

4. How do you report your findings?

An appraiser should prepare a signed written report that documents the valuation of an item, including his or her evaluation methodologies and credentials.

The Written Report

Keep in mind that at some point attorneys, judges, the IRS, estate executors, insurers, and trustees may base decisions on the appraisal. It should be comprehensive and professionally prepared. The following key elements are generally included in an appraisal report:

Statement of Purpose. As discussed earlier, an appraisal has a variety of uses, which may include helping assess your insurance needs or substantiating a tax deduction. The purpose of your appraisal and its expected use should be clearly noted.

Description of Property. This includes a physical description that details such features as the size, weight, color, age, material composition, origin, and condition of the appraised item, as well as the method of acquisition (often helpful for tax purposes). The appraiser also generally attests to an item's authenticity and notes the date it was viewed.

Statement of Disinterest. The appraiser should verify that no conflict of interest exists. If the report has been prepared for tax purposes, the appraiser must provide a tax ID number and also disclose if the IRS has ever disqualified him or her. The appraiser also generally includes an explanation of the applicable fee structure. As a reminder, the IRS rejects appraisals wherein the appraiser charged a contingency fee or a fee based on a percentage of value.

Method of Valuation. An explanation of valuation methodology offers a basis for the appraiser's conclusion. In general, appraisers make assessments based on such factors as replacement value, fair market value (FMV), or comparable sales. For example, an appraiser determining the value of a work of art may consider the sale prices of comparable works of art. The appraiser often includes a market analysis that references historical performance and may also project future value.

The Provenance. In some instances, particularly with artwork, a history of ownership may be included. Further documentation, if applicable, might chronicle noteworthy exhibitions or publications.

Statement of Value. The report should clearly state a dollar amount representing the valuation of the appraised item, and it should be signed and dated by the appraiser. It is also standard practice for the appraiser to include his or her credentials, which may take the form of a résumé or curriculum vitae.

Stay Current

In order to keep pace with the potential for changing market values, consider reviewing an appraisal every three years. As your financial strategies change, make sure you base your decisions on the most up-to-date and accurate information regarding the value of your possessions. What you cherish as "priceless" may have a price tag that can help you plan your financial future.

Appraising Your Prized Possessions

The Proper Ways to "Insure" Protection



Is your family heirloom a hidden treasure? Television shows featuring auctions and appraisal fairs have ushered the art of appraising into the limelight with fascinating stories — an ancient artifact unknowingly passed down from generation to generation, a rare trinket picked up at a yard sale, or an historic relic found tucked away in the corner of the attic. While appraisals occasionally lead to surprising discoveries, more often, they play a key role in developing financial plans. If you know you own expensive items, such as antiques, jewelry, or artwork — or even if you think you might — consider having your valuables appraised for insurance, estate planning, and tax purposes.

A certified **appraisal** is an expert valuation of property. Appraisers, practitioners of valuation, are professionals trained to assess value based on formal methodology and in compliance with standards and codes of conduct generally practiced in the field. An appraisal can help you make informed financial decisions, as well as provide you with professionally prepared documentation should you need to validate your property's worth to a third party, such as the Internal Revenue Service (IRS) or an insurer.

The “Value” of an Appraisal

Appraisals can help you secure appropriate insurance coverage, plan your estate, and develop tax strategies. You may not be able to put a price on your antique clock, but an independent appraiser can. Knowing the worth of your valuables can help you tailor your financial plan to your needs.

For insurance purposes, valuation can help you choose appropriate coverage for your property, as well as receive the reimbursement you are entitled to in the event you need to file a

claim. In general, the maximum benefit under **homeowners policies** applied to the contents of a home is 50% of the coverage bought for the house, though it may be 75% under some replacement policies. Furthermore, most homeowners policies generally exclude expensive items, such as furs, jewelry, and silver, from basic coverage, but they do offer protection at additional cost.

Under many standard policies, the most that may be claimed for loss to a particular category of property is limited (\$1,500 or \$2,500 is common). The category limitations may be increased for an additional premium. Broader coverage, covering losses that are not included in the basic policy, such as mysterious disappearance or breakage, can be obtained via a “**scheduled personal property endorsement**.” This coverage extension will usually require you to supply bills of sale or appraisals dated within the last few years. Choosing the best approach, either by increasing the existing limits of coverage or scheduling items separately, depends on the possessions involved and the premium formulas of the insurance company.

Certain life events, such as death and divorce, often call for the equitable distribution of property. At death, all possessions of the deceased play a part in the cumulative value of the estate, so having appraisals for the items of value will assist in the division of the estate, as well as the determination of estate tax. Oftentimes, **probate** requires that an entire estate be inventoried and valued. In the event of a divorce, appraisals often assist with the division of marital property. Consult your attorney for legal advice.

If you donate an item to a charitable organization, an appraisal may be needed to show the IRS that the charitable donation is worth what you

claimed on your tax return. The IRS generally requires a qualified appraisal for deductions over \$5,000 claimed for a single item or a collection of similar items, such as coins. Consult your tax professional for more information.

Hiring an Appraiser

Choosing a qualified professional involves time and preparation. Because appraisers tend to specialize in certain areas, such as antiquities, coins, stamps, jewelry, silver, etc., you will want to find someone with relevant expertise and a proven track record. For help with a referral, consider contacting the following professional organizations:

International Society of Appraisers (ISA)

www.isa-appraisers.org

866-481-1689

Appraisers Association of America (AAA)

www.appraisersassoc.org

212-889-5404

American Society of Appraisers (ASA)

www.appraisers.org

800-272-8258

Other resources include libraries, museums, auction houses, and the Internet, as well as recommendations from friends and colleagues. Once you find someone with the necessary experience, conduct an interview to ensure his or her appraisal practices meet *your* standards, as well as generally accepted standards in the field. Remember that an appraiser will be assigning value to your property and potentially minimizing your exposure to certain risks, such as tax penalties. An inaccurate appraisal could hinder your ability to receive a fair price, increase the likelihood of a tax audit, or result in an inequitable division of property or inappropriate insurance coverage.

Your financial decisions may depend on your appraiser's research, analysis, and reporting. Consider asking the following questions:

1. What are your work experience and education qualifications?

Ask for references and review the candidate's résumé or curriculum vitae, making note of work history, both formal and continued education, and membership in a professional organization. Some professional organizations require members to pass examinations and comply with a code of ethics. Valuation should be based on standard appraisal principles and procedures, learned through formal training. Authenticating an item is just one aspect of appraising.

2. What is your area of expertise?

Make sure your candidate's expertise matches your needs; however, keep in mind that finding one person who is an expert in *all* areas may be quite difficult. The International Society of Appraisers recognizes over 220 areas of specialization. For items that fall outside his or her expertise, the candidate should be willing to consult with other qualified professionals.

3. How much will the appraisal cost?

Appraisers generally charge either by the hour, per diem, a flat rate, or per item. Other charges may include reimbursement for additional expenses, including travel and photographs. Consider rejecting any proposal that includes a “contingency fee” based on a sale or a fee based on a percentage of the valuation. Generally considered unethical, these types of appraisals could have tax consequences for you, because the IRS rejects all appraisals performed with these conditions.