

# **Davis & Company, CPA's, CVA's**

**440-887-9150**

## **A Checklist for Business Valuation Reports Conducted for: Adequate Disclosure for Gift Taxes (Reg. 6501)**

The reviewer should read the final regulations 26 CFR 301.6501(c)-1 exceptions to general period of limitations on assessment and collection. Effective December 3, 1999.

- A description of the transferred property, and (f)(2)(i)
  - Any consideration received by the transferor. (f)(2)(i)
  - The identity of, and relationship between, the transferor and each transferee. (f)(2)(ii)
  - If the property is transferred in trust, the trust's tax identification number and a brief description of the terms of the trust, or in lieu of a brief description of the trust terms, a copy of the trust instrument. (f)(2)(iii)
  - A detailed description of the method used to determine the fair market value of property transferred, including: (f)(2)(iv)
    - Any financial data (for example, balance sheets, etc. with explanations of any adjustments) were utilized.
    - Any restrictions on the transferred property which were considered in determining the fair market value of the property.
    - A description of any discounts, such as discounts for blockage, minority or fractional interest, and lack of marketability claimed in valuing the property.
    - In the case of a transfer of an interest that is actively traded on an established exchange...the CUSIP number of the security, the mean between the highest and lowest quoted selling prices on the applicable valuation date.
    - In the case of the transfer of an interest in an entity that is not actively traded, a description must be provided of any discount claimed in valuing the interests in the entity or any assets owned by such entity.
    - If the value of the entity or of the interests in the entity is properly determined based on the net value of the assets held by the entity.
      - a statement must be provided regarding the fair market value of 100 percent of the entity (determined without regard to any discounts in valuing the entity or any assets owned by the entity),
      - the pro rata portion of the entity subject to the transfer, and
      - the fair market value of the transferred interest is reported on the return.
- If 100 percent of the value of the entity is not disclosed, the taxpayer bears the burden of demonstrating that the fair market value of the entity is properly determined by a method other than a method based on the net value of the assets held by the entity. (Note that this only applies to valuations based on the value of the underlying assets [e.g. no goodwill or intangible value])**
- If the entity that is subject of the transfer owns an interest in another non-actively traded entity (either directly or through ownership of an entity) the information required in this paragraph (f)(2)(iv) must be provided for each entity if the information is relevant and material in determining the value of the interest.
  - A statement describing any position taken that is contrary to any proposed, temporary or final Treasury Regulations or Revenue Rulings published at the time of the transfer.
  - The appraisal is prepared by an appraiser who satisfies all the following requirements: (f)(3)(i)
    - The appraiser is an individual who holds himself or herself out to the public as an appraiser or performs appraisals on a regular basis.

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**Conducted for:**

### **Adequate Disclosure for Gift Taxes (Reg. 6501)**

- Because of the appraiser's qualifications, as described in the appraisal that details the appraiser's background, education, and membership, if any, in professional appraisal associations, the appraiser is qualified to make appraisal of the type of property being valued.
- The appraiser is not the donor of the donee of the property or a member of the family of the donor or donee, as defined in section 2032A(e)(2), or any person employed by the donor, the donee, or a member of the family of either; and
- The appraisal contains all of the following: (f)(3)(ii)
  - The date of the transfer.
  - The date on which the transferred property was appraised.
  - The purpose of the appraisal.
  - A description of the property.
  - A description of the appraisal process employed.
  - A description of the assumptions, hypothetical conditions, and any limiting conditions and restrictions on the transferred property that affect the analyses, opinions and conclusions.
  - The information considered in determining the appraised value, including:
    - All financial data that was used in determining the value of the interest that is sufficiently detailed so that another person can replicate the process and arrive at the appraised value.
    - The appraisal procedures followed.
    - The reasoning that supports the analyses, opinions, and conclusions.
    - The valuation method utilized.
    - The rationale for the valuation method.
    - The procedure used in determining the fair market value of the asset transferred.
    - The specific basis for the valuation, such as specific comparable sales or transactions, sales of similar interests, asset-based approaches, merger-acquisition transactions, etc.