

Financial, Legal & Tax Advisory

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Roman A. Basi, President of The Center, is an Attorney, CPA, Real Estate Broker, and Title Insurance Agent. Roman speaks and advises The Center's clientele on such matters as Business Law, Succession, Estate & Tax Planning, and Real Estate.



Dr. Bart A. Basi, Senior Advisor of the Center for Financial, Legal & Tax Planning, P.C., is an expert on closely-held companies, an attorney, and CPA. He is a member of the American Bar Association's Tax Committee on Closely-Held Businesses and Business Planning.

Importance of an Appraiser

Every day, we are surrounded by and utilize items that contain value, whether that be the \$0.01 used pencil on your desk or your uncle's \$1 million lake house. While anyone can assign their "estimated value" to said item(s), it is up to an Appraiser to properly compute the monetary value of a non-cash item within the eyes of the Government, more specifically, the IRS. An appraisal is a valuation of property, such as real estate, a business, collectibles, or other pieces of property, estimated by an authorized person.

There are several different uses for an appraiser, whether it be for insurance, taxation, or the determination of a selling price for an item or property. Within this article, we are going to focus on appraisals for charitable contributions, gifting, estate, & succession. When making non-cash charitable contributions and looking to deduct them for tax purposes, there are many rules on determining the value of the donated item. One of which requires a qualified appraiser to assign a value to the non-cash item if it is expected to exceed \$5,000.

If you overstate the value of a donation, you could face penalties for inflating deductions, and if the IRS determines that you've significantly exaggerated an asset's worth, they can reduce or deny your deduction and impose a valuation misstatement penalty. These penalties typically start at 20% of the underpaid tax and can reach 40% in extreme cases.

For 2025, the gift tax exemption sits at \$19,000. Any gift or collection of gifts given to a singular taxpayer must file a gift tax return, and this will count against your lifetime exemption (\$13.99 million for 2025). For higher value gifts such as business interests, real estate, or unique assets, it is important that an appraiser properly assigns value to the gift(s) as the IRS often scrutinizes these transactions, and any undervaluation could result in penalties. For gifts, the IRS typically has three years from the date you file a complete and properly disclosed gift tax return to audit the valuation of a gifted asset. But the clock doesn't start unless the gift is adequately disclosed.

That means providing a thorough description of the asset, the method used to determine its value, and any supporting documentation such as an appraisal. When it comes to appraising an estate, there could be multiple layers of appraisals needed. The IRS looks at the Fair Market Value (FMV) of your Gross Estate upon death for Estate Tax purposes. This considers business interests, real estate, cash and securities, insurance, trusts, annuities, and other assets.

As mentioned above, the estate tax exemption for 2025 is \$13.99 million, so an estate tax return is not required to be filed until that exemption is exceeded. However, it is always a good idea to have an appraisal done when dealing with an estate to take advantage of any step-up in basis that beneficiaries are eligible to receive. In the case of the appraisal being inaccurate, this will result in an incorrect tax payment and possibly an underpayment of tax. Many business owners like to have a plan.

Whether that plan involves gifting or pursuing a merger/acquisition (M&A), an appraiser is likely needed. If you plan to gift business interests to a family member, key employee, trust, etc., you will need to have the business appraised properly to satisfy the gifting rules mentioned above. For those who wish to engage in an M&A transaction, having an appraiser value your business will ensure that you are properly compensated for the business that you have poured your time and determination into.

Depending upon your appraiser, there are typically multiple methods used to determine value, such as Income Method, Asset Method, Cash Flow Method, Market Method, etc. A valuation is also required by most banks/financial institutions when financing is involved in the transaction. When in doubt, it is important to be better safe than sorry when it comes to placing monetary value on items/property that may have tax implications. If you have any questions, please reach out to the professionals at The Center for Financial, Legal, and Tax Planning, P.C. at our website, www.taxplanning.com or by phone at (618) 997-3436.

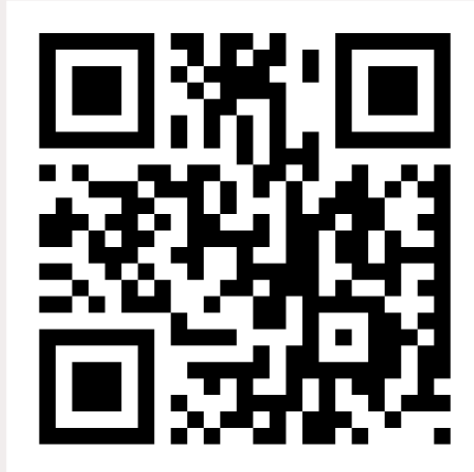
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4501 W DeYoung St., Suite 200 | Marion, IL 62959 Phone: (618) 997-3436 | Fax: (618) 997-8370 | www.taxplanning.com

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