

Appraisals, Tax Deductions, Your Heirlooms, & Collectibles

With the amazing success of the Internet auction site eBay and Public Television's program "The Antiques Roadshow," it's no wonder that more and more people are asking museums to appraise their heirlooms and other treasures. While museums can often help with identifying a "whatsit" or placing an item in a historical context, museums are limited in their ability to provide appraisals or offer tax advice.

The Rogers Historical Museum staff do not have expertise in these matters. This information has been synthesized from a number of sources (see "Credits") as a convenience for the Museum's patrons. Because these issues are complicated and the laws and policies surrounding them subject to change, anyone seriously interested in appraisal or charitable donation tax information should seek expert advice and/or qualified legal assistance.

What is an appraisal?

An appraisal is the valuation of property by the estimate of an authorized person.

How are objects valued?

In many ways. Objects have a variety of values such as sentimental, historical, artistic, educational, or monetary. For museums, the first four values impart the most meaning and relevance to their collections and the communities they serve. Monetary value does have its place in museums, however, for purposes of insurance and deaccessioning (the formal removal of collections). The insurance industry considers other values as well, including replacement cost (the cost necessary to replace a new or used item with a comparable item), reproduction cost (the total cost of making an exact replica), and fair-market value (defined by the U.S. Treasury as "the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell, and both having reasonable knowledge of relevant facts").

What affects an object's monetary value?

Many things. Condition, scarcity, and historical importance and documentation can all affect value. If your object is in poor shape, one of many, or doesn't have a distinguished "pedigree" or a clear provenance (origin) then its value is likely to be considerably less than an object that meets these criteria. Other factors, such as markets and regionality, are important as well. The popularity of specific collectibles can wax and wane through the years, turning what once sold for \$10,000 into something with a current value of \$2,000. If an object is up for sale in a region which has available many similar items or doesn't have relevance for local collectors, chances are the selling price will be low. Keep in mind that the value of an object is only as great as what an interested party would be willing to pay for it in a certain location at a specific point in time.

How can I determine the monetary value of my object?

Through research. One way to make an educated guess about value is to look for "comps" (comparables). Seek out collector's books, magazines, and value guides at the library or arrange for their interlibrary loan. Visit area flea markets and antiques stores to determine local market price and search out Internet antiques dealers to see how they price similar merchandise. Look at auction house bids or on-line auction sites to gauge the going rate. Another way to determine value is to use a qualified appraiser.

How can I find a qualified appraiser?

With care. There is no federal or state legislation to regulate the appraisal profession, so anyone can be called a personal property appraiser regardless of expertise or training. However, some national and

international appraiser societies offer training courses for their members and/or test them periodically on their knowledge of appraisal procedures, ethics, law, etc.; two such organizations are:

American Society of Appraisers

1-800/ ASA-VALU

www.appraisers.org

International Society of Appraisers

206/ 241-0359

www.isa-appraisers.org

Keep in mind that membership alone in a reputable appraisal society does not constitute an endorsement of the appraiser. To find an appraiser working in a certain area, check the phone directory, search the Internet, or contact an appraisal society for a list of nearby members. Although appraisals are available on-line (offering appraisals based on electronic images of the object), be aware that most insurance companies and the IRS do not accept such Internet value estimates.

Can a museum recommend an appraiser?

Perhaps, but with some limitations. Because there are no formal certification procedures for appraisers, it is difficult to know who is truly qualified. Therefore, museums are very cautious when asked to recommend an appraiser for fear that they may inadvertently be responsible for an incorrect object valuation. They also don't want to be viewed as endorsing one particular appraiser over another, so instead of providing a single name of an appraiser, a museum may provide two or more names or the names of everyone it knows of working in its area. It is then up to the object's owner to determine the qualifications of any chosen appraiser

What questions should I ask an appraiser?

- How often do you perform appraisals?
- What are your qualifications (e.g., educational background, appraisal course work) and your particular expertise with this item? Some appraisers are generalists and know a little bit about a lot of items; some are specialists who have great deal of expertise in a specific area or discipline (e.g., 18th-century European paintings). Request a job-history résumé and a list of references.
- Are you a member in good standing with a society that regularly tests its members and have you been recently and successfully tested? Societies have different membership levels dependent upon testing and course work.
- Do you conform to the current Uniform Standards of Professional Appraisal Practice? USPAP was developed by the Appraisal Foundation, a non-profit educational organization which sets ethical and performance standards.
- What is your fee and what other costs (e.g., travel, research), if any, may be incurred? USPAP bars an appraiser from charging the client a percentage of the appraised value. Most appraisers charge an hourly or per diem rate; the client may want to set a limit on the amount of hours an appraiser can work before seeking re-authorization for additional hours.
- Do you have any financial interest in the outcome of the appraisal (e.g., act as a dealer for such items)?
- What will your appraisal report look like and can you provide a sample report or two?

A professional appraiser should readily answer these and any other relevant questions. Seek out additional information about the appraiser by speaking with references and checking with the Better

Business Bureau or other consumer affairs agencies to see if complaints have been filed against an individual or company. Although it is not legally necessary for short-term services such as appraisals, it's always a good idea to have a written contract or a signed letter of agreement.

What should the report contain?

- A statement explaining what type of value is being sought (e.g., market comparable value, income-generating value, reproduction value) and how the appraisal will be used by the item's owner (e.g., tax liability, insurance scheduling, property division).
- A complete description of the item.
- The date and location of the item's inspection.
- A value for the item and its effective date.
- A statement about the appraiser's credentials, his or her methodology, and what resources were used to determine value.
- A statement declaring the appraiser's financial disinterest (or interest) in the item, both in the present and in the contemplated future.
- A statement that all appropriate ethical considerations and USPAP standards were followed.
- The appraiser's signature.

Every report should be fair, truthful, and unbiased about the object and its value, regardless of the client's wishes or needs. Reports should be formal, typewritten, and well organized, and should clearly answer all the client's questions. The report should be kept confidential unless the appraiser receives permission to use it for another purpose (e.g., as a sample of his or her work).

How often should I get my appraisal updated?

Every 2-3 years. That's what many appraisers recommend because of rapidly fluctuating market conditions.

Can a museum staff member appraise my donation?

No. Most museums don't offer appraisal services. One reason is the Tax Reform Act of 1984, which bars museums from providing a donor with a value for their tax-deductible objects. A perceived conflict of interest might arise should a museum place a high value on an object offered for donation; the museum could be charged with inflating an object's value (and therefore the donor's tax deduction) in order to secure the donation. Another reason is that most museum staff are unable to keep abreast of fluctuating market values.

If I plan to donate a valuable item to a museum, can I ask it to pay for an appraisal?

No. If a museum were to pay for an appraisal and the valuation was high, the museum may be seen as trying to influence the donation, whether or not that was the case. To keep the transaction between the donor and the museum fair and transparent, the donor should arrange an independent appraisal.

Can I take a tax deduction on my donation?

Yes. IRS Publication 561, Determining the Value of Donated Property, explains how to assess values and determine when appraisals are necessary based on the estimated value of the object. Generally speaking, anything worth \$500 or less requires minimal documentation of value; an item valued between \$501 and \$5,000 requires an explanation of how its fair-market value was determined, which may or may not involve the work of an appraiser; an item valued \$5,001 or more does require the use of a professional appraiser. Anything valued over \$501 must be accompanied by IRS Form 8283. Because museums are unable to keep abreast of ever-changing tax laws, it's important to work with a competent

tax attorney.

What happens if I find that my donation was under- or overvalued?

It depends. Most museums have a policy that, once a donation is made, it becomes the property of the museum. An error in valuation is usually not enough to rescind a gift, which is why having an appraisal made before an object is donated is recommended. Under certain conditions penalties can be imposed by the IRS if a charitable donation is found to have been overvalued.

Are there any timing concerns about appraisals and donations?

Yes. IRS regulations allow for an appraisal to take place after the date of the donation, but before the tax return is filed. Any donations made after an appraisal has been made must be completed within 60 days.

CREDITS

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