Internal Revenue Manual Section 5.8.5.4.1 (09-30-2013)

Net Realizable Equity

1. For offer purposes, assets are valued at net realizable equity (NRE). Net realizable equity is defined as quick sale value (QSV) less amounts owed to secured lien holders with priority over the federal tax lien, if applicable, and applicable exemption amounts. See IRM 5.17.2 ,*Federal Tax Liens* for more information on lien priorities.

2. QSV is defined as an estimate of the price a seller could get for the asset in a situation where financial pressures motivate the owner to sell in a short period of time, usually 90 calendar days or less. Generally, QSV is an amount less than fair market value (FMV) . For purposes of determining the taxpayer's reasonable collection potential (RCP), information provided by the taxpayer and third party sources available to the OE/OS should be reviewed to arrive at an appropriate FMV of the property.

   If the OE/OS determines the FMV of an asset to be greater than the amount listed by the taxpayer, a discussion with the taxpayer/representative is required to determine if the taxpayer has any additional information to assist in correctly determining the FMV of the asset. If the OE/OS cannot reach agreement with the taxpayer on the appropriate value of an asset, a discussion with the manager should be held to determine if any additional resources are available to verify the correct valuation is being used in the calculation of RCP.

3. Normally, QSV is calculated at 80% of FMV. A higher or lower percentage may be applied in determining QSV when appropriate, depending on the type of asset and current market conditions. If, based on the current market and area economic conditions, it is believed that the property would quickly sell at full FMV, then it may be appropriate to consider QSV to be the same as FMV. This is occasionally found to be true in real estate markets where real estate is selling quickly at or above the listing price. As long as the value chosen represents a fair estimate of the price a seller could get for the asset in a situation where the asset must be sold quickly (usually 90 calendar days or less) then it would be appropriate to use a percentage other than 80%. Generally, it is the policy of the Service to apply QSV in valuing property for offer purposes.

4. When a particular asset has been sold (or a sale is pending) in order to fund the offer, no reduction for QSV should be made. Instead, verify the actual sale price, ensuring that the sale is an arms length transaction, and use that amount as the QSV. A reduction may be made for the costs of the sale and the expected current year tax consequence to arrive at the NRE of the asset. Consider reviewing a lender statement that estimates proposed closing costs.

5. When the value of an asset is other than the QSV, document the case history defining the decision and the basis for the value used.