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Valuing a Family Business Interest for a Form 709 Gift: What the Appraisal Must Contain for Adequate Disclosure

AppraiseItNow Inc.

November 2026, version 1

Published by AppraiseItNow Inc., New York City. www.appraiseitnow.com

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Educational material, not an appraisal.

Field guide, 2026 edition. Published by AppraiseItNow Inc.

Purpose and scope of this guide to Form 709 appraisals of family business interests

This guide explains how an interest in a family business is valued when it is given away and reported on Form 709. It also explains what the appraisal has to contain so that it supports adequate disclosure of the gift. It is written for three readers:

- The business owner making the gift.
- The CPA or other adviser preparing the gift tax return.
- The family member or trustee receiving the interest who wants to understand the number.

AppraiseItNow is a tech-enabled appraisal company headquartered in New York City that prepares USPAP-compliant appraisals of personal property, fine art, machinery and equipment, vehicles, boats, inventory and closely held businesses for clients in all 50 states, remotely and in person. Common uses of AppraiseItNow's appraisals include charitable donations, gift and estate tax, estate settlement, divorce, insurance and lending. This guide addresses one of those uses: the gift of a private company interest.

Why the content of the appraisal matters as much as the number

A gift of a family business interest is unusual among gifts because the value cannot be looked up. There is no exchange price for 16 percent of a family-owned distribution company or 30 units of a holding LLC. The value is an opinion, and the IRS can test that opinion.

The adequate disclosure rule decides when that testing window closes, as the regulation on gift disclosure sets out (Treas. Reg. § 301.6501(c)-1(f)). 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.

A donor who files a return supported only by a thin valuation letter may have reported the gift without starting the three-year clock. The appraisal's content, and not only its conclusion, determines whether it does its job on the return.

What this guide covers and what sits outside it

This guide covers:

- Gifts of interests in closely held companies: LLC units, partnership interests and shares of private corporations.
- The elements an appraisal contains to meet the disclosure regulation.

- The documents a donor assembles.
- A hypothetical example.
- Common errors and a checklist.

It does not cover the other disclosure items a return needs beyond the valuation. The donor's tax adviser identifies and prepares those. It also does not cover estate returns, charitable donations of business interests or Roth IRA conversions, each of which is a separate subject. For comparison, the estate tax rule ties value to a different event (Treas. Reg. § 20.2031-1). Estate assets are valued at fair market value on the date of death.

AppraiseItNow does not appraise real estate. If a family company owns land or buildings, the family arranges the real property value separately, and the business appraiser considers that value when analyzing the company.

AppraiseItNow's website is www.appraiseitnow.com.

Key terms in valuing a gifted family business interest

The terms below appear throughout this guide and in most business valuation reports prepared for a gift.

Fair market value. The standard of value used for a gift. The gift tax regulation ties it to a specific date (Treas. Reg. § 25.2512-1). A gift is valued at its fair market value on the date of the gift. A well-built report names this standard and quotes the definition it applies, so that a reader can see exactly what question the appraiser answered.

Subject interest. The specific thing being valued: for example, "200 Class A units of a family LLC, representing a 16 percent membership interest," and not "the company." The subject interest carries only the rights the company agreement gives it.

Effective date. The professional standards describe the effective date this way (USPAP, 2024 edition). An appraisal's effective date is the date the value applies to. It can be current, past (a date of death or donation) or future, and the report states both the effective date and the report date. For a gift, the effective date is the gift date, even when the report is written months later.

Report date. The day the appraiser signs the report. It is almost always later than the effective date in gift work, and the two should never be confused.

Hard-to-value property. Property without a readily observable price. A closely held business interest is the standard example, and it is the category the adequate disclosure appraisal rule addresses.

Enterprise value and equity value. Enterprise value is the value of the operating business as a whole. Equity value is what remains for owners after debt. A gift appraisal usually works from the company level down to the equity and then to the subject interest.

Pro rata value. The subject interest's percentage multiplied by total equity value. It is a starting point, not usually the answer. A small, non-controlling piece of a private company rarely sells for its simple share of the whole.

Lack of control. A valuation concept. An owner who cannot set distributions, hire managers, sell assets or force a sale holds an interest that a buyer would pay less for than its pro rata share. Whether and how much this affects value depends on the company agreement and the facts.

Lack of marketability. A valuation concept. An interest that cannot be sold quickly, or cannot be sold without consent, is worth less to a buyer than an otherwise identical interest that can. Transfer restrictions, rights of first refusal and the absence of any market for the interest all bear on this.

Company agreement. The governing document for the entity: an LLC operating agreement, a partnership agreement, or a corporation's shareholders' agreement and bylaws. It defines what the subject interest can and cannot do. It is one of the most important documents in a gift appraisal.

Extraordinary assumption. A disclosed assumption about an uncertain fact. The professional standards limit its use (USPAP, 2024 edition). An appraiser may assume an uncertain fact is true (an extraordinary assumption) only when it's needed for credible results, there's a reasonable basis for it and the analysis stays credible, and the report must say so clearly.

Replication. A shorthand used in this guide for the disclosure regulation's demand that the financial data in the report be detailed enough for another reader to reproduce the value.

Independent appraiser. An appraiser who meets the conditions the disclosure regulation sets on who can prepare the appraisal, described in the subsection on that topic below.

How a Form 709 appraisal of a family business interest moves from request to report

The steps below describe, in general terms, how an appraisal of a gifted private company interest is built. Each step exists because of something the finished report has to show.

Step 1: Fix the subject interest, the percentage and the gift date

Before any analysis, three facts are pinned down:

- **What was given.** The entity, the class of interest, and the number of units or shares.
- **The ownership percentage it represents.** This is checked against the company agreement and the ownership records, not taken from memory.
- **The date of the gift.** This comes from the assignment document or other transfer paperwork.

AppraiseItNow sets the effective date by purpose: for insurance coverage and personal use, the report date; for estate and probate, the date of death; for a donation, the contribution date, or the report date for a future gift signed no more than 60 days before it; for a gift, the date of the gift; for an insurance claim, the date of loss; for a divorce, the date counsel sets; for an IRA conversion, the conversion date.

For a Form 709 assignment, that means the date of the gift governs. If the family has documents that give different dates, such as an assignment signed one day and a ledger updated another, the donor's adviser resolves which date is the gift date before the appraiser relies on it.

Step 2: Collect what the appraiser needs, and only that

AppraiseItNow collects what the appraiser needs before the appraisal starts, and asks only for what the appraiser needs. Clients request an appraisal from AppraiseItNow online and receive a fixed-fee quote before any work begins; AppraiseItNow does not bill hourly.

Most AppraiseItNow appraisals are completed remotely from photographs and documents; when an inspection is needed, an appraiser visits the asset in person. A business valuation is document-driven by nature, so the quality of the document set largely determines the quality of the report. AppraiseItNow's appraisers specialize by asset class rather than by geography.

Step 3: Analyze the company as of the gift date

The appraiser studies the business as it stood on the gift date. Typical areas of analysis include:

- **History and operations.** What the company does, who its customers are, and how concentrated its revenue is.
- **Financial performance.** Revenue, margins and cash flow over the years leading up to the gift date.
- **Normalization.** Adjustments for items that a buyer would not expect to continue. Examples include owner compensation above or below market, one-time legal costs, rent paid to a related party at a non-market rate, and personal expenses run through the business.
- **Balance sheet.** Working capital, debt, and assets not needed in operations, such as excess cash or investment holdings.
- **Outlook.** What was known or reasonably knowable on the gift date. Events after that date are generally kept out of the analysis unless the report explains why they are considered.

Step 4: Choose and apply a method, and record why

Business appraisers group methods into three approaches:

- **Income approach.** Value comes from expected future cash flow. Methods include capitalizing a single normalized level of cash flow, or discounting a multi-year forecast.

- **Market approach.** Value comes from prices paid for comparable businesses or interests, expressed as multiples of revenue, earnings or cash flow.
- **Asset approach.** Value comes from the company's assets less its liabilities, each restated to its own value. This approach is common for holding companies that mainly own investments or property.

The disclosure regulation requires the report to explain the method, why it was chosen, and the basis for the value. A report that says only "the income approach was applied," with no reason for choosing it, leaves a gap.

Step 5: Move from the company to the interest

The company-level value is translated to the subject interest. This step is driven by the company agreement:

- Can the holder of this interest compel distributions?
- Can the holder vote on, or block, a sale of the company?
- Are transfers restricted, and does the company or the family have a right of first refusal?
- At what price, and on what terms, can the interest be bought out?

Where the analysis supports adjustments for lack of control or lack of marketability, the report quantifies them and explains the evidence and reasoning behind each. A bare percentage with no support does not explain "the basis for the value."

Step 6: Write the report to the disclosure elements

The regulation lists what a qualifying appraisal contains (Treas. Reg. § 301.6501(c)-1(f)). 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.

The table below translates each element into what it looks like in a business valuation report.

Element in the regulation	What it looks like in a business interest report
Transfer date	The gift date, stated as the effective date
Date of appraisal	The report date, stated separately from the gift date
Purpose	Identifies the gift and its reporting on Form 709
Description of the property	Entity name, entity type, class and number of units or shares, ownership percentage, and the rights attached under the company agreement
Description of the process	The steps taken: documents reviewed, interviews held, analyses performed
Assumptions and limiting conditions	Listed explicitly, including any extraordinary assumption and its effect
Information considered	Every document relied on, plus the financial data itself: income statements, balance sheets, normalization adjustments and the figures feeding the method
Method and why chosen	The method used and the reason it was chosen
Basis for the value	The full path from company value to interest value, including support for any adjustments

Step 7: Hand the report to the return preparer

The appraisal is one part of the disclosure. The preparer uses it as the valuation part and assembles the remaining disclosure items. Because the description of the interest in the report and the description on the return should match, the preparer compares the two before filing.

The Form 709 instructions set the filing calendar (Instructions for Form 709 (2025)). For 2026, the first $19,000 of gifts to each person (not counting gifts of future interests) is excluded. 2026 gifts are reported on a return due April 15, 2027; an extension covers filing, not payment.

Whether a particular gift of a business interest qualifies for the exclusion, and how the gift is reported, is a determination for the donor's tax adviser. The appraisal supplies the value; it does not decide the tax treatment.

Who can prepare the appraisal

The disclosure regulation limits who can prepare the appraisal (Treas. Reg. § 301.6501(c)-1(f)). 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.

Whether a particular person falls within those limits is a question for the donor's tax adviser, and it is best settled before any work begins. Between them, AppraiseItNow's appraisers hold ASA, ISA, AAA, CAGA, NACVA, NEBB Institute, ABV and CFA credentials. AppraiseItNow prepares every appraisal in accordance with USPAP, the Uniform Standards of Professional Appraisal Practice.

What a donor of a family business interest prepares

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 lists below turn that requirement into a working file.

Identification of the gift

- The assignment, transfer document or stock power that made the gift, showing the date and the number of units or shares.
- The entity's legal name and type.
- The class of interest given, if the company has more than one class.
- The ownership ledger, cap table or membership schedule as of the gift date, showing every owner's units before and after the gift.

Financial records

- Financial statements or business tax returns for the years leading up to the gift date.
- Interim financial statements as close to the gift date as the company produces them, if the gift date falls mid-year.
- A debt schedule as of the gift date: lenders, balances, rates and terms.
- Notes on unusual items in those years, such as a lawsuit settlement, an insurance recovery, a lost major customer or a one-time equipment sale.

Governing documents

- The company agreement in full, with every amendment in effect on the gift date.
- Any buy-sell agreement, voting agreement or side letter among the owners.
- Board or manager minutes that bear on distributions, major contracts or sale discussions around the gift date.

Context that helps

- Prior appraisals of the company or of interests in it.
- Any offer, letter of intent or serious inquiry from a buyer.
- Owner and family compensation for the years reviewed, and a description of each family member's role.
- Leases with related parties, and whether the rent reflects market terms.
- Any budget or forecast the company prepared in the ordinary course before the gift date.
- A short narrative of the business: products, customers, competitors, key employees and plans.

Items that need a separate valuation

If the company owns real estate, the family obtains that value from a real estate appraiser. If the company holds significant equipment, the business appraiser considers whether an equipment appraisal is needed to support the asset analysis.

Checking the ownership percentage before submitting

Because the percentage is the fact most often wrong, confirm it three ways before sending the file:

1. Read the unit or share count from the transfer document.
2. Read the total units or shares outstanding on the gift date from the ledger, including any units issued or redeemed that year.
3. Divide, and compare the result to the percentage the family has been using in conversation.

If the three disagree, the donor's adviser resolves the discrepancy before the appraisal begins.

A worked example (hypothetical): a 16 percent LLC interest given to an adult child in 2026

The example below is hypothetical. The company, the people and every figure are invented to show how the disclosure elements come together. The adjustments and rates are illustrations of how a report presents its reasoning, not benchmarks for any real company.

The facts

A parent owns a majority of a family LLC that operates a regional commercial refrigeration installation and service business. On March 2, 2026, the parent signs an assignment transferring 200 Class A units to an adult child. The parent's CPA engages an appraiser to value the gifted units for the 2026 gift tax return.

Fixing the percentage

The intake description said "a 20 percent interest." The appraiser reviewed the ownership ledger and found the following:

- Units outstanding on the gift date: 1,250, after a 2024 issuance of 250 units to a key employee.
- Before that issuance, 200 units would have been 20 percent of 1,000.
- On March 2, 2026, 200 units were 200 divided by 1,250, or 16 percent.

The appraisal values a 16 percent interest. The CPA updates the return description to match. Had the 20 percent figure carried through, both the appraisal and the return would have described property the parent did not transfer.

The company-level analysis

The appraiser reviewed five years of business tax returns, internally prepared financial statements for 2025, and an interim balance sheet dated February 28, 2026. Normalization adjustments included:

- Reducing the parent's compensation from $410,000 to $260,000. The $260,000 figure is the appraiser's estimate of what the company would pay a non-owner general manager.
- Adding back $85,000 of one-time legal fees from a 2024 contract dispute.
- Increasing rent on a building leased from a family trust by $48,000 a year to a market level, based on a rent figure the family obtained from a real estate professional.

Normalized cash flow to equity came to $820,000. The appraiser applied a capitalized cash flow method under the income approach and developed a capitalization rate of 12.5 percent. The report shows each build-up component and its source. The resulting indication was $6,560,000.

The appraiser also performed a market approach using multiples observed in transactions involving businesses of similar size and service mix. The indication was $6,100,000. The report lists the transactions considered, the multiples, and why the selected multiple sits where it does in the range.

The asset approach was considered and given no weight. The report explains why: the company's value comes from its service contracts, workforce and customer relationships, not from its tangible assets, which totaled well below either indication.

The appraiser weighted the income approach at 70 percent and the market approach at 30 percent. The reason given was that the transaction data contained limited detail about deal terms, while the company's own cash flow history was stable and well documented. The weighted equity value on a controlling, marketable basis was:

Indication	Value	Weight	Weighted value
Income approach	$6,560,000	70%	$4,592,000
Market approach	$6,100,000	30%	$1,830,000
Concluded equity value			$6,422,000

From the company to the 16 percent interest

The pro rata value of 16 percent was $1,027,520.

The operating agreement gives Class A members no right to compel distributions. It requires a two-thirds vote to sell the company, and it gives the company and the remaining members a right of first refusal on any transfer. The 16 percent holder cannot direct any of these decisions alone.

On that basis, the report applies two adjustments:

- **Lack of control: 8 percent.** Supported by an analysis of the distribution history and the voting provisions.
- **Lack of marketability: 22 percent.** Supported by an analysis of the transfer restrictions, the absence of any market for the units, the expected holding period and the company's distribution record.

The report explains each figure. It does not present either one as a standard rate.

Step	Value
Pro rata value of 16 percent	$1,027,520
Less lack of control (8 percent)	$945,318
Less lack of marketability (22 percent)	$737,348
Concluded fair market value, rounded	$737,000

An assumption the report discloses

The 2025 financial statements were internally prepared and unaudited, and the appraiser had no way to confirm every figure in them independently. The report treats their accuracy as an extraordinary assumption, and the hypothetical facts show each condition the professional standards attach to one:

- **Needed for credible results.** The 2025 statements are the only full-year picture of the company's most recent performance before the gift date. Without relying on them, the normalized cash flow could not be developed credibly.
- **Reasonable basis.** The year-end cash balances in the statements agree to the bank records, and the prior-year comparative figures agree to the 2024 tax return.

- **Analysis stays credible.** The cash flow conclusion is also checked against the five years of tax returns, so the value does not rest on the 2025 statements alone.

The report states the assumption clearly and notes that if the statements were materially inaccurate, the value conclusion could change.

How the report maps to the regulation

- **Transfer date:** March 2, 2026, stated as the effective date.
- **Date of appraisal:** the report date, stated separately.
- **Purpose:** valuing a gift of LLC units for reporting on Form 709.
- **Description of the property:** 200 Class A units, 16 percent, with the rights summarized from the operating agreement.
- **Description of the process:** documents reviewed, a management interview, and each analysis performed.
- **Assumptions and limiting conditions:** listed, including the extraordinary assumption above.
- **Information considered:** the five years of returns, the 2025 statements, the interim balance sheet, normalization schedules, the capitalization rate build-up and the transaction multiples, each shown in tables a reader could rework.
- **Method and why chosen:** the methods used, the reasons they were chosen, and the weights applied.
- **Basis for the value:** the full path from $6,422,000 to $737,000.

What happens next

The CPA uses the report as the valuation part of the disclosure and prepares the remaining disclosure items. Because the gift was made in 2026, the return is due April 15, 2027. The CPA determines how the gift is reported and whether any part of it is excluded. The appraisal does not make that determination.

Common mistakes that undermine adequate disclosure of a family business gift

Using the wrong ownership percentage

Units issued to employees, redemptions from a departing relative, a spouse's separate holding, or a prior gift earlier in the year can all change the percentage. A report built on the wrong figure values property that was not transferred. Check the ledger as of the gift date, not the year-end before it.

Valuing the wrong date

A report that values the company "as of the most recent year-end" or "as of the report date" does not answer the gift question when the gift happened on another day. The effective date is the gift date. If the latest financial statements predate the gift, the report explains how the appraiser bridged the gap to the gift date.

Valuing the company instead of the interest

A report that concludes on total equity value and stops, or that multiplies by the percentage without analyzing the interest's rights, has not valued the gifted property. The subject is the interest as the company agreement defines it.

Relying on an outdated or partial company agreement

Amendments change voting thresholds, distribution policy and transfer restrictions. A report built on the original agreement when an amended one governed on the gift date misdescribes the property. Provide every amendment in effect on the gift date.

Submitting a summary letter without the financial data

A short letter that states a value and names a method does not list the information considered "in enough detail to replicate the value." The financial data belongs in the report itself: the statements used, the adjustments made and the inputs to the method.

Stating a method without saying why it was chosen

A report that names a method but never says why it was chosen leaves that element of the regulation unaddressed. The report explains the method, why it was chosen, and the basis for the value.

Applying unsupported adjustments

An adjustment for lack of control or marketability that appears as a round number with no analysis does not explain the basis for the value. Each adjustment is tied to the specific agreement terms and facts that support it.

Settling who prepares the appraisal too late

The regulation says 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. A donor who waits until a report is finished to ask whether the preparer fits that description may have to start over. Put the question to the donor's tax adviser before work begins.

Treating the appraisal as the whole disclosure

The appraisal covers the valuation part. The rest of the disclosure is still needed, and the donor's tax adviser prepares it.

Confusing a filing extension with a payment extension

An extension covers filing, not payment. A family that extends the return to finish the appraisal still has to address any payment separately, with its adviser.

Letting the return and the report describe the property differently

If the return says "20 percent" and the report says "16 percent," or the return names a different class of units, the inconsistency invites questions. The preparer compares the descriptions before filing.

Leaving real estate unvalued inside the company

When a family company owns property, the business analysis needs a supportable figure for it. Arrange the real estate value separately and early, so the business appraiser has it when analyzing the company.

Checklist for a Form 709 appraisal of a family business interest

Before the appraisal starts

- Transfer document located, showing the gift date and the units or shares given.
- Ownership ledger as of the gift date obtained, with total units outstanding.
- Ownership percentage calculated from the ledger and reconciled to the transfer document.
- Gift date confirmed by the donor's adviser where documents show more than one date.
- Company agreement and every amendment in effect on the gift date gathered.
- Buy-sell, voting or other owner agreements gathered.
- Financial statements or tax returns up to the gift date gathered.
- Interim statements near the gift date gathered, if the gift falls mid-year.
- Debt schedule as of the gift date gathered.
- Prior appraisals and any buyer offers gathered.
- Related-party leases and owner compensation documented.
- Separate real estate value arranged, if the company owns property.
- Who may prepare the appraisal confirmed with the donor's tax adviser against the disclosure regulation's limits.

When the report arrives

- The effective date equals the gift date.
- The report date is stated separately from the effective date.
- The purpose identifies the gift.
- The property description gives the entity, class, unit count, percentage and rights.
- The process is described.
- Assumptions and limiting conditions are listed, including any extraordinary assumption and its possible effect.
- The financial data is presented in enough detail to rework the value.
- The method, why it was chosen, and the basis for the value are explained.
- The path from company value to interest value is shown, with support for each adjustment.

Before the return is filed

- The return's description of the interest matches the report.
- The remaining disclosure items, beyond the valuation, are prepared by the tax adviser.
- The annual exclusion and the reporting treatment are determined by the tax adviser.
- The filing date for 2026 gifts, April 15, 2027, is calendared.
- Payment is addressed separately from any filing extension.

Review questions

Use these to test a draft report or a file before it goes to the appraiser.

1. If someone reads only the property description, can they tell exactly which units changed hands and what those units can do under the agreement?
2. If someone takes the financial tables in the report and a calculator, can they reach the same company value?
3. Does the report state the method, why it was chosen, and the basis for the value, in terms specific to this company?
4. Is each adjustment from pro rata value tied to named provisions of the company agreement?
5. Does any figure in the report depend on an event after the gift date, and if so, does the report explain why?
6. Is any fact the appraiser was unsure of identified as an extraordinary assumption, with its effect stated?
7. Do the return and the report use the same percentage, class and unit count?