A message from our President & CEO Jessica I. Marschall, CPA, ISA AM, AAA Associate Member

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Deconstruction Projects Everywhere!

We are excited by the many deconstruction and reuse projects occurring nationwide! Spring 2022 has been a busy time for all of us in the deconstruction industry. Our team appreciates working with industry members to jointly serve and protect our clients. Tax deductions for the value of donated materials continues to act as a significant carrot in helping clients choose deconstruction over demolition.

Tax Deductions for Deconstruction

Clients must be confident in donating and claiming a tax deduction for the *Fair Market Value* of their donation. This value must be produced by an IRS Qualified Appraiser and substantiated by an IRS Qualified Appraisal.

As a CPA of 21 years, the IRS typically works 2-3 years behind in review and auditing of tax returns. Should a client receive a deficient appraisal, their deduction is at risk, and they could not only lose the deduction value but owe fines and penalties. Our goal is to ensure our clients can donate confidently, with an appraisal that is fully and extensively researched and written.

Deconstruction Appraiser Industry Background

The deconstruction appraiser pool was small and insular for the past few decades; there are only a handful of appraisers producing deconstruction appraisals nationwide.

To help raise appraiser standards and deliver superior appraisals, we opened our doors in September 2019, and ***I am the 100% owner of our company***. As signatory on every appraisal, nothing is sent to a client without my writing and review. Along with my CPA and MS in Accounting, training, and ongoing education, I also completed the full education courses for all three personal property appraisal organizations along with 400+ hours of continuing education. As a CPA who has produced many business valuations, the valuing of personal property assets is quite similar to the Market Value of depreciable assets under FAS 157. ***Our team's overriding goal is to ensure 100% compliance with IRS, appraisal organization, and USPAP compliance.***

If an appraiser has been producing appraisals for years but lacks the education, accreditation, and uses the wrong valuation methodology and the reports are deficient, it is the client who loses.

> ***Longevity in this industry does not equate with expertise and competence. There are <u>no licenses or specific certifications for deconstruction appraisers</u>, architectural reuse appraisers or any other name for these types of appraisals. Additionally, claiming to have had zero audits in decades of appraisal production is an inaccurate claim. Clients not appraisers are audited. Clients may not inform the appraiser if they are audited. Given the high number of retrospective appraisals we produce, there have been plenty of disallowed deconstruction appraisals, further detailed below.***

Our clients must be protected by ensuring their appraisals are 100% compliant.

Tax Court Cases

The deconstruction industry received a black eye when two tax court cases were decided against the taxpayer. Their deductions for deconstructed property were rejected in both cases.

Tax court cases *Mann v. US*, 2019 and the lost appeal in 2021 as well as *Loube v. Commissioner*, should be reviewed in determining an appraiser's competence. In the underlying appraisals, the appraiser used the **Cost Approach** to value, plugged numbers into construction cost estimating software R.S. Means (Marshall & Swift is a similar product) applied some haphazard depreciation and came up with a total value for the property. The valuation was not tethered to any market-based data and did not represent the *Fair Market Value* of the property.

Since early 2000, our firm has been contracted to consult with clients who have had their deductions disallowed. The IRS has allowed for a retrospective appraisal that meets IRS standards. These assignments require the appraisal to be written using valuations and market data from the effective valuation date. These are typically 2-3 years behind. Our volume of retrospective consulting in 2022 is significantly higher than in 2020 and 2021. The rejected appraisals include some of the following deficiencies:

The appraiser does not possess adequate education and qualifications.

The appraiser did not use the market-based Sales Comparison Approach in concluding appraised value.

The appraisal is missing a full description of the property with adequate photographs and is not well researched and values substantiated.

Comparable sales data is not included within the appraisal.

Our staff of over twenty professionals works diligently to ensure all IRS, Tax Court, and appraisal organization standards are met. Non-cash charitable contributions cost the IRS hundreds of millions in lost revenue each year. When the IRS delineates their requirements, we follow to the letter. <u>We must do this if we want our clients to continue to enjoy tax benefits for deconstructing and donating.</u>

How do you know if your appraiser is qualified?

1. Check the appraiser's education. IRS counsel presenters have communicated that they often first review the appraiser's CV to determine education and competence. Ask the following questions:

    a. What level of college education does the appraiser hold and in what subject? Does that subject lend itself to valuation methodology?

    b. From which of the three personal property appraiser organizations did the appraiser complete their education? **Per above, there is no license or certification for deconstruction or reuse appraisers.** The three personal property appraisal organizations sponsoring The Appraisal Foundation are:

        i. American Society of Appraisers (ASA)
        ii. Appraisers Association of America (AAA)
        iii. International Society of Appraisers (ISA)

    c. Finally, ensure the appraiser is **accredited** with one of the three organizations. This means that they went through an appraiser education program, which included extensive coursework, exams, and appraisal reviews and includes extensive continuing education requirements.

2. Peruse the appraiser's website and review articles written by the company's appraisers. Check their social media for educational content. Review where they have presented their appraisal knowledge and established themselves as experts.

3. **Ask for a sample appraisal** and review the following:

    a. Do they use correct valuation methodology? In 99% of personal property appraisals, the market-based or Sales Comparison Approach should be used.

    b. How many comparable sales do they review for each piece of property? Do they include the comparable sales data within the report?

    c. Do they provide a larger macroeconomic market evaluation along with the microeconomic evaluation for the property's specific market?

    d. Review the appraiser's CV. As stated above, determine their level of education and accreditation to ensure they comply with the IRS definition of a Qualified Appraiser. What continuing education courses have they completed?

4. The appraiser or owners of the firm must not be precluded from preparing appraisals for the IRS as detailed in IRS Circular 230, found here:

https://www.irs.gov/pub/irs-pdf/pcir230.pdf. Appraisers prepare documentation "relating to a taxpayer's rights, privileges, or liabilities under laws or regulations administered by the Internal Revenue Service." They are held to the same standards as attorneys, CPAs and other enrolled agents presenting documentation to the IRS. It sounds obvious but a quick criminal record check never hurts.

§ 10.51 Incompetence and disreputable conduct.

(a) *Incompetence and disreputable conduct.* Incompetence and disreputable conduct for which a practitioner may be sanctioned under §10.50 includes, but is not limited to —

5. Ensure the appraiser was not involved in the two tax court cases: *Mann v. US*, and *Loube v. Commissioner.*

Here is a link to Publication 561 from the IRS with the definition of Qualified Appraisers and Qualified Appraisals. Per the standards, the appraiser needs college or equivalent relevant education and training in the type of appraisals being completed. Expansive education is found through the three personal property education organizations AAA, ASA, and/or ISA. There is no on-the-job training commensurate with this standard or training through a deconstruction trade organization that meets the IRS definition:

https://www.irs.gov/publications/p561#en_US_201911_publink1000258036

Our goals at The Green Mission Inc and our sister company Probity Appraisal Group are to work independently for our clients to **produce the highest quality appraisals in the industry**. I included my training and education above. Our COO**, Mayur Dankhara**, has an MS in Construction Management and is ISA accredited. Mayur's education in the construction industry enables him to determine precise quantities of lumber, identify types and sizes, and produce exact valuations based upon underlying secondary market data.

We are grateful for the industry members working in our complementary role to further the cause of deconstruction, donation, and reuse. I am always available for a phone call or visit to discuss these issues in further detail.

We look forward to continuing to work with all of you!

THE GREEN MISSION
DONATIONS • APPRAISALS • TAX EXPERTISE

Jessica Marschall, CPA, ISA AM, AAA Associate Member