

BOOK REVIEW

How to Work with the IRS: Strategies for Attorneys, Accountants & Appraisers

By Michael A. Gregory, ASA

Birch Grove Publishing, Minnesota, 2012 (233 pages, paperback, \$90)

Reviewed by John E. Barrett, Jr., CPA, ABV, CBA, CVA, MST

Michael Gregory is a recently retired territory manager with the Internal Revenue Service. His book is based on 28 years of experience at the IRS in various capacities, including managing many of the Service's valuation specialists. His book, *How to Work with the IRS*, is quite useful for business valuers in the estate and gift tax arena. The author provides insights into the IRS rules of engagement, and suggests various strategies to resolve examination issues.

Gregory was instrumental in the development of the "Discount for Lack of Marketability: Job Aid for IRS Valuation Professionals," released by the IRS on August 22, 2011.¹ This book discusses his unique and firsthand insights into the development of that Job Aid.

RULES OF ENGAGEMENT

Part 1 of the book covers the IRS rules of engagement and how to work with IRS representatives on examination issues. The author discusses when the taxpayer's representatives should consider elevation of technical issues from the IRS estate tax attorney to a manager level. He also explains various taxpayer options in tax examination, such as requesting an IRS business valuation specialist to be assigned to a case. The book provides a detailed analysis of how the IRS is organized and the interaction between various groups within the Service. Information regarding the Internal Revenue Manual for IRS employees, which includes policies and procedures, is also presented.

Chapter 6 provides considerable discussion of issue resolution and mediation within the IRS. As a trained mediator and experienced IRS territory manager, the author provides considerable

insight into how to navigate through the mediation process with the Service. Revenue Procedure 2009-44, which formally established a mediation procedure for cases and clarifies the types of cases that may be mediated in appeals, is also explained.

In Chapter 6 the author also provides commentary on dealing with the IRS estate attorney. He says that since working in the private sector, he has encountered IRS estate attorneys' attempts to make valuation adjustments without the assistance of a valuator; those valuation adjustments were based on few or no facts. Gregory says that in two cases the IRS estate attorneys requested the valuation adjustments be accepted, or they would open up other issues. In Gregory's opinion, this is an inappropriate form of negotiation. In such cases, he recommends requesting the IRS estate attorney's rationale for the valuation adjustments, and if necessary requesting an IRS valuation specialist. The author also recommends, in some cases, bringing this matter to the attention of the IRS estate attorney's manager.

Chapter 7 provides detailed discussion on the IRS classification system and the IRS Estate & Gift Tax Section. The chapter discusses the IRS review process of estate and gift tax returns, and how particular returns are selected for audit. We are reminded here to attach a business valuation report with the estate or gift tax return. I would have thought this to be fairly intuitive, but the author explained to me that it is actually common for taxpayers to file the estate or gift tax return without attaching the valuation report, and the omission gives these tax returns a much higher probability of audit. The author also strongly recommends that a full, self-contained appraisal be completed for estate and gift tax purposes. I would agree, keeping in mind that if the value of a gift is adequately disclosed, under IRC Reg. 301.6501(c)-1(f) the IRS cannot revalue the gift after the expiration of the three-year statute of limitations.

1. See Robert J. Grossman, CPA/ABV, CVA, ASA, CBA, and Melissa A. Bizyak, CPA/ABV/CFE, CVA, "IRS Job Aid Shines Spotlight on DLOM," *The Value Examiner*, September/October 2011.

Also in Chapter 7, the author recommends inviting local IRS estate and gift management and engineering management to meet with your local professional organization. He tells us that we might be surprised by what we will learn about the local estate and gift tax classification process by attending such meetings. I can tell you that the Rhode Island Society of CPAs' Business Valuation Committee is planning to do this.

VALUATION ISSUES

Part 2 begins to deal with specific business valuation issues. One chapter discusses potential penalties on valuers under IRC Section 6695A, Substantial and Gross Valuation Misstatements Attributable to Incorrect Appraisals. This chapter is a sobering reminder of the risk exposure we have as valuers. I think it is a must-read for all valuers doing work for estate and gift tax purposes. Another chapter deals with the reasonable compensation issue. The author includes a fairly comprehensive list of related resources to assist the reader. There is also a comprehensive list of factors to consider when determining reasonable compensation. Another chapter discusses common errors found in estate and gift tax-related business valuations.

DLOM

Chapter 10 provides an interesting discussion on the discount for lack of marketability. The author believes that the DLOM Job Aid is a must-read for business valuers, and I agree. As mentioned, the author championed this project at the IRS. Gregory tells the story of a former IRS employee who put this document on the internet. It was discovered by Eva Lang, executive director at Financial Consulting Group. She contacted Michael Gregory, who then informed the IRS officials that the document was now public. So the IRS formally released the leaked document. Now if only an IRS employee would release the Services' internal document on tax-affecting pass-through entities.

RECOMMENDATION

Overall, the book provides valuable insights and advice on dealing with the IRS in business valuation issues. The book deals with the IRS Organization and the Estate & Gift Tax Section. The reader learns how the IRS processes estate and gift tax returns and selects returns for further review or audit. The latter part of the book deals with specific valuation issues. I highly recommend this book to all consultants who perform valuations for estate & gift tax purposes. **VE**

John E. Barrett, Jr., CPA/ABV, CBA, CVA, is principal of Barrett Valuation Services in Cranston, RI. He is a member of Editorial Board of The Value Examiner. E-mail: jbarrettval@hotmail.com.

—Business Valuation—
the greatest growth opportunity in the financial profession

2012 Business Valuation and Certification Training Centers

Atlanta Oct 22-27

Chicago Oct 29-Nov 3

Philadelphia Nov 12-17

Fort Lauderdale Dec 3-8

Las Vegas Dec 10-15

Scottsdale Jan 21-26, 2013

Chicago May 6-11, 2013

Space is limited. Seats subject to change.

Visit www.theCTI.com—Call (800) 677-2009

