

# **Southern Arizona Estate Planning Council**

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## **PRESENTS**

### **“In Pursuit of Treasures” Valuation of Art and Collectibles**

**SPEAKER: Mark Prendergast**

**Heritage Auctions  
Dallas, TX**

**September 17, 2014**

**Arizona Inn  
Tucson, AZ**

**Valuing Collectibles and Art for Estate Tax, Insurance and Charitable Donation**  
By Mark Prendergast, Director of Trusts & Estates of Heritage Auctions

- I.
  - a. The Art and Collectibles Market
  - b. The Five Factors of Value - Provenance, Condition, Rarity, Quality and Fashion
  - c. Ivory concerns
- II. IRS Valuation process

**4.48.2 Valuation Assistance for Cases Involving Works of Art**

- 4.48.2.1 Art Appraisal Services Overview
- 4.48.2.2 Criteria for Requesting Art Valuation Assistance
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**4.48.2.1 (01-01-2006) Art Appraisal Services Overview**

1. The Office of Art Appraisal Services of Appraisal Services under the Chief Appeals (AP:ART) reviews fair market value claims on works of art and cultural property in cases under examination and manages the Commissioner's Art Advisory Panel.
2. When a tax return has been selected for audit which includes art or cultural property valued at \$20,000 or more, the IRS local office must refer the case to Art Appraisal Services.
3. Art Appraisal Services art appraisers provide valuation assistance on works of art and other collectibles in taxpayer cases not referred to the Panel. This includes art work valued at under \$20,000 (in special cases), as well as works in specialty areas outside the expertise of the Panelists, such as historical artifacts, ancient art, archival material and manuscripts, and other personal property.

**4.48.2.1.1 (02-20-2001)  
Art Advisory Panel**

1. The Commissioner maintains an Art Advisory Panel of nationally prominent art museum directors, curators, scholars, art dealers, auction representatives, and appraisers to systematically aid the Service in the review of Service-selected cases involving taxpayer valuations on art objects, principally American and European paintings and sculpture.
2. The Office of Art Appraisal Services (AP:ART) under the Chief Appeals provides the staff support and coordination of the Panels' functions.
3. The Panel members, after reviewing photographs or color transparencies, along with relevant documentation provided by the taxpayers and research

1. A completed Form 5202 (Request for Engineering Services) or memorandum. It is extremely important that the name, address and phone number of the requestor is provided. Please also include the valuation date on this form.
2. A complete description of the item of art, including:
  - A. Name of the artist or culture,
  - B. Title or subject matter,
  - C. Medium, (oil on canvas, or watercolor on paper, etc.),
  - D. Date created,
  - E. Size,
  - F. Any marks, signatures, or labels on the item,
  - G. History (provenance) of the item,
  - H. Exhibition record of the item,
  - I. Reference source citing the item, and
  - J. The physical condition of the item.
3. A professional quality photograph of a size and quality fully showing the item, preferably an 8 x 10 inch color photograph or a color transparency not smaller than 4 x 5 inches.
4. The facts on which the appraisal was based or specific basis for the valuation, such as: sales and analysis of similar works by the artist, particularly on or around the valuation date and the state of the art market at the time of valuation, particularly with respect to the specific property.
5. Any additional information that may affect the determination of the fair market value of the item of art.
6. The valuation date.
7. Cost, date and manner of acquisition.
8. Information on disposition (if the item has been sold) or present location on the object (if it becomes necessary to arrange an inspection).
9. Claimed FMV and a copy of the appraisal materials filed with the return.
10. Charitable contributions must meet the requirements for a qualified appraisal under IRC §1.170A-13(c)(3)(i)-(iii) and must also include the following:
  - A. a completed Form 8283 (Noncash Charitable Contributions), and
  - B. an acknowledgment letter from the donee.
11. Any pertinent factors gathered as to the accuracy of the claimed FMV should be set out on a separate page in the request

### **III IRS Publication 561**

#### ***Jewelry and Gems***

Jewelry and gems are of such a specialized nature that it is almost always necessary to get an appraisal by a specialized jewelry appraiser. The appraisal should describe, among other things, the style of the jewelry, the cut and setting of the gem, and whether it is now in fashion. If not in fashion, the possibility of having the property redesigned, recut, or reset should be reported in the appraisal.

**Authenticity.** The authenticity of the donated art must be determined by the appraiser.

**Physical condition.** Important items in the valuation of antiques and art are physical condition and extent of restoration. These have a significant effect on the value and must be fully reported in an appraisal. An antique in damaged condition, or lacking the “original brasses,” may be worth much less than a similar piece in excellent condition.

**Art appraisers.** More weight will usually be given to an appraisal prepared by an individual specializing in the kind and price range of the art being appraised. Certain art dealers or appraisers specialize, for example, in old masters, modern art, bronze sculpture, etc. Their opinions on the authenticity and desirability of such art would usually be given more weight than the opinions of more generalized art dealers or appraisers. They can report more recent comparable sales to support their opinion. To identify and locate experts on unique, specialized items or collections, you may wish to use the current Official Museum Directory of the American Association of Museums or contact an auction house. To help you locate a qualified appraiser for your donation, you may wish to ask an art historian at a nearby college or the director or curator of a local museum. The Yellow Pages often list specialized art and antique dealers, auctioneers, and art appraisers. You may be able to find a qualified appraiser on the Internet. You may also contact associations of dealers for guidance.

### *Collections*

Since many kinds of hobby collections may be the subject of a charitable donation, it is not possible to discuss all of the possible collectibles in this publication. Most common are rare books, autographs, sports memorabilia, dolls, manuscripts, stamps, coins, guns, phonograph records, and natural history items. Many of the elements of valuation that apply to paintings and other objects of art, discussed earlier, also apply to miscellaneous collections.

**Reference material.** Publications available to help you determine the value of many kinds of collections include catalogs, dealers' price lists, and specialized hobby periodicals. When using one of these price guides, you must use the current edition at the date of contribution. However, these sources are not always reliable indicators of FMV and should be supported by other evidence.

For example, a dealer may sell an item for much less than is shown on a price list, particularly after the item has remained unsold for a long time. The price an item sold for in an auction may have been the result of a rigged sale or a mere bidding duel. The appraiser must analyze the reference material, and recognize and make adjustments for misleading entries. If you are donating a valuable collection, you should get an appraisal. If your donation appears to be of little value, you may be able to make a satisfactory valuation using reference materials available at a state, city, college, or museum library.

diaries that were kept by a famous person—one kept during childhood and the other during a later period in his or her life. The appraiser determines a value in these cases by applying knowledge and judgment to such factors as comparable sales and conditions.

**Signatures.** Signatures, or sets of signatures, that were cut from letters or other papers usually have little or no value – though the more famous the person, the more value generally. But complete sets of the signatures of U.S. presidents are in demand.

- III Importance of using the proper types of compliant appraisals
- IV Working with auction houses for valuations or sales
- V The potential costs of liquidation.
- VI **Closing remarks**