



## **November 2017 Index**

- **Estate and trust- the most popular non-lender appraisals, Part 2**  
**Page 1**
  - **Estate/trust liability advice from Peter Christensen, Liability  
Insurance Admin**  
**Page 15**
  - **Fannie and Freddie, The Ill Conceived Siblings - Its All About  
The Money! By Barry Bates**  
**Page 17**
  - **2017 year-end tax planning for appraisers. What you can do  
now to save on taxes**  
**Page 24**
- 

### **Estate and trust- the most popular non-lender appraisals, Part 2**

This is Part 2 of estate and trust. Part 1 had topics such as report format, low vs. high values, tips on retrospective appraisals, fees, problems, best geographic areas, etc.

My original article was too long for one newsletter, so I split it into two articles: Part 1 and Part 2. Some of the most important information from Part 1 is repeated in this article.

Relatively few appraisals are for estate tax purposes because of the \$5.49 million exclusion. I discuss them below for mostly informational purposes.

Most appraisals are done for determining a new basis when the property is sold. For example, the home was purchased in 1960 for \$100,000, sells 3/1/16 for \$900,000. If the home is sold later for \$1,100,000, for example, the gain is set at the capital gains tax rate. However, there are exemptions. Such as a surviving spouse has a \$250,000 exemption on the sale of the house and no taxes are due

since the profit was at the \$250,000 limit.

I have no idea why relatively few people get appraisals when a person dies, especially the first spouse. The tax savings can be huge.

### **Erase CU, UAD, 1004mc and current value from your mind when doing any non-lender work, including estate appraisals.**

You are subject to USPAP and some IRS requirements, including definition of value, discussed below.

You are doing a retrospective value, not a current value.

Of course, be sure to do what your state regulator wants to see in your reports. For example, my state regulator focuses on adjustment support, so I quit including any dollar adjustments in my appraisals. I use qualitative analysis.

### **You MUST make a commitment to accepting estate/trust appraisals first, before lender work to get much of this type of work**

Getting established in this business can take quite a while. But there is considerable repeat business. You lose repeat business when you turn down this work when you are busy with lender work.

Most appraisers only accept these orders when business is slow. That is not a good time as there is considerable competition.

### **Turn times**

They are typically relatively long for date of death, except when the trustee needs to file a tax return soon or a 706 form for date of death.

They are relatively easy to fit in with lender appraisals. I quote turn times much longer than for lenders and seldom have any issues. Mine range from 2 to 6 weeks, depending on how busy I am.

Large estates are often months.

If you are doing current value, such as for a sale to a tenant, they usually want it faster.

### **Value pressure**

I very rarely have value pressures, even with estates subject to the federal estate tax.

However, I prefer to find out if there are multiple beneficiaries and where they live so I can put in more detailed market information. Sometimes they question my value, usually after using Zillow.

I make it very clear that my values are not high or low. They are the most probable values.

There is also sometimes confusion among beneficiaries about retrospective vs. current values if prices are changing. This typically happens when the current sales price is different from my retrospective value.

### **Don't do low appraisals**

Frequently, prospective clients say they want "low" or "high" appraisals. I do all my appraisals, whatever the purpose, as the typical sales price, not high or low. I tell them that if not everyone likes my appraisal it is probably okay.

Almost all my estate appraisals are to establish a new basis for properties to be sold on the future, so a high appraisal works better. Sometimes a low appraisal is "wanted" so the estate tax will be lower if the estate is over the \$5.49 million limit for taxes.

I have heard of some appraisers who "help them out" and give them a "low appraisal". Don't do it, if only because they may use the value for a private sale to a neighbor.

I always let the executor know that the value is not today's value. Sometimes they use it to determine the current sales price.

If the executor thinks the total property values will be over the limit (\$5.49 million in 2017), there may be some value pressure.

Don't appraise the properties low. Why? You are liable to the IRS for your appraisals. They don't like low appraisals and are always carefully look at them, as this means less money for the IRS.

### **When are appraisals needed?**

Although we usually think of appraisals for estate taxes when someone dies, actually many appraisals are needed for other purposes. As an overview, a non-exhaustive list of when an appraisal could be needed is:

1. Sale to a relative
2. Partitioning an estate among the heirs or beneficiaries
3. Sale to a non-relative
4. Prior to listing the home for sale
5. Partial interests
6. Alternate valuation date - estate tax purposes (if the property value declines after the date of death)
7. Gifts and gift trusts (to charities or children, typically)
8. Determining the basis for capital gains tax
9. Family limited partnerships and other types of trusts/partnerships

### **Three dates**

In your reports you will have three dates:

1. Effective date of the appraisal. (Usually date of death.)
2. Date of inspection.
3. Date of the report.

Be sure to include all three dates in the appraisal report. I put them in bold face type in the neighborhood section and the reconciliation sections on form reports and in the letter of transmittal and near the value conclusion on narrative reports.

I always include this statement: Appraisal assumes there have been no changes to the subject property between the effective date of the report and the date of inspection. Or, I discuss any changes between the two dates.

### **When are current value appraisals needed?**

Be sure to ask what date of value is wanted, as it is very important when prices are changing.

Examples:

- One beneficiary is buying out the others.
- Partitioning an estate - who gets which properties.
- Sale to a neighbor or tenant.

Others are typically current value. Examples:

- Sale to a non-beneficiary.
- Prior to listing the home for sale (usually so beneficiaries don't feel cheated by a low sale).

### **What if you only want to do single family appraisals and/or work in a specific geographic area?**

You can hire another appraiser to do the appraisal types you cannot do, or appraisals in a geographic area where you do not work. Or, you can refer the executor or attorney to another appraiser. I have done both. I usually give them another appraiser's name as I don't want to manage their appraisals.

I typically do the appraisals on nearby properties, my normal geographic area. For out of the area appraisals, I contact appraisers in those areas to see if they are available. If I know the appraiser, I give the client one name. If I don't know any appraisers, I ask around and give them several names.

I have them deal directly with the executor, but some appraisers handle the administration on all the appraisals with an additional small fee.

## **Handling multiple property estates**

Some appraisers give a discount for multiple properties and some don't. I don't give a discount.

I have done as many as 25 appraisals for an estate. Since I do apartments and commercial, I often appraise all the estate's properties if they are in my geographic area.

It is very easy to mix up the properties, especially if they are homes. I never do more than 3 inspections per day. Be sure to make good notes about what time you did the inspections, or put first, second, etc. on the appraisal file.

Writing up the reports is difficult as it is very easy to get the homes and small apartment properties mixed up.

I try to "equalize" the values. That's what I did when I worked for an assessor's office. For example, if I have three similar homes I try to make the values reasonably close together. Otherwise, you can get "caught up" in writing appraisals and end up with very different values on similar properties.

## **Fees**

Do NOT charge what AMCs pay. You can get a much higher fee.

I always, always get paid in advance, for fees under \$850, unless it is a regular client. I require payment at (or before) the time of inspection.

For larger estates, I require 50% up front and 50% before the appraisals are delivered.

Executors have a fiduciary responsibility to spend money wisely. Many want to be sure they don't overpay for services such as appraisals.

When you receive a call, be sure not to just quote a fee. I always ask about their situation.

For example: What is the date of value? (I have been doing appraisals for over 25 years and am familiar with the past.) Do they plan on selling the home? (I can offer advice on fixing it up, the current market, good local agents, etc.) Are the heirs local or distant? (I can provide a report with lots of information for out of the area heirs, if needed.)

How many properties do they need appraised? (I can handle all of them and will find qualified appraisers to do the non-local appraisals.)

Do they need a partial interest appraisal?

## **Bidding**

If someone calls and asks first "What is your fee?" I don't spend much time with them. There is always someone cheaper: A Primary Rule of Business.

However, if you are trying to break into the business, lower fees can often

work.

I find out about the property, discuss my expertise and experience, etc.

If I don't work the area, I give them the names of other appraisers.

If the caller insists on lower fees, remember that your turnaround time can be long, so you can use the estate appraisal to fill in the slow periods.

### **Appraisal for stepped up basis**

No one knows the future of federal estate taxes or when property will be sold. I always strongly recommend getting an appraisal as of the date of the first spouse's death to set the basis for capital gains.

Most of my estate work is to establish a new capital gains basis as of the date of death for the "marital exemption".

This is particularly important when the first spouse dies, as the real estate is a "pass through" to the surviving spouse and no taxes are due at that time "marital exemption".

When the second spouse sells a property or dies, capital gains taxes are due, but only for an increase over the basis established when the first spouse dies.

When my husband died 13 years ago, I had our properties appraised. Our home had almost tripled in value (\$385,000 to \$900,000) since our purchase in 1985. When I sold it 4 years later, I paid no capital gains tax.

### **Who orders the appraisals?**

For residential appraisals (up to a few homes or small income properties) I am often called by the executor, who gets my name from a real estate agent or the Internet. Usually the attorney or accountant asks the executor to obtain an appraisal. This is a common practice in my area, even for larger estates.

For larger estates, the appraisals are typically handled by:

1. Attorneys (estate distribution, tax issues)
2. Accountants and enrolled agents (tax returns)
3. Beneficiaries of gift trusts
4. Executors and administrators
5. Trustees

### **Who can do the valuations?**

The vast majority of values for the 706 estate tax return on a one home estate are not done by licensed appraisers. This is not the best choice, as appraisals are relatively inexpensive as compared with a very high capital gains on a subsequent sale.

The IRS does not specify that a licensed appraiser has to do the appraisals. The owner can provide a value, a real estate agent, or just about anyone, except for gift returns (see below).

For larger estates, a licensed appraiser is preferred. If the return is challenged, the IRS will bring out their very qualified experts to refute the estate's valuation.

Last year I did appraisals for a 10 property, mostly small multi-family, estate where the attorneys had used Zillow. I had to explain why my values were different from Zillow.

If there is no estate tax liability, because of the marital deduction for example, sometimes a letter from a real estate agent is used. However, this "appraisal" will be used for establishing the basis for future taxes, and can be challenged by the IRS.

I always mention the possibility of an IRS challenge when the caller is reluctant to order an appraisal or is shopping for a low fee.

### **Appraisals for gifts**

IRS rules for appraisals on gifts is stricter than for estates, primarily due to issues with personal property valuation, such as paintings.

IRS Form 8283, Noncash Charitable Contributions (over \$500) requires that the appraiser sign a declaration, including "I declare that I hold myself out to the public as an appraiser or perform appraisals on a regular basis ... I understand that any false or fraudulent overstatement of the property value ... may subject me to the penalty under section 6701(a)."

When someone donates property to a charity, or gives a part annually to their children, an appraisal is required.

Be sure to read the IRS requirements for gifting appraisals. They are strict.

### **Probate appraisals**

When a person dies and the will is probated, an appraisal is needed of the decedent's assets.

In many states, fee appraisers are appointed by the judge to appraise the real estate. To get these assignments takes some luck (right place at the right time) and persistence (keep trying to get appointed).

In California, probate referees are appointed by the probate court and perform real property, personal property, and business appraisals. There are only a few for each county. They must pass a test and be appointed. Check out your state's regulations.

## **Low vs. high values**

As in other types of appraisals, such as divorce, I try to go in the mid-range of value. If nobody likes my value, it's probably okay.

I am usually hired by the executor. They often ask for a low value. But, if they are setting a basis for future sale, a high value is to their advantage. Or, they decide to use your low (or high) value to try to sell the property.

For example, a property is valued at \$275,000, rather than \$300,000, and is sold 10 years later for \$400,000. The taxable gain would be \$100,000 if previously appraised at \$300,000 and \$125,000 if previously appraised at \$275,000.

## **Why do we have a federal estate tax in this country?**

It was started to make sure we didn't have the inherited aristocracy of Europe, where our founding fathers were from. The king and nobility controlled much of the wealth.

## **What if the federal estate ("death") tax is repealed?**

Opinions on federal estate taxes seem to change regularly, depending on politics, mostly.

No one knows whether or not the current administration will repeal the tax. It is very unpopular, but does bring in extra revenue. The estate tax limit is \$5.49 million for 2017 and regularly increases.

For most appraisers, relatively few estates are over the \$5.49 million exemption. Most appraisals are done to establish a new basis. However, I do get a few larger estate assignments every year where they expect to go over the limit.

## **How much money is paid annually in federal estate taxes.**

Not many people pay estate tax. About 11,300 estate tax returns were filed for people who died in 2013, of which only 4,700 were taxable, less than 1 in 550 of the 2.6 million people who died in that year.

Despite its high tax rate, the U.S. estate tax accounts for less than 1 percent of total federal revenue. In 2014, the estate tax raised \$19.3 billion according to the OMB, or 0.6 percent of total federal revenue of over \$3 trillion.

According to a 2015 report from Congress's Joint Committee on Taxation, 4,700 estate tax returns reporting tax liability were filed in 2013, out of 2.6 million total deaths in the United States. That means the estate tax hits roughly 0.2% of Americans, or 1 out of every 500 people who die.

The maximum tax rate is 40%. According to the Tax Policy Center, the average effective tax rate for those who paid the estate tax in 2013 was 16.6%.

There are lots of loopholes, so some very wealthy people don't pay much.

### **How many states have estate taxes?**

Many states have eliminated estate taxes as they are very unpopular.

Currently, fifteen states and the District of Columbia have an estate tax, and six states have an inheritance tax. Maryland and New Jersey have both. The state with the highest maximum estate tax rate is Washington (20 percent), followed by eleven states which have a maximum rate of 16 percent. Each state has its own exemption.

These rates are much lower than the federal 40% rate if over the \$5.49 million exemption.

### **What about IRS audits?**

Every federal estate tax return is hand screened by experienced estate tax examiners to be classified for audit. The overall audit rate is approximately 20 percent for federal estate tax returns, almost 10 times the audit rate for income tax returns.

The audit rate varies by the size of the return. For example, a \$1 million return vs. a \$10 million return. A 20 percent estate tax penalty applies for estate gift tax understated valuations, if the value is 50 percent or less of the correct value. If 25 percent or less of the correct value, a 40 percent penalty applies.

The IRS examiner's handbook says that they should request copies of appraisals done within five years of the death and copies of listing information on the subject property within three years of the death.

I only know about one time that the IRS disputed one of my appraised values. It was a highest and best use issue, the most common source of dispute. I appraised vacant land that could be subdivided into single family lots. The access road was very narrow and limited the number of homes that could be built, per the planning department. The IRS said that homes along the road, owned by other people, could be purchased and demolished to make a wide road and allow for more homes to be built. This information was from the executor much later.

### **Undivided fractional interests**

The only use of an appraisal for this purpose is for the IRS. If one owner wants to buy out another owner, I do the appraisal and state that  $\frac{1}{2}$  of the value goes to each partner.

First you appraise the property, then you determine the fractional interest.

Unfortunately, most of the fractional interests are valued by business appraisers or accountants, not real estate appraisers.

The value of the interest is usually less than its pro-rata share. For example,

the decedent (or trust) owns a 10% interest in a shopping center worth \$1,000,000. The value of the interest is less than \$100,000 (1/10 of the total value), as they are very hard to sell, with a limited market.

Some appraisers charge a hefty fee for them, such as 50% to 100% of the cost of the real estate appraisal, and other appraisers only charge \$1,000 or less.

Most appraisers don't do partial interests and tell the attorney to get someone else. But many appraisers could do them if they took the time to get up to speed.

Valuation methods vary widely and there is no specific "acceptable" method. I prefer the marketability method. Other methods used include sales of local partial interests, data services of partial interest sales, and court cases.

Or, the accountant can select a discount rate. Typically, the IRS will not dispute if it is within a certain percentage range.

For more information on partial interest on homes, see the chapter in Frank Harrison's book "Appraising the Tough Ones".

### **Repeat business on the same properties**

I regularly appraise an estate's properties more than once, when another beneficiary dies, they want to sell the properties, beneficiaries are fighting over the value, changing the trust terms, etc.

I have appraised estate as many as 5 times. Last year I re-appraised three properties I did in 2008 as the owner was selling them. I had previously appraised them in 2008 and 2012, when the husband and wife died.

I have learned never to shred any estate appraisal files!

### **Alternate valuation date 6 months after date of death - if prices are dropping**

Since the estate must be at or above the limit for taxation of \$5.49 million in 2017, this typically applies to estates with multiple properties and/or relatively high property values or high values of other assets such as stocks.

You will be doing two values: date of death and 6 months after the date of death.

Per the IRS: In general, the alternate valuation election is available if the following requirements are met:

1. The estate must be subject to federal estate tax (in 2017, estates greater than \$5.49 million are subject to federal tax)
2. The use of the alternate date must reduce the value of the gross estate and the amount of federal estate tax due

The estate can use a lower appraisal as of the date of death, or an alternate valuation date 6 months later, if the property has not been sold. This is used when

prices have declined since the date of death.

All the estate assets must have values, such as businesses, stocks, etc., not just the real estate.

If the alternate date is elected, all estate assets are valued six months after the date of death. The exception to this is if an asset is sold, exchanged, distributed to a beneficiary, or otherwise disposed of within six months of death. In this case, the asset is valued as of the date of disposition.

I did two large estate assignments last year, well over the \$5.49 million limit, just looking at the real estate, not all the assets. One used the alternate valuation date. The other estate did not.

I appraised an estate with 5 properties and suggested using an alternate valuation date. Only one of the properties was a single family home. The others were a 4 unit, 5 unit, and two 26 unit apartment buildings. The person died in February 4, 2016. But, rent control started in Alameda March 2016, after the date of death. Over the 6 month period between date of death and the alternate date of valuation (August 8), rent control had passed and a pro-tenant ballot initiative was on the November 6, 2016 ballot.

If this ballot initiative passed, my city would have one of the strictest rent control laws in the country. The market for apartments stopped in July. There were no sales. If the ballot initiative passed, the market would completely tank. I provided 100-page narrative appraisal reports for the 6 month alternate values. The beneficiaries saved hundreds of thousands of dollars.

That same year in January, I had another estate assignment with 6 properties, but 5 were single family homes. The total, just for the real estate, was over \$5.49 million. Single family homes were exempt from rent control and had significantly increasing prices the entire year. I told the executor that using the alternate valuation date would result in a much higher value of the estate.

### **Bank trust departments**

In the past, banks handled many trusts. Appraisers sometimes had to work for lower fees, but they did regular reappraisals of the same properties.

Now, the bank share has dropped substantially, replaced by companies that specialize in trusts. There may be some opportunities however. Some people continue to use bank trust departments. Contact banks active in your area.

### **Use the IRS definition of Fair Market Value**

Always include this definition in your appraisal reports. It is similar to the Fannie definition.

"Fair Market Value is defined as: "The fair market value is the price at which the

property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts. The fair market value of a particular item of property includible in the decedent's gross estate is not to be determined by a forced sale price. Nor is the fair market value of an item of property to be determined by the sale price of the item in a market other than that in which such item is most commonly sold to the public, taking into account the location of the item wherever appropriate." Regulation §20.2031-1

### **IRS appraisal requirements**

IRS expects appraisers to use USPAP for guidelines.

*Erase lender requirements from your mind.* For example, using expired listings, sales that closed after the effective date of the appraisal, sales 6 months old, etc. are okay per USPAP. I have done this, and many more non-lender-guidelines in my non-lender appraisals.

A few links

#### 4.48.6 Real Property Valuation Guidelines

[www.irs.gov/irm/part4/irm\\_04-048-006](http://www.irs.gov/irm/part4/irm_04-048-006)

The IRS has a list of appraisers whose appraisals cannot be submitted to the IRS. See the reference below.

Regulations Governing Practice before the Internal Revenue Service  
Treasury Department Circular No. 230 (Rev. 6-2014)  
[www.irs.gov/pub/irs-pdf/pcir230.pdf](http://www.irs.gov/pub/irs-pdf/pcir230.pdf)

### **What about liability?**

There is probably much less liability for these types of appraisals than for lender appraisals because there are many fewer estate appraisals and no disgruntled borrowers I very seldom have anyone contact me about estate appraisals except when I get interior photos mixed up.

The next article in this newsletter is written by Peter Christensen on liability and includes sample statements.

### **Engagement letters**

I have engagement letters for all appraisals. But, sometimes I don't do them if there is just one home.

I have a master engagement letter that I modify for each assignment.

For estate/trust appraisals I include the statements recommended in Peter Christensen's article in this newsletter.

The Appraisal Institute has sample letters at:

[www.appraisalinstitute.org/professional-practice/professional-practice-documents/sample-agreements-for-services/](http://www.appraisalinstitute.org/professional-practice/professional-practice-documents/sample-agreements-for-services/)

Or, google engagement letter and Appraisal Institute.

### **Accountant market**

Accountants filing estate tax returns want to be sure there are no problems. They will often try to get the taxpayer to get an appraisal from a qualified appraiser if they think the estate will be over the current exemption.

Many accountants are aware of the stepped-up capital gains basis issues and will try to get a current value even if no estate tax return is filed. You need to persuade them that an appraisal is more credible to the IRS than a letter from a real estate agent or the owner's opinion of value.

Higher net worth people are more likely to need appraisals for tax planning and filing. Larger CPA firms with high income individuals are a possibility. Ask your accountant who handles that type of client. Enrolled agents (specialize in tax work) are another possibility.

You could try a mailing before tax lien dates. Or, advertise in a local accountant newsletter or state publication. Networking with local CPAs can also work.

### **Non-profit market - gifting**

Organizations that administer gift trusts, such as hospitals, colleges, and other non-profit groups, need appraisals. Contact them directly. Many advertise in local newspapers or magazines.

### **Attorneys**

Attorneys are the source of most estate and trust appraisal assignments, if only because they tell the executor to get an appraisal. For smaller estates you may be contacted by the executor instead of the attorney.

Marketing to attorneys is primarily by referrals, but you can also send brochures and letters to attorneys who specialize in this work. Get a copy of your local Bar Association's directory to see who specializes in estate, trusts, and probate.

Contact any attorneys you know and tell them you're interested in doing appraisals for estates and trusts. Ask them which attorneys specialize in that market.

Join a local chapter or group of attorneys specializing in this type of work. You will get more work if you are active.

Once you get work from an attorney, you can form a relationship for future

work and referrals.

### **Internet advertising**

About half my business comes from my web site, which I set up in 1998. My "tag line", on every page of my web site, is " Looking for a local appraiser for Estate and Trust appraisals in Alameda, California? Go to About Us!"

I come up at the top of the search due to my free Google business listing.

### **Referral sources**

Referrals for estate, trust, and gift appraisals can come from just about anywhere. Many of my referrals come from real estate agents as have been going on open house tours almost ever week since 1990. They all know me. Some come from local accountants, a neighbor, Chamber of Commerce members, etc.

### **Should you do this type of work?**

Many appraisers hate working for AMCs, which have ruined residential lender appraising.

It is not very different from other non-lender work. Mostly you have to forget about lender requirements and only use USPAP. Sometimes there are special requirements, such as using the IRS fair value definition.

Estate/trust work does not require expert testimony which many appraisers don't want to do.

I don't really know why so few appraisers work for estates and trusts. There is seldom much turnaround pressure, few or no payment problems, and good fees. Any value pressures, if any, are typically much less than for lenders.

If you are serious about doing this type of work, you **MUST** make a commitment to accepting estate/trust appraisals first, before lender work

Much of the business is by referral, so you need to get your name well known in the legal, accounting, and real estate communities.

### **Where to get more information**

I have been writing about doing non-lender appraisals since I started my newsletter in 1992. My Marketing for Appraisers Book has basic marketing tips for non-lender work. It is available on the paid subscriber page. It was written in 2008, so it does not have much info on AMCs, but lots of info on marketing that applies to all types of clients, including attorneys and real estate agents.

Sometimes I see workshops on estate/trust appraisals, but they are very similar to other simple non-lending assignments such as advising an owner on a sales price when selling to a tenant.

In this brief article I can only touch on some of the most important points in estate taxation. Being knowledgeable about estate, trust, and tax issues makes your appraisal services more marketable and convincing.

The estate tax laws and issues are complicated and keep changing. Classes and seminars are available in many communities. Check at your local adult school or college. Many books have been written for laypersons on estate planning, probate, and trusts.

Check at your local library or book store. Books published by Nolo Press are well written.

---

## **Estate/trust appraisal liability advice from Peter Christensen**

The IRS does not like low appraisals, and the thing about appraisals for estate tax purposes is that such appraisals are only relevant when the estate has substantial assets above the estate tax threshold. Those tax returns are frequently audited and we have, in fact, seen penalties levied against appraisers by the IRS itself.

And, when the IRS is imposing penalties against the estate (plus unpaid tax, interest, etc.), what we also sometimes then see is a claim by the taxpayer against the appraiser blaming the problem on the appraiser (even though the taxpayer probably wanted a "low" appraisal at the outset to decrease tax).

Of course, estate appraisals are not only for tax purposes.

### **Here are some general pointers:**

1. Never use a lending form (such as a 1004) for estate work. Yes, appraisers do this. While most of the time appraisers get away with it (unless it's an appraisal that goes to the IRS), it sometimes wreaks havoc for appraisers in discipline and claims.
2. Get the relevant date of value from the client or client's attorney. The date of value can be a legal issue and the appraiser should not be the one accepting responsibility for whether the date of value is correct for whatever the use is (such as an estate tax return).
3. Keep the definition of intended users as narrow as possible. If an executor of an estate is hiring you, for example, just say the executor is your client and only intended user (add the IRS if it's relevant). Do not say the intended users are all the beneficiaries of an estate or trust. Doing so potentially expands your liability to all those parties.
4. Keep your definition of intended use as narrow as possible to describe how your appraisal will be used by your client. For example, you don't want your

appraisal for the executor being used by a beneficiary down the road to sell the property to someone. So, don't say something open ended like: "the intended use is to provide a fair market value of the property." Say, instead, "the intended use of this appraisal is for the executor's use in administering the estate of . . . The appraisal should not be used for any other purpose."

5. *For non-lending work like estate work, you can use a good, protective engagement agreement. Be sure to get it signed. An unsigned agreement is basically worthless. In the agreement consider including limitations of liability and time limitations on claims.*

*For example:*

**Limitations of Liability** To the fullest extent permitted by applicable law, the maximum monetary liability of Appraiser for any and all claims or causes of action by another party relating to the appraisal or Appraiser's services under this Agreement shall be limited to the total compensation received by Appraiser for the appraisal or other services that are the subject of the claim(s) or cause(s) of action. This limitation of liability extends to all types of claims and causes of action, whether in contract or tort, including without limitation claims/causes of action based on the Appraiser's negligence or negligent misrepresentation, but excludes claims/causes of action for intentionally fraudulent or criminal conduct, intentionally caused injury, or unauthorized use or publication of the appraisal.

**Maximum Time Period for Legal Actions.** Unless the time period is shorter under applicable law, any legal action or claim relating to the appraisal or Appraisal Services Agreement shall be filed in court (or in the applicable arbitration tribunal, if the parties to the dispute have executed an arbitration agreement) within two (2) years from the date of delivery to Client of the appraisal report to which the claims or causes of action relate or, in the case of acts or conduct after delivery of the report, two (2) years from the date of the alleged acts or conduct. The time period stated in this section shall not be extended by any delay in the discovery or accrual of the underlying claims, causes of action or damages. The time period stated in this section shall apply to all non-criminal claims or causes of action of any type.

6. *If the appraisal is for tax purposes, consider something like the following in the engagement agreement, not in the report. This is an abbreviated example:* Use of Appraisal(s) for Tax Purposes. In the event that Client utilizes or submits Appraiser's appraisal(s) in connection with a tax matter (with or without Appraiser's consent), . . . Client understands and acknowledges that the taxing authority (whether it is the Internal Revenue Service or any state or local tax authority) may disagree with or reject the appraisal(s) or otherwise disagree with Client's tax position, and further understands and acknowledges that the taxing authority may

seek to collect from Client additional taxes, interest, penalties or fees. Client agrees that Appraiser and its Personnel shall have no responsibility or liability to Client or any other party for any such taxes, interest, penalties or fees . . .

**Peter Christensen, General Counsel**  
**LIA Administrators & Insurance Services P: (800) 334-0652**  
**Website: [www.liability.com](http://www.liability.com)**

---

## **Fannie and Freddie, The Ill-Conceived Siblings It's All About The Money!**

**By Barry Bates**

*Editor's Note:* I have known Barry for over 30 years and am very grateful that he is writing for my newsletter even though he has advanced prostate cancer. He has a unique "insider" view of mortgage lending. Many talk about "courage" and "fighting" cancer, but Barry just keeps doing it. Hopefully, he will be able to write for a long time, but every month I hope he can write one more article. Last month and this month's articles were shorter as he was very ill.

I'll say it: the GSEs are abominations unto the Lord. "Neither a borrower nor a lender be." Until today, I thought that was in the Christian Bible. Unh-uh. Polonius to Laertes, Act I, Scene III, Lines 79-87, Hamlet, William Shakespeare, "...For loan oft loses both itself and friend, / And borrowing dulls the edge of husbandry.>").

The first thing that your friend or relative thinks of with your money in his/her/its pocket is, "how can I not pay this back?", along the same lines as "Tax evasion is a crime; tax avoidance is a duty." The second thought of your borrower is, "I wonder where I can get a Margarita around here?") His or her husbandry has already been dulled.

The cautionary aphorism should have been in the Bible, though. Christians might remember to think twice before taking down that zero-interest, 50-year second mortgage with the "loan fee" [balloon payment] payable at the end of term ( including the total interest due). This guarantees that the lender will get the property.

### **My experience at a subprime lender in Reno before 2008**

I remember my office in Reno being near the outpost of one of the nationwide originators that specialized in subprime. Truly, their loan officers were

no smarter than marsupials.

One day I encountered a bunch at my breakfast diner. I stopped to chat

*A **Joint Venture** is a business arrangement between a person or entity with capital and a person or entity with expertise. Within one year, they will have changed places.*

パートナーシップは、「同じベッド、異なる夢」と定義することができます。

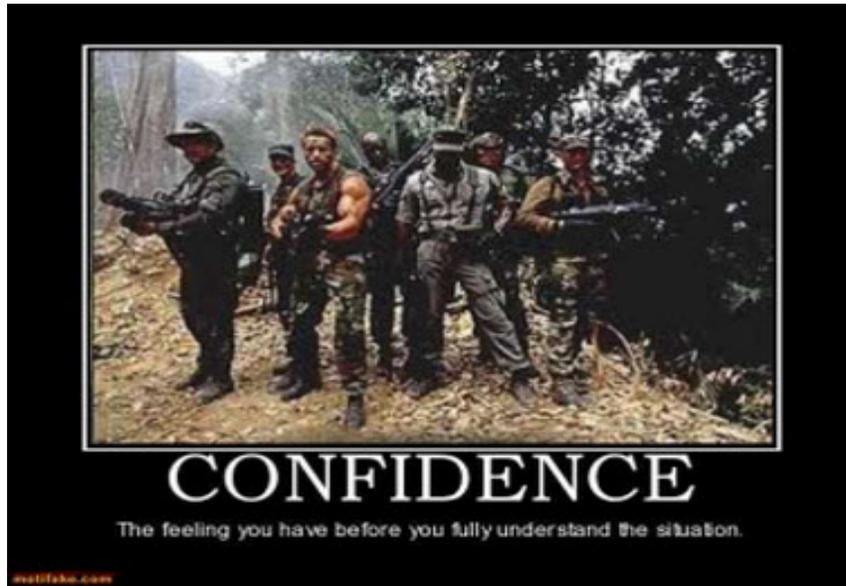
**A partnership is defined as "same bed, different dreams."**

and soak up the excitement. They had just found a ripe new market: room attendants from all the big hotels in Reno. Thousands of them.

They would put them in low-payment, interest-only payment loans that would pop to full amortization in five years. The five years came, no way could they make the payments. Room attendants were moving out of \$350,000 homes in droves (2008). That's predation, pure and simple, and will surface whenever the economics are right.

Of course, as an optimist, I'm confident that the markets have learned the lesson of 2008. Right?

Many of the loans were structured to comply with Fannie/Freddie purchase requirements. But, there weren't that many on the GSE books on the precipice of the last bubble collapse.



*Caption: The feeling you have before you fully understand the situation.*

### **Today's revolving door between GSEs and lenders**

I am a certified goofball when it comes to economics, but my intuition has been that the charters of F&F have contributed to a market mindset that collaboration - dare I say collusion? -between government and business contains natural checks and balances (as well as artificial ones) to prevent bankruptcy or receivership.

I can't understand why today's revolving door between lenders and GSEs has NOT contributed to a situation in which both primary entities are out of control.

In researching this article, I came across a paper that explains the economic pitfalls facing Fannie and Freddie: *Serving Two Masters, Yet Out of Control: Fannie Mae and Freddie Mac*. This was written by a coalition of economics professors working under the auspices of the American Enterprise Institute, which I've always assumed to be a conservative thinktank.

Because I was at Berkeley in '72, after wiretapping the Russians from Berlin as an Army linguist, I somehow ended up politically about three cubits to the left of Friedrich Engels.

I felt like an industrialist who was appalled at the poverty of his own workers. Normally, I would dismiss out of hand anything with a conservative or even Republican odor. But these guys have been cosigning my BS without knowing it. They see privatization as the only way to close the revolving door.

*After analyzing Congressional Budget Office and Fannie's and Freddie's*

*own published data, the paper observes that "These findings suggest that Fannie Mae has consistently earned profits on its mortgage-credit guarantee business that are greater than those expected in a competitive market. In a competitive market, the after-tax ROE on book-value equity reported by the GSE would be quite close to the rate of return that investors require on the enterprise's stock. As noted previous research has estimated that the rate of return [stands] at about 17 percent".*

"While not definitive, these findings are consistent with the hypothesis that **Fannie Mae and Freddie Mac are tacitly colluding in the market for securitizing conforming FRMs** [fixed-rate mortgages, emphasis mine]. They are also consistent with the decline in the average GSE guarantee fees in recent years. The existence of tacit collusion is consistent with the enterprises' competing enough so that lenders and mortgage borrowers reap some, but not all, of the savings achieved through loss-mitigation techniques."

At my elemental level, I entered the mortgage business in 1972 with the impression that a "quasi-government agency" **partnered with borrowers and investors** was an actionable conflict of interest, if not an invitation to steal.

### **The GSEs should be private companies or government agencies - not both**

I was focused on the conflict of ethical aims, not the collusion. As noted, I'm too dumb to put a final opinion on it, but the sooner the GSEs become one or the other-private companies or government agencies-the better.

Sallie Mae survived the separation rather well, but borrowers like me, still paying off an old stab at an online law degree, were attracted to Sallie Mae because of the same non-existent protection that Freddie and Fannie enjoy: the impression that the government was an "implicit guarantor" of my loan.

### **GSE's - no implicit guarantee**

Yet another anomaly: the markets rely on that implicit guarantee that doesn't exist. GSE securities prospectuses for subprime tranches carry the statement that "Neither the certificates nor interest on the certificates are guaranteed by the United States, and they do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae."

On the practical side, of course, Uncle Sam stepped up to a guarantee of sorts when he bailed out Freddie and Fannie, then put them into conservatorship.

Though it seems by the ROE the GSEs achieve that investors believe in the implicit guarantee, the GSEs can walk from that position at any time.

## **Securitization Sins**

For me, the cardinal sins of securitization started to show up in that period where I was employed to estimate property values in entire pools of loans. I had been in that business since early 2006.

By late 2007, I, and many of my appraiser friends, were scratching our heads. Why were investors buying these loans with overvalued collateral?

The answer was that investors were not privy to the properly vetted values. It was January, February, March of 2008 that I understood. It was the bond rating agencies (Moody's, Fitch, S&P, etc.) that had overrated the securities.

Once the mortgages are converted to securities (stacked up in levels of risk inside larger collateralized debt obligations or CDOs), they can be sold to investors. They often heavily rely on the rating, which could be anything from AAA to BBB.

In February and March of 2008, subprime mortgage securities were often rated in the "A" category. One of the ways that the agencies could perpetuate this fiction was to fudge the quality of the property valuation supporting the loan.

## **Mortgage Meltdown: GSEs said values used in security ratings were accurate but...**

The agencies, in apparent collusion with the subprime lenders and bond houses, told investors that the values used in rating the securities were those that were estimated "in compliance with the Uniform Standards of Professional Appraisal Practice." That was technically true, but NEI. Not Enough Information.

So, think about it. I would join fellow appraisers/analysts to provide appraisals for buying mortgages on behalf of an aggregator like Countrywide Securities. They would then package the purchased loans with their own loans and securitize via Wall Street. I was brutally honest about the appraisals I was charged to evaluate.

It was one venue in which the client wanted an accurate valuation. The portfolio might contain anywhere from 300 to 1000 loans. Before we arrived at the "tie-out" (a face-to-face negotiation session where we would eject loans that we didn't want our client to buy, usually held on the seller's turf), we brought reams of research and spreadsheets that compared our own opinions with the appraisals used on loan origination, which the seller had shipped to us weeks before.

Rejects typically ran from 3% to 7% of the pool or portfolio (we tried to be nice; by late 2007, the demand for "mortgage backs" was so strong that some sellers would insist that the buyer/aggregator reject no more than 5% of the pool, otherwise it would be sold to somebody else).

It took hours and sometimes days to argue through the entire spreadsheet,

because tempers would flare when we would claim gross inflation.

Across the room from us sat the appraisers employed by the seller, who would sometimes heatedly argue that the values were accurate. Their jobs were on the line. In fact, subprime appraisals were often grossly inflated, usually by pressure applied to corrupt fee appraisers by loan officers or brokers.

For the rating agency to use and show to investors only the values from the origination appraisal, performed by a licensed appraiser under USPAP, but ignoring tie-out results or the price paid for the loan in the aggregation process was, in my opinion, mortgage fraud. When the whole market blew up, the agencies could claim that they relied on the most credible estimates, but no one in the entire process was that naïve.

The agencies had their own internal auditors who clearly knew that the origination appraisals were "pushed", yet that piece of information never got to investors. Investors could see the value conclusions on each property without seeing that they were the inflated figures. I suppose we should be grateful that the government ploughed in a trillion dollars to save those banks and mortgage companies that were "too big to fail".

### **My failed lawsuit against MERS and other appraisers that won big**

Had the "too big to fail" mantra failed in my case, I would be dining on beluga caviar.

If you google barrett r bates, the first item in the immediate results of the query relate to documents I filed in 12 states in which I sued the Mortgage Entry Registration System (MERS) on behalf of states and counties wherein, despite explicit statutes, MERS effected the transfer of mortgages without paying recording fees required by statute.

If I couldn't bring the parties responsible for the crash to bear, I thought I might at least call out MERS' practices and pick up a few million bucks for being a whistleblower.

Those qui tam filings are permitted under the federal False Claim Act to protect government from frauds against government-insured banks and any other city, county, state or federal entity.

These cases are extremely complex, can run for years and end, as did mine, in failure. Judges in 12 states essentially found MERS too big to fail.

In some cases, I felt that judges' decisions were specious. Once my lawyer, Robert Hager, and I threw in the towel, hundreds of counties moved in to file similar suits. They failed also.

George Mann, chief appraiser for Fifth Third Bank in the early 2000s, with the help of a "professional whistleblower", fared better when he and his

co-complainant were paid over \$6.35M for calling out multiple appraisals that grossly inflated values.

Robert Madsen, the appraiser who rode with Countrywide during its absorption by Bank of America, went home with \$56M. I went after the wrong organization. Well, duh.

### **GSEs and millennials**

At the same time, we all should have to admit that the GSEs have made the mortgage markets far more liquid, which in turn has realized the "American Dream" for millions of homeowners.

Having observed the profligacy of their forebears, however, Millennials regard this "dream" with a jaundiced eye. They consider that renting contributes to heightened mobility and market-driven pricing.

As a Boomer living in a 1930 rowhouse in Pittsburgh financed by a 100% VA mortgage, I might be consigning my poor widow to home ownership more akin to boat ownership, i.e., "a hole in the water into which you pour money."

Instead, we're now looking for a HUD 202 rental (senior rental assistance) in Etna. We figure that the national exemplar of narcissistic personality disorder (according to symptoms identified by the Mayo Clinic. Google: symptoms npd mayo) is next going to attack the mortgage interest exemption. We may miss out on a local "Google effect", but better safe than sorry.

### **Greed and monkeys**

Nobody seems to want to use the word, but the core problem in finance is greed.

In the rainforest world, there's a foolproof way to capture monkeys (for zoos, but also, unfortunately, to eat). You tie a cocoonut to a tree, hollow it out, then put it back together after putting rice inside.

Then you drill a small hole in one end and a bigger hole in the other. Tying a rope to the small hole, you tie it to the base of a tree and wait. A monkey of a size represented by the width of its hand will eventually come by, smell the rice and put his hand in the big hold to get it.

When his fist is full of rice, he finds that he can't pull his hand out of the cocoonut. Rather than lose the rice, he will wait to be captured by the men checking the traps.

It's a great teacher about greed: eventually, money captures its hunters. But when? In 2008, it captured the homes of millions of people worldwide.

## **My final comments**

My shrink advises me that it's high time I realized that there is neither fairness nor justice in the world. I think of it as my handful of rice. They might have to pry it from my dead, cold hands.

That's a joke, of course. I'm no less corruptible than anyone else. I used to tell mortgage brokers, "Look, I could be more than willing to participate in mortgage fraud. But not for a lousy four hundred bucks!"

## **About the author**

Barry Bates entered the appraisal profession in 1972, after four years in the US Army, and another four at the University of California, Berkeley, where he majored in English Literature and minored in Slavic Languages and Criminology. He had many appraisal-related lender jobs after that, including Countrywide and Morgan Stanley Mortgage Capital in Boca Raton, Florida. In 2006, Bates founded InsideValuation, a provider of commercial broker price opinions and IAG evaluations, which was sold to Lighthouse Real Estate Solutions.

At 71, Barry has had wide-ranging experience and a technological perspective in a fast-paced career that serves as a testament to the fact that he has never been able to hold down a steady job.

He is now "retired" and lives in Pittsburgh, Pennsylvania with his wife, Kathleen and their two dogs. He writes for real estate publications and, in his own words, tries to get into more trouble. In 2008, he filed whistleblower suits against MERS (on behalf of county recorders) in 12 states, all of which failed miserably.

Barry Bates wants to hear from you! Send your comments and criticisms by email. He can be reached at [barrettbates@gmail.com](mailto:barrettbates@gmail.com).

---

---

## **2017 year-end tax planning for appraisers What you can do now to save on your 2017 taxes!!**

*Editor's Note:* I write this article every year, in November or December. There are not many changes since December 2017, but it is good as a reminder of what you can do now to save taxes next year.

Be sure to check the details in this article and/or discuss the issues with your tax advisor.

The goal is to reduce taxes by deferring (or occasionally, accelerating) income to a year in which you are (or may be) in a lower tax bracket, take advantage of tax credits and deductible expenses, and when legally allowable, earn income tax-free

(such as retirement accounts).

There is lots of complicated advice available on reducing taxes, but most does not apply to appraisal businesses. Travel and entertainment for marketing purposes is one example.

Your greatest savings in taxes is usually by using a SEP-IRA or Solo 401-k retirement account. A SEP-IRA allows up to \$54,000 in income or 25% of income whichever is less (generally - check with tax advisor). Limits for a Solo 401k is \$18,000 or \$24,000 if over 50. Taxes will be paid when you withdraw the money. No penalties are due for withdrawals after age 59 ½. I saved \$4,000 on my taxes last year.

Expense deductions are good, but you have to spend money to get them.

There are other options, such as Roth IRA. You can also save taxes by setting up an S-Corp (pay yourself a salary). They are more complicated to set up and I don't include them in this "last minute" tax tips article.

I also assume you are using a tax professional who will be sure you take deductions such as between 50% - 57% of your self employment (combined Social Security and Medicare) contribution, depending on your income.

### **Ways to defer income**

If you are self-employed and on the cash basis of accounting, bill your clients near year end if you can. They will probably pay you next year.

If you work for AMCs that require a fast turnaround and send your invoice with the appraisal and pay quickly, this may not be an option.

Of course, although you have deferred taxable income, you have also deferred receiving taxable cash until 2018, so your income will be higher in 2018.

### **How to increase deductible expenses by timing payments**

Pay as many bills as you can by the end of the year, such as property taxes, software maintenance agreements, etc.

Purchase equipment and vehicles by the end of the year. For 2017 the limit is permanent at the \$510,000 level deduction for new and used equipment, as well as off-the-shelf software. The equipment must be financed/purchased and put into service by the end of the day, 12/31/2018. ("Section 179")

Consider making charitable donations before the end of the year. Credit card payments for business or charitable donations made by December 31 are deductible.

Don't forget that your Appraisal Today renewal and other subscriptions are tax deductible.

### **Take advantage of all business deductions**

Review your records and cancelled checks carefully to take advantage of all business deductions. Be sure your deductions are adequately supported by written records that indicate time, amount and business purpose.

Be sure to check business expenses using a personal checkbook or credit cards. For example, sometimes a vendor will not accept my business Amex credit card, so I have to use my personal card. Also, I sometimes use a personal credit card for paying expenses on my rental property.

Every year I go through my personal checking account and credit cards to be sure I don't miss a deduction.

I hate cash purchases as I don't keep track of them very well and sometimes forget to throw the receipt into a special "petty cash" box.

### **More ideas for reducing 2017 personal taxes**

If your personal itemized deductions are close to the standard deduction, consider "bunching" your expenses every other year.

Pay your fourth quarter state estimated tax payment in December instead of January every other year.

Pay your January mortgage payment on December 31 every other year. Just be sure the bank reflects this extra payment in the annual mortgage interest paid form so that your deduction matches the information the bank sends the IRS.

Pay your property taxes early.

### **Charitable contributions**

Clean out your closets every other year and contribute your unwanted items to a charity for a deduction. Be sure to get a receipt for all donations and contributions, regardless of the amount. Photos can also work well for verifying your donations.

You can contribute by using a credit card by 12/31/17. Then pay it off when you receive your credit card statement.

### **Medical expenses**

Medical expenses are deductible only to the extent they exceed 10% of Adjusted Gross Income (AGI). If you are 65 or older, the threshold remains at 7.5%. For the self-employed, 100% of health insurance premiums are deductible to reduce AGI rather than as an itemized deduction.

## **Keep receipts for all deductions**

If you are audited by the IRS, they expect to see receipts for all expenses. I did not do this. In my recent IRS audit, I had to spend a lot of time getting receipts for 2015.

## **Keep an accurate mileage log**

Business mileage is targeted by the IRS

I was not able to obtain any statistics, but I am sure that many small businesses, including appraisers, do not have accurate business mileage records.

Like many appraisers, I used to drive a lot of miles and just used 90% of my mileage for business, without keeping an accurate mileage log. This is a big mistake.

In last month's newsletter, I wrote about my recent IRS audit. I failed the auto expense deduction as I did not keep a mileage log and significantly over estimated my business miles.

I made a mileage log using google maps for all my appraisals. It was a big hassle. If you don't want to do this, do the best you can for mileage estimates. If necessary, you can estimate it by using your calendar for days of appraisals, medical appointments, and charitable activities.

You will need accurate beginning and ending odometer readings. The best method is to use auto repair receipts where the odometer reading is listed. You can pro-rate the monthly mileage.

I am now using a smartphone app to keep accurate mileage records.

## **Mileage deduction**

Beginning on Jan. 1, 2017, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) is:

- 53.5 cents per mile for business miles driven, down from 54 cents in 2015.
- 17 cents per mile driven for medical or moving purposes, down from 19 cents in 2015
- 14 cents per mile driven in service of charitable organizations - no change from 2016

## **Education expenses**

For appraisers, CE costs are another deduction, including travel expenses. Be sure to keep complete records, including receipts, especially if going to a conference or other CE where you are staying overnight.

Don't forget meals. If you don't keep good record of your meals you can use a standard deduction. If you are driving, be sure to record it in your mileage log.

## **SEP-IRA and Solo 401k contributions are not taxable until withdrawn and can save big money on taxes**

For 2017, if you are making money, consider contributing to a SEP-IRA or Solo 401k. When I have a very profitable year, I put the maximum allowed into my SEP-IRA. Since I am over the age of 59½ I can withdraw money at any time without paying a penalty.

If you are younger, at least you are putting something into your retirement account that saves your taxes.

Like most appraisers, my income can vary quite a bit from year to year.

This is a way for me to put aside money in the high years and withdraw it in the low years without penalty, if you are 59½ years or older.

For the 2017 tax year, the contribution limit is \$54,000 for SEP-IRAs, or twenty-five percent of the employee's salary or self-employed net income, whichever is the smaller.

These limits are subject to future cost-of-living adjustments as the years go by.

For 2017 taxes, SEP-IRA contributions must be made by April 15, 2018 and can be made as late as October 15, 2018, if you request an extension of time to file your income tax return. You can pay your taxes on April 15 and wait until October 15 to file your return, so you don't accrue much, if any, in penalties and interest. Or, wait until then to pay a few thousand dollars in remaining tax due.

Solo 401k contributions are more limited: \$18,000 per year and \$24,000 if over 50 years of age.

## **How to set up a SEP-IRA**

They must be set up by April 15, 2018 or October 15, 2018 if you get an extension.

It is very easy to set up by using a company such as Vanguard. Just call on the phone. I use Vanguard because their cost is low and they are very easy to work with, but you can use any investment service you want.

## **Set up a Solo 401k plan by December 31, 2017**

These plans must be established by December 31st in order to be effective for a given tax year. The one-participant 401(k) plan isn't a new type of 401(k) plan. It's a traditional 401(k) plan covering a business owner with no employees, or that person and his or her spouse. These plans have the same rules and requirements as any other 401(k) plan.

Contribution limits in a one-participant 401(k) plan:

The business owner wears two hats in a 401(k) plan: employee and employer. Contributions can be made to the plan in both capacities. The owner can contribute both:

FYI, these plans are more complicated to set up than a SEP IRA.

### **SEP IRA vs. Solo 401k**

I started my SEP-IRA many years ago, when I did not have employees any longer.

For a good discussion on the pluses and minuses for self employed persons with no employees to go [www.sepira.com/sep-ira-vs-individual-401k.html](http://www.sepira.com/sep-ira-vs-individual-401k.html).

### **What if you have employees?**

You will need to look at other types of plans. I had one in the past. They require employee contributions.

### **Who should do your taxes?**

I strongly recommend using an enrolled agent or a CPA. Why? They are tax experts and, also very important, they can represent you if you have an IRS audit. They can calculate such items as Alternative Minimum Tax, depreciation, and advise you on deductions.

I always fill out a form that I am sent by my tax provider. Don't show up with a box of receipts unless you want to pay a very big fee. If you don't use Quicken or Quickbooks, make a commitment to do it ASAP. Don't wait until just before April 15 to start using the software.

Once, I represented myself at an IRS tax hearing about my husband's commercial fishing business. It did not go well as I had no experience or training in what to do at the hearing.

### **Keep business and personal expenses separate**

I am always surprised when I get a check for a newsletter subscription from an appraiser that is written from a personal account, not a separate business account. Big Mistake.

Of course, you should have separate business checking and credit cards. If you don't, do it now and try to get your 2017 personal vs. business expenses straightened out ASAP.

Most of us occasionally pay business expenses in cash or with personal credit cards or checks. Be sure to check your records or box of receipts. I try to do as few cash payments as possible as they are a hassle to keep track of.

The IRS scrutinizes personal expenses that may have been claimed as a business expense, such as the use of a business vehicle for personal use. Be diligent about keeping good records.

### **What am I doing?**

I expect my taxable income to go down next year and want to spend as much as I can this year.

Going through my personal checks and credit cards. Sometimes I have to use a personal credit card if they do not accept my American Express card.

Making charitable donations.

Getting some repairs done on my rental property.

Buying whatever business supplies and equipment I need by year end.

Paying early my business insurance, property taxes, and Quarter 1 2017 tax payments estimated. I may need by year end, including Holiday cards and gifts.

Figuring how much to put into my SEP-IRA retirement account, tax free.

I should have started earlier!!

### **Where to get more information**

Google "year end tax tips self employed". Most of the tips for appraisers are in this article. But, sometimes it is a good idea to read how someone else explains it. And, there may be tips not covered in this article applicable to your personal tax situation.

### **My disclaimer**

I am not an attorney, CPA, or enrolled agent and have never played any of them on TV. Be sure to check with your tax advisor.

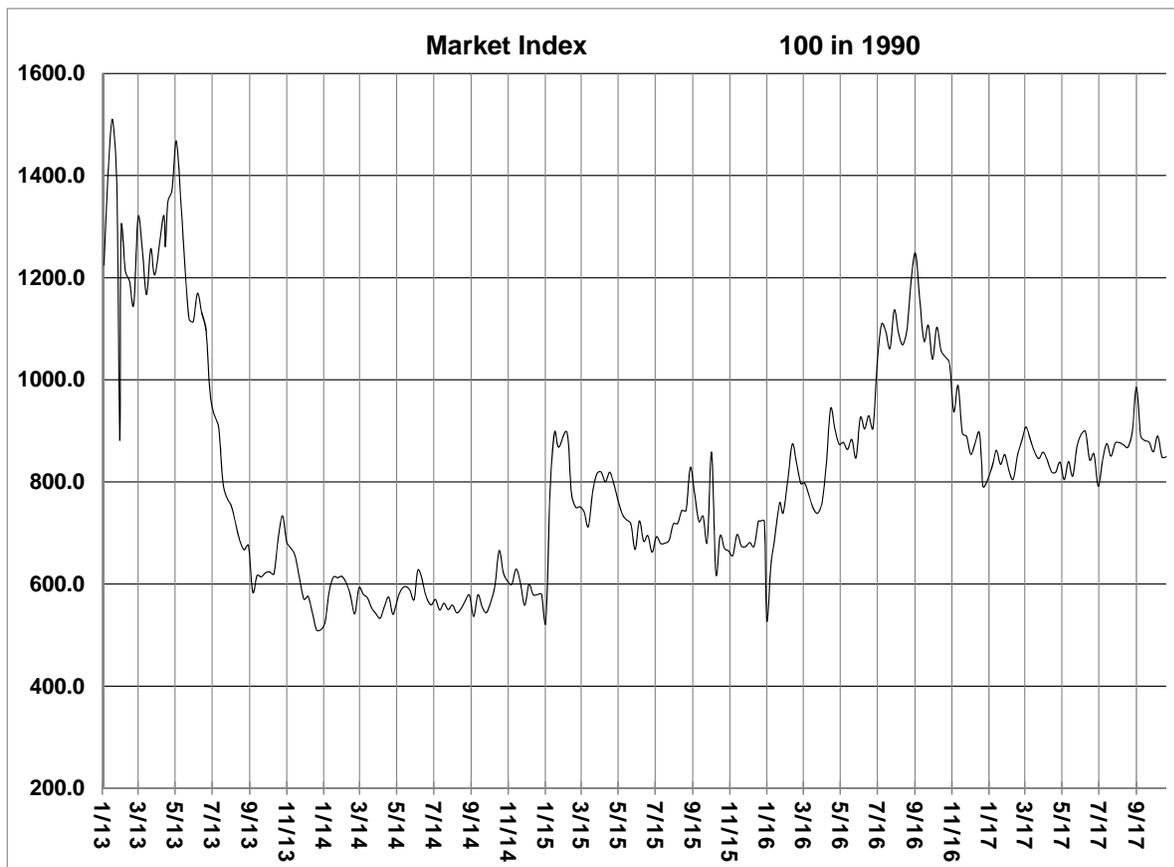
Also, after 10/29/17, when I finished this article, there may be changes in the tax code affecting tax rates and what is deductible. No one knows what will happen, of course. But, there may be changes later.

Be sure to check the date when the changes are effective.

=====

## MBA Loan Volume Application Index 1/13 to 9/17

As you can see below, between 2013 and today, volume peaked in early 2013, declined, then peaked again in 8/16. For many appraisers, volume started dropping in early 2017. This is a good demonstration of the ups and downs of mortgage lending.



The survey covers approximately 75 percent of all U.S. retail residential mortgage applications, and has been conducted weekly since 1990. Respondents include mortgage bankers, commercial banks and thrifts. Base period and value for all indexes is March 16, 1990=100.

Appraisal Today

ISSN 1066-3900

Appraisal Today is published 12 times per year by  
Real Estate Communication Resources.

Subscription rate: \$99 per year, \$169 - 2 years

Publisher

Ann O'Rourke, MAI, SRA

[ann@appraisaltoday.com](mailto:ann@appraisaltoday.com)

Subscriber Services

Theresa Lua

M, T, W 7AM to noon

Friday 7AM to 9 AM (Pacific time)

[info@appraisaltoday.com](mailto:info@appraisaltoday.com) (24 x 7)

Editorial and Subscription Offices

2033 Clement Ave., Suite 105

Alameda, CA 94501

Phone: 1-800-839-0227

Fax: 1-800-839-0014

Email: [info@appraisaltoday.com](mailto:info@appraisaltoday.com)

[www.appraisaltoday.com](http://www.appraisaltoday.com)

Appraisal Today is sold with the understanding that the publisher, editors, and others associated with the publication are not engaged in rendering accounting, legal, or other professional services. It does not attempt to offer specific solutions to individual problems. Questions about specific issues should be referred to the appropriate professional for analysis.

©2017 by Real Estate Communication Resources. All rights reserved. The contents of this publication may not be reproduced either whole or in part without consent.