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Noting the long-standing and ...

Jun. 22, 2020



In a January memorandum issued by the Department of the Treasury and the Internal Revenue Service (IRS), Commissioners Douglas O'Donnell and Eric Hylton announced the elimination of the previously existing multi-tiered review process set forth in the [Internal Revenue Manual \(IRM\) 20.1.23.7.4](#) for Internal Revenue Code section 6695A penalty case reviews.

The [American Institute of CPAs](#) (AICPA) submitted a [letter](#) expressing concern over the memorandum, stating that under this part of the IRM, the review process included at least two qualified, knowledgeable IRS appraisers and suggesting the IRS return to this prior review process.

In the letter, the AICPA conveyed disappointment at the IRS' failure to notify the

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1. Valuation Expertise for IRS is Critical

- The change implemented by the IRS removes an essential check and balance that has operated effectively for nearly 15 years.
- **Effect on Professional Reputation**
- Eliminating the multi-tiered approach will potentially make the tax administrative process more difficult and backlogged. The revised process for initiating section 6695A cases creates the potential for an influx of valuation cases that may or may not have failed to meet the IRS requirements, but all of which will require the use of the IRS' limited resources.
- **Effect of Litigation on Valuations**
- An IRS agent untrained in valuation theory may take an unreasonable valuation position, causing the taxpayer and his or her representative to agree to a negotiated amount that, under the mechanical measures of section 6695A, potentially imposes an appraiser penalty. AICPA does not recognize a value that is negotiated in the tax administration process as the "proper" or "correct" amount, as those terms are used in section 6695A and, consequently, the IRS agent should not use it for the imposition of an appraiser penalty.

The AICPA represents more than 400,000 members and has implemented a specialized training and credentialing program for professionals desiring to specialize in the valuation of a business, fractional interest in a business, security or intangible asset. Many of the valuation analysts affected by the recent IRS action are valuation analysts holding the Accredited in Business Valuation (ABV) credential sponsored by AICPA.

As ABV credential holders and CPAs, AICPA members are qualified to practice before

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