

Obtaining Appraisals for Use with Estate Planning

Q: My estate planning attorney has advised me to obtain appraisals on our properties for use in conjunction with estate planning. What type of appraisal is necessary for this purpose? N. Johnson, Nevada City

A: Appraisals are required for two distinct functions in estate matters—estate planning before death and inheritance tax or step-up basis determination after death.

- If you are forward thinking in terms of estate planning and are appropriately managing your estate, gifting of assets, including real estate, is a useful way of reducing a future estate interest to be conveyed, falls on you, the donor, and when real estate is the gift, an appraisal is necessary. You may also be considering a transfer of real estate holdings into a limited family partnership wherein the use of fractional or minority ownership will provide a basis for a reduction of estate taxes (perceived to be the last form of true tax shelter); again, an appraisal of the real estate will provide the basis for such a transaction.

- After a death, an appraisal will be needed to establish wither a new tax basis for the surviving spouse and heir and/or to provide the basis for applicable estate taxes. An alternative date of value, such as six months after the date of death, may be elected.



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- In terms of the necessary appraisal, the Internal Revenue Service is less than patient of forgiving with poorly documented appraisals and can exercise recourse against appraisers when any form of intentional bias or fraud is suspected. Therefore, in soliciting appraisal services for such matters, a "Complete Appraisal" analysis should always be requested from an appropriately licenced and qualified appraiser.

- Minimal reporting options or specifically the type of written report that is used to communicate the appraisal analysis, would be either the "Self-Contained" or "Summary" style report. A "Restricted" type report will not suffice in an estate matter, due to the anticipated third party use of the report. A well documented appraisal will likely pay for itself by the avoidance of what could be otherwise a costly IRS estate audit.

Daniel Ketcham gratefully acknowledges assistance on this topic from Ms. Jennifer Wilkerson, Attorney at Law in Grass Valley, specializing in estate planning. Mr. Ketcham, MAI, SRA, welcomes questions on real estate valuation and appraisal issues. Write to him in care of Wendy Bedwell, *The Union*, 11464 Sutton Way, Grass Valley, CA 95945.

---Submitted by Daniel Ketcham