

# *VALUATION OBSERVATIONS*

*Some practical observations from a practicing  
business appraiser.*

*VLC*

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## **IS YOUR APPRAISER “QUALIFIED”?**

You have heard it before – there is no college degree for business valuation. There are no state issued licenses for business valuation as there are for doctors, lawyers, and accountants. We are not talking about qualifications to testify under Daubert rules. We are talking about qualifications to value a business or real estate. Who defines those qualifications? That would be the Internal Revenue Service.

The IRS initially issued Regulation 301.6501(C)-1(f) in 1999 stating that an appraiser is qualified if he or she:

1. Holds him/herself out to the public as an appraiser or performs appraisals regularly,
2. Has the proper background, experience, education and membership in a professional appraisal association, and
3. Not be a property donor or donee or a member of the donor or donee’s family, or be an employee of the donor, donee or family member thereof.

So long as you are independent - a couple seminars, a few books, and a couple appraisals later, it appears that the regulations have been met. Well, the IRS has caught on. The rules are tightening.

The term “qualified appraiser” was refined this past year in the Pension Protection Act of 2006 (PPA). Section 1219 of the PPA amends IRC §170(f)(11)(E) and provides a statutory definition for a qualified appraiser, effective August 17, 2006. The new rule provides that the term “qualified appraiser” means an individual who:

1. Has earned an appraisal designation from a recognized professional appraisal organization or has otherwise met minimum education and experience requirements set forth in IRS regulations,
2. Regularly performs appraisals for which the individual receives compensation, and
3. Meets such other requirements as may be prescribed in other guidance from the IRS. An individual will not be treated as a qualified appraiser unless he or she demonstrates verifiable education and experience in valuing the type of property subject to the appraisal.

The IRS then goes on to talk about standards. This is new in its entirety. The appraisal must be consistent with the substance and principles of the Uniform Standards of Professional Appraisal Practice (“USPAP”), as developed by the Appraisal Standards Board of the Appraisal Foundation.

The old rules only required that the appraiser be a member of a professional appraisal organization. The new rules require that the individual have earned an appraisal designation from a recognized professional appraisal organization, where the appraisal designation is awarded on the basis of demonstrated competency in valuing the type of property for which the appraisal is performed.

An appraiser will have met the minimum education and experience requirements if –

- (a) For real property, the appraiser is licensed or certified for the type of property being appraised in the state in which the appraised real property is located.
- (b) For property other than real property, the appraiser has:
  - (1) Successfully completed college or professional-level coursework that is relevant to the property being valued, and
  - (2) Obtained at least 2 years of experience in the trade or business of buying, selling, or valuing the type of property being valued.

As our world continuously becomes more financially sophisticated, we need to know that our professional advisors are truly qualified. We applaud the IRS in taking the steps to document the requirements that so many professionals already meet, and many others strive to attain. Whether you are filing a document with the IRS, assisting a client in buying a business, or representing someone in a litigation matter, insuring that the appraiser involved is appropriately credentialed is essential to protecting our clients' interests.

If you would like additional information, or have a question, please do not hesitate to call.

Very truly yours,

***Terri***

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Terri Lastovka is the founder of Valuation & Litigation Consulting, LLC. Her practice focuses on business valuations and litigation consulting in the areas of domestic relations, gift and estate tax, probate, shareholder disputes, economic damages, and forensic accounting. She draws from a wide range of experiences, including public accounting, law, banking, and CFO. She has received extensive training from the American Society of Appraisers in the area of business valuation and works closely with members of the bar to effectuate practical settlements. Terri also serves as the Director of Legal & Finance for Journey of Hope, a grass roots non-profit organization providing financial support to cancer survivors.