

Abstract: For hard-to-value assets, such as closely held businesses, real estate and art, a professional appraisal may be necessary. This article explores situations that call for an appraisal, including retirement and estate planning, gift disclosures and charitable donations.

Appraisals aren't just for businesses anymore

Whether you're in the process of making a retirement or estate plan, or intend to donate property to charity, you'll need to know the value of your assets. For many hard-to-value items — such as closely held business interests, real estate, art or collectibles — an appraisal may be necessary.

Retirement and estate planning

To enjoy a comfortable retirement, you'll need to calculate the income that can support your lifestyle when you reach your desired retirement age. This means understanding the assets you have and appraising their value. Once you have this information, you may decide to move your retirement date up — or back.

Knowing the value of your assets is the only way to tell whether you're potentially subject to estate or gift taxes and to identify appropriate estate planning strategies for minimizing or eliminating those taxes. In addition, understanding the value of your assets enables you to distribute your wealth fairly. For example, suppose you wish to divide your overall property equally among your children, but with different items going to each. That's nearly impossible to do without appraisals of hard-to-value assets.

Appraisals may also be necessary to avoid running afoul of tax basis consistency rules. According to these rules, the income tax basis of inherited property equals the property's fair market value as finally determined for estate tax purposes. The rules are intended to prevent your heirs from arguing that your estate undervalued the property, thus entitling them to claim a higher basis for income tax purposes. Appraisals can help ensure that your heirs receive the basis they deserve.

Gifts and charitable giving

Generally, the IRS has an unlimited amount of time to challenge the value of gifts for gift and estate tax purposes, unless they're "adequately disclosed." If they're adequately disclosed, the IRS is bound by a three-year statute of limitations. The best way to disclose the value of a gift is to include a qualified professional appraisal with a timely filed gift tax return.

Charitable gifts of property valued at more than \$5,000 (other than publicly traded securities) must be substantiated with a qualified appraisal by a qualified appraiser. This means that the appraiser meets certain education and experience requirements.

Know what you have

Without appraisals of your hard-to-value assets, it's difficult to develop a realistic financial plan, treat your heirs fairly and avoid unwelcome tax liabilities. Asset values can fluctuate dramatically over time, so make sure you get updated appraisals periodically.

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