APPRAISEITNOW GUIDE

Business Valuation for Gift and Estate Tax: The Documents a Form 709 or 706 Valuation Needs

A business valuation for gift and estate tax needs what is valued, the valuation date, financial statements or tax returns up to that date, and the company agreement. This guide also covers the ownership percentage, the fact most often wrong, and what a gift appraisal must contain.

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Educational material, not an appraisal.

Key Takeaways

Here is what a business owner, CPA or executor needs to know about the documents behind a business valuation for gift or estate tax:

- **Core documents:** For a business valuation, AppraiseItNow needs what is valued (the company, the interest or percentage) and the valuation date, financial statements or tax returns up to that date, and the company agreement; past appraisals or offers help. These records support AppraiseItNow's business valuations for gift and estate filings.
- **Ownership percentage:** The ownership percentage is the fact most often wrong. The company agreement and the current ownership records deserve a line-by-line check before the valuation starts.
- **Valuation date:** A gift of shares or LLC units is valued at fair market value on the date of the gift. A business interest in an estate is valued at fair market value on the date of death.
- **Adequate disclosure:** The IRS's three-year window to challenge a gift's value starts only when the return adequately discloses the gift. An appraisal that meets the regulation covers the valuation part of that disclosure, and the rest of the disclosure is still needed.
- **Appraiser independence:** The appraiser for a gift cannot be the donor, a donee, a member of either's family, or someone they employ.

A business valuation for gift and estate tax depends on a small set of records, and a single wrong figure in them, usually the ownership percentage, produces a value for an interest that does not exist. A wrong date or percentage carries straight onto Form 709 or Form 706. This guide covers the document checklist, the valuation date rules for gifts and estates, adequate disclosure and the three-year window, what the appraisal must contain, and who cannot prepare it.

The Document Checklist for a Business Valuation for Gift and Estate Tax

For a business valuation, AppraiseItNow needs what is valued (the company, the interest or percentage) and the valuation date, financial statements or tax returns up to that date, and the company agreement; past appraisals or offers help. The ownership percentage is the fact most often wrong.

The checklist below turns that list into specific records to gather:

- **What is valued:** The legal name of the company, its entity type (corporation, LLC or partnership), and a one-line description of the interest being transferred or held, such as "10 Class B membership units" or "250 shares of common stock."
- **The exact interest or percentage:** Both the unit or share count and the percentage it represents, taken from the current ownership records rather than from memory or from

formation documents.

- **The valuation date:** The specific calendar date that applies. For a gift tax appraisal, that date comes from the signed transfer documents. For an estate, it comes from the death certificate.
- **Financial statements or tax returns up to that date:** The company's annual statements or business tax returns covering the years through the valuation date.
- **The company agreement:** The operating agreement, partnership agreement, or shareholder agreement and bylaws, with every amendment and every schedule of members or shareholders attached.
- **Past appraisals or offers (helpful):** Any earlier valuation of the company, written purchase offers, letters of intent, or records of buyouts between owners.

Pro tip: Send the company agreement with every amendment in date order, not just the original signed version. Amendments are where redemptions, new classes of units and changes in ownership usually live.

Why the Ownership Percentage Is the Fact Most Often Wrong

The ownership percentage goes wrong because the documents people reach for first are often out of date. A schedule of members attached to an operating agreement reflects ownership on the day it was signed. Later redemptions, new members, earlier gifts and buyouts change the real figure, and those changes often sit in a separate amendment or a board resolution.

Unit counts and percentages also drift apart. A company with more than one class of units or shares can describe the same holding as a share of total units, a share of voting units, or a share of profits. A valuation needs the exact interest, so the record should state which classes the holding includes and how the percentage was calculated.

The following sources help confirm the percentage before the valuation begins:

- **The amended company agreement:** The most recent schedule of members or shareholders, including any amendment that changed it.
- **The stock ledger or capitalization table:** The running record of issued, transferred and redeemed shares or units.
- **The company's most recent tax return:** The ownership figures reported for each owner, which the company's CPA can pull quickly.
- **Earlier transfer documents:** Assignments from prior gifts or sales, which reduce the donor's remaining holding.

Hypothetical example: An owner plans to gift 20% of a family LLC and believes the owner holds 60%. The member schedule in the original operating agreement shows 60%, but a redemption 2 years earlier reduced the holding to 52%, and only an amendment records the change. A

valuation built on the 60% figure describes a holding the owner no longer has, so the amended schedule is the correct starting point.

Watch out: A series of gifts during the same year changes the donor's holding after each transfer. Each gift needs its own percentage as of its own date, taken from records updated for the transfers before it.

What Valuation Date Applies to a Gift or an Estate?

The valuation date depends on the event that triggers the filing. A gift is valued at its fair market value on the date of the gift.

Estate assets are valued at fair market value on the date of death. The IRS Instructions for Form 706 cover the estate return.

The table below summarizes the two dates and the records that fix each one:

Situation	Return	Valuation date	Records that fix the date
Gift of shares or LLC units	Form 709	The date of the gift	Signed assignment, updated member schedule or stock ledger
Business interest held at death	Form 706	The date of death	Death certificate

Gift of Shares or LLC Units on Form 709

The gift date should be unambiguous on paper before the valuation starts. A signed and dated assignment of units, an updated member schedule, and a stock ledger entry that all show the same date make the record clean. When those documents carry different dates, the donor's attorney should settle which one controls before the appraiser receives the file.

Financial statements or tax returns up to the gift date are what the valuation needs. Fixing the gift date first tells the company's bookkeeper or CPA exactly which records to pull.

Business Interest in an Estate on Form 706

An executor often works with records held by someone else, such as a surviving co-owner, the company's bookkeeper, or its outside CPA. A written request listing each checklist item, with the date of death stated, usually gets a more complete response than a general request for "the company's records."

Form 706 is due nine months after the date of death. An automatic six-month extension is available to file, not to pay. Gathering the company agreement and statements through the date of death early in the administration keeps the valuation from becoming the item that holds the return.

How Adequate Disclosure Starts the Three-Year Window

Adequate disclosure is the reason a gift valuation needs more than a number. The IRS's three years to challenge a gift's value only start if the return adequately discloses the gift. For hard-to-value property such as a business interest, an appraisal that meets the regulation covers the valuation part of that disclosure; the rest of the disclosure is still needed. The disclosure requirement is explained in the IRS Instructions for Form 709.

The phrase "the rest of the disclosure" matters for planning. The appraisal handles the valuation part, and the return itself carries the remaining information. The donor's CPA or attorney prepares the return, so the CPA and the appraiser should work from the same description of the interest, the same percentage and the same gift date.

Key takeaway: The appraisal and the Form 709 should describe the gifted interest in identical words and numbers. A mismatch between the two documents is a practical problem the donor's advisers can prevent with one cross-check before filing.

What Must a Gift Tax Business Valuation Contain?

An appraisal that meets the Treasury regulation on adequate disclosure of gifts, Treas. Reg. § 301.6501(c)-1(f) has a defined set of contents. That appraisal gives the transfer date, the date of appraisal and its purpose; describes the property and the process; states its assumptions and limiting conditions; lists the information considered (for a business interest, all the financial data, in enough detail to replicate the value); and explains the method, why it was chosen, and the basis for the value.

Each of those elements traces back to a record on the checklist. The table below connects the contents to the documents that support them:

Appraisal element	Checklist record that supports it
Transfer date and date of appraisal	Signed transfer documents for the gift
Description of the property	Company name, entity type, exact interest and percentage
Information considered	Financial statements or tax returns up to the valuation date
Assumptions and limiting conditions	Company agreement terms and any gaps in the records
Basis for the value	All of the above, plus past appraisals or offers

The phrase "enough detail to replicate the value" is the practical reason to send complete financial records. Partial statements, summaries without supporting schedules, or a single year of figures leave gaps that the appraiser has to describe as limitations. A full set of statements and returns up to the valuation date gives the appraisal the financial data it is required to list.

Who Cannot Prepare the Appraisal?

The regulation separates the appraiser from the people on both sides of the gift. The appraiser can't be the donor, a donee, a member of either's family, or someone they employ, and must hold themselves out as an appraiser or perform appraisals regularly.

Questions about whether a particular person falls within that list belong with the donor's attorney or CPA. Those advisers remain well placed to do what they already do: prepare the return, locate records, and confirm the ownership percentage.

Credentials give the donor or executor a concrete thing to review in an appraiser's background. Between them, AppraiseItNow's appraisers hold ASA, ISA, AAA, CAGA, NACVA, NEBB Institute, ABV and CFA credentials.

Get the Records Ready Before the Valuation Begins

A business valuation for gift and estate tax depends on a complete file. The donor, CPA or executor should settle the valuation date, confirm the exact interest against the amended company agreement and current ownership records, and collect financial statements or tax returns up to that date. Past appraisals and written offers round out the file.

The ownership percentage deserves the final check, since it is the fact most often wrong and the one that carries through to every page of the report and the return. When the checklist is complete, request an appraisal and send the records to AppraiseItNow.

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