Salient Definitions:

USPAP – Uniform Standards of Professional Appraisal Practice. These rules must be followed in each appraisal assignment, no matter if it is for the IRS, Yellow Book or any other.

Yellow Book / UASFLA – Uniform Appraisal Standards for Federal Land Acquisitions. Usually the client will determine if "Yellow Book" rules should be followed. Because easements are not mandatory, the use of federal funding does not automatically require that Yellow Book is used. For example, the USDA/NRCS ALE Easements leave the option up to the client for determining if USPAP-only or Yellow Book appraisals are to be used. Wisconsin DNR appraisals and US Department of Defense appraisals will usually require Yellow Book, but many NRCS-ALE assignments will not. Yellow book appraisals must have the following:

- Larger Parcel Rule applied
- No opinion of exposure time that is linked to market value (called a Jurisdictional Exception) which is contrary to USPAP
- Yellow Book's definition of market value
- Appraiser must personally inspect comparable sales
- Use of government land sales must be extraordinarily verified (an arduous process)

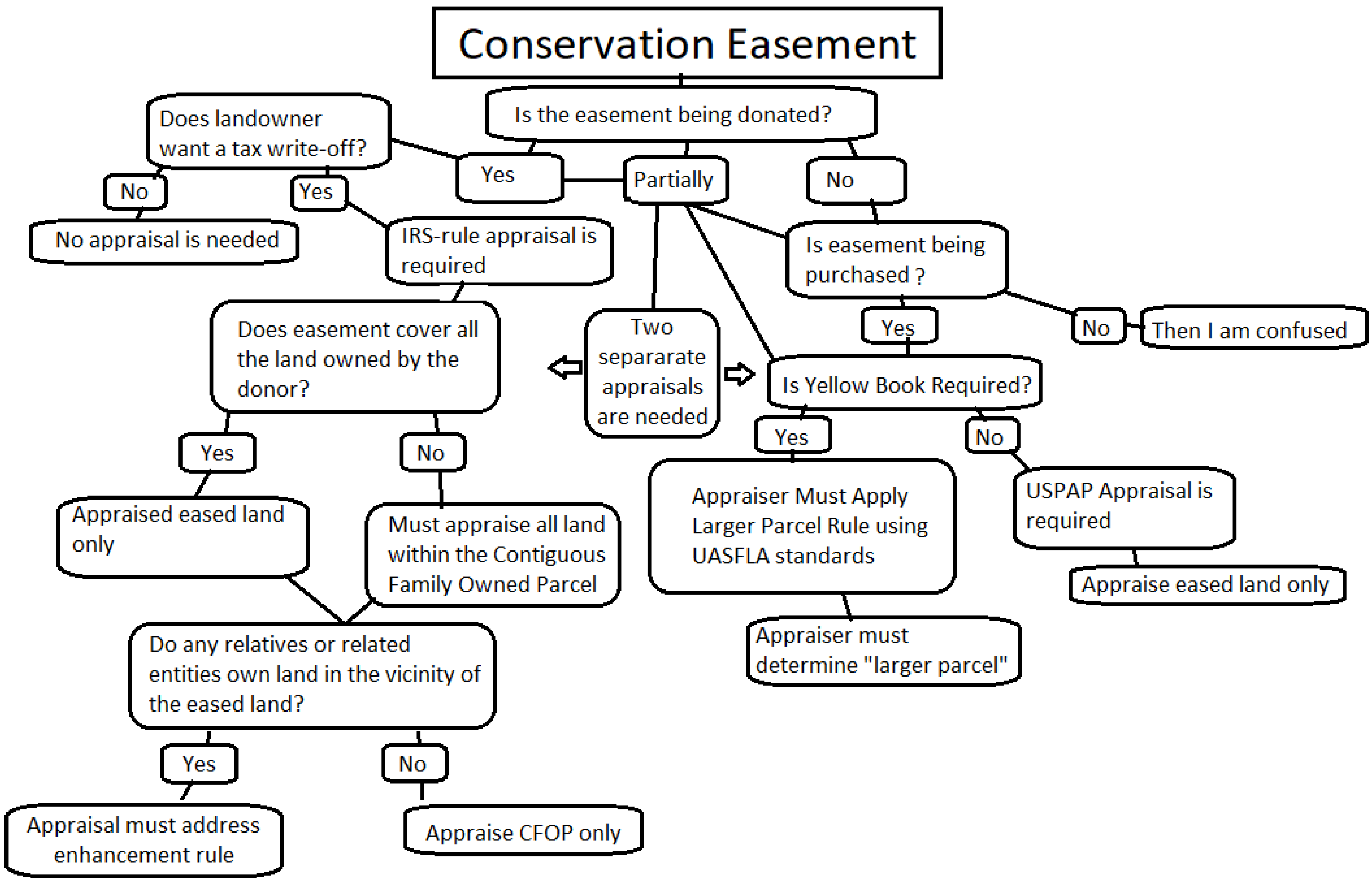
Larger Parcel is a rule that applies in Yellow Book/UASFLA appraisals. The Larger Parcel is defined as the tract or tracts of land that share uniformity of ownership, physical contiguity and highest & best use. In Yellow Book appraisals, the appraised property <u>must</u> be the "larger parcel" before and after the easement, regardless of what is being proposed for conservation easement.

CFOP – A term used for IRS appraisals. The CFOP stands for the Contiguous Family Owned Parcel. Imagine that Mr. Leopold owns 500 acres of land in a contiguous shape, and wants to place an easement on 250 acres within the -acre plot. According to the IRS's CFOP rule, the appraiser must value the 500 acres BEFORE and AFTER the easement. Therefore the scenario will look like this:

> BEFORE Easement – the appraisal shall value the 500 acres as if it does not have the conservation easement. AFTER Easement – the appraisal shall value the 500 acres as if it is encumbered with the conservation easement on 250 acres.

Enhancement – A term used for IRS appraisals. When the landowner (easement donor) owns land that is located outside of the CFOP (presumably nearby and within view of), the appraisal must address the potential enhancement of that land. The rule also applies to relatives, including siblings, lineal descendants and ancestors, and business entities of which the owner has a controlling interest. For example:

> Mr. Muir owns 1,000 acres on the south side of a small lake. Mr. Muir donates a conservation easement and wants a tax write off. Ms. Duren, who is Mr. Muir's sister owns 10 single family lots on the far north side of the lake. In this case, the appraisal must address the potential enhancement for the 10 lots that will have a protected view of the natural landscape. If the appraisal determines that each lot increases in value by $20,000, then Mr. Muir's tax deduction is reduced by $200,000. The math in the appraisal would look like this:
>
> Muir Land BEFORE Easement - $10 million
>
> Less: Muir Land AFTER Easement - $2.5 million
>
> Equals: Easement Value = $7.5 million
>
> Less: Enhancement pf $200,000
>
> Allowable Deduction = $7.3 million


Conservation Easement
Is the easement being donated?
Does landowner want a tax write-off?
Yes
Partially
No
No
Yes
No appraisal is needed
IRS-rule appraisal is required
Is easement being purchased ?
Yes
No
Then I am confused
Does easement cover all the land owned by the donor?
Two separarate appraisals are needed
Is Yellow Book Required?
Yes
No
Yes
No
Appraised eased land only
Must appraise all land within the Contiguous Family Owned Parcel
Appraiser Must Apply Larger Parcel Rule using UASFLA standards
USPAP Appraisal is required
Appraise eased land only
Appraiser must determine "larger parcel"
Do any relatives or related entities own land in the vicinity of the eased land?
Yes
No
Appraisal must address enhancement rule
Appraise CFOP only