VH VALUATIONS

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Asset valuation: A key component of your estate plan

While Ken is working on revising his estate plan, he decides to gift his extensive collection of antique coins to his grandson. The problem is, he doesn't know the market value of his collection, so he can't accurately report the value on his gift tax return. Ken's estate planning advisor puts him in touch with a qualified appraiser who can value the collection.

When you make a noncash gift, a professional valuation can reduce the chances that the IRS will challenge your gift tax return, thus decreasing the possibility of unplanned tax liability.

3-year statute of limitations

If you make substantial noncash gifts — either outright or in trust — IRS regulations provide for a three-year statute of limitations during which the IRS can challenge the value you report on your gift tax return. After the three-year period expires, you can enjoy the peace of mind that comes with knowing that your estate plan will work as you intended.

There's one catch, though: The statute of limitations doesn't *begin* until your gift is "adequately disclosed" on a gift tax return. Under IRS regulations, to adequately disclose a gift, you must provide a detailed description of the nature of the gift, the relationship of the parties to the transaction and the basis for the valuation. You may also be required to furnish certain financial statements or other financial data and documents.

The regulations also provide that you can satisfy the adequate disclosure rule's information requirements by submitting an appraisal report by a qualified, independent appraiser that includes details about the property, the transaction and the appraisal process. In most cases, this is the most effective way to ensure that you've disclosed gifts adequately and triggered the statute of limitations. Even if a gift's value falls under the $13,000 annual exclusion and thus won't be taxable, it's a good idea to file a gift tax return to get the statute of limitations running.

Misstatement penalties can add up

Insufficient valuations expose you to the risk that the IRS will revalue property and assess additional taxes down the road. They can also result in significant penalties if the IRS finds that the value of property was substantially or grossly misstated.
In this context, a "substantial" misstatement occurs when you report a value that is 65% or less of the "correct" value. A "gross" misstatement occurs when you report a value that is 40% or less of the correct value. The penalty for a substantial misstatement is 20% of

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the amount by which your taxes are underpaid. Gross misstatements result in a 40% penalty.

Appraise your assets

To reduce the chances of triggering an IRS review of your gift tax return, have a qualified appraiser value your substantial noncash gifts at the time of the transaction. A variety of other estate planning strategies also require having accurate, supportable and well-documented valuations of assets. Your estate planning advisor can help you arrange to have your assets valued by a qualified appraiser.