writing to you and the other members of the Senate Finance Committee in connection with last week's hearing on "Charities and Charitable Giving." Our principal interest in the hearing (and in certain proposals contained in a January 27th report from the Joint Committee on Taxation), involves the issue of the reliability of tax-related appraisals. Many provisions of the Internal Revenue Code require individual and business taxpayers to determine the fair market value of property or interests in property for a wide variety of tax purposes.

Of particular concern to our members (many of whom provide tax-related valuation services) are reports of unreliable appraisals of the fair market value of non-cash charitable contributions (e.g., donations of conservation and façade easements, land, closely-held stock and art); and questions about the manner in which valuation discounts are currently applied to inter-generational transfers of assets in Gift and Estate Tax situations.

Our organizations strongly support a continuation of current law permitting charitable giving of non-cash property – so long as appropriate safeguards – which we believe are readily available and easily implemented – are adopted to ensure the reliability of the fair market values assigned to these donations. We also support a continuation of the consensus that currently exists among professional business appraisers, tax practitioners, the U.S. Tax Court and the IRS over the appropriate way to determine the value of property subject to transfer taxes for Gift and Estate tax purposes.

Our position is that the key to ensuring the reliability of appraisals for all tax purposes – and to eliminating any current "tax gap" attributed to improper appraisals of fair market value – is for Congress to require the following two things:

- First, that individuals performing higher dollar value tax-related appraisals have meaningful valuation competency and adhere to uniform appraisal standards that are generally-accepted by all valuation professionals (preferably the well-established Uniform Standards of Professional Appraisal Practice (USPAP).

As incredible as it may seem, under IRS' current definition of "Qualified Appraiser," anyone who self-declares that they are capable of performing tax-related valuations, no matter how complex the assignment, is permitted to do so. We were extremely pleased, therefore, that the Joint Taxation Committee's January report explicitly recognizes the need for a major strengthening of the term "Qualified Appraiser" and actually proposes a re-definition which our organizations fully support. While the establishment of sensible professional appraiser requirements on those who perform tax-related appraisals may not eliminate all problematic valuations, they will greatly reduce their numbers and the severity of their impact on our tax system. They will also reduce the incidence of valuation disputes between taxpayers and the IRS.

- Second, that IRS implement a reasonable program for reviewing or auditing high dollar value appraisals on a regular, ongoing basis.

We strongly support what appears to be the unanimous view of Senate Finance Committee members and witnesses at last week's hearing, in favor of more vigorous IRS enforcement activities, not just for tax-exempt organizations,

but also for appraisals supporting the fair market value of non-cash charitable contributions and for other tax purposes. An indication of the need for enhanced audits in the valuation area is that in a typical tax year there are approximately 100,000 tax returns reporting non-cash charitable contributions with claimed values above \$10,000. But, because of resource limitations, it is our understanding that none (or almost none) of the appraisals supporting these claimed values is reviewed by IRS valuation specialists.

Our organizations reject the notion that the appropriate response to problematic appraisals in the area of charitable contributions is repeal of long-standing Tax Code provisions that foster billions of dollars in non-cash donations to charities each year – typically 27% of all charitable giving and amounting to \$39 billion in TY 2001. With respect to asset valuations for family financial planning purposes, we also reject the suggestion by some that Congress should overturn a carefully developed consensus on the proper approaches to applying discounts to valuing family assets for Gift and Estate tax purposes.

We want to assure you that the community of professional appraisers we represent strongly supports effective measures to ensure the integrity of all tax-related appraisals, including the imposition of sanctions on appraisers who have been found to have performed abusive appraisals or to otherwise have engaged in professional misconduct. But, as stated above, the key to tax-related appraisal reform lies in enhanced audits of appraisals and a re-definition of the term “Qualified Appraiser.” We urge Congress to deal with the fact that for dozens of years, IRS has failed to correct its ineffectual qualification requirements for appraisers, even though that failure allowed individuals with little or no valuation-specific training or experience (and who do not adhere to generally-accepted appraisal standards and a strong Code of Ethics as professional appraisers are required to do) to perform appraisals for taxpayers; and, even though Congress explicitly directed the IRS more than 20 years ago, in the Deficit Reduction Act of 1984, to establish meaningful appraiser qualification requirements. We sincerely believe that if, in the 1980s, IRS had adopted the definition of “Qualified Appraiser” along the lines now being proposed by the Joint Taxation Committee (or, if it had modernized its appraisal requirements as many other federal agencies did in the early 1990s), very few of the valuation abuses now being observed would have occurred.

We would appreciate an opportunity to meet with you or your tax staff to explain our views in more detail and to provide you with information about our organizations and the legal and ethical responsibilities required for professional appraisal practice. We would also appreciate you putting this letter in the official hearing record as a statement of the views of our organizations.

Sincerely,



Larry D. Phillips, ASA
President, American Society of Appraisers
Master Gemologist Appraiser



Thomas V. Boyer, AFM, ARA, AAC
President, American Society of Farm Managers
and Rural Appraisers



Bruce Kellogg, MAI
President, Appraisal Institute



Randall Kopfer, IFA
President, National Association of Independent Fee Appraisers