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Adequate Disclosure and the Three-Year Window for Gifts of Business Interests: What Treas. Reg. § 301.6501(c)-1(f) Asks of the Appraisal and of the Appraiser

AppraiseItNow Inc.

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Educational material, not an appraisal.

Abstract: how adequate disclosure turns on the appraisal of a gifted business interest

This white paper was published by AppraiseItNow Inc. in 2026. It covers one narrow question that sits inside the broader subject of business valuation for tax filings. When a donor gives away an interest in a private company and reports the gift on Form 709, what must the accompanying appraisal contain, and who must prepare it, so that the return can start the IRS's three-year review period?

The argument has three parts. First, the three-year window is conditional, and the condition is disclosure. Second, for a business interest, the appraisal covers the valuation portion of that disclosure. Its content requirements are specific enough to be treated as a checklist. Third, the regulation also sets a test for the person who signs the appraisal. That test turns on independence from the parties and on appraisal practice, so a technically sound valuation prepared by the wrong person fails it.

The paper defines the working terms and sets out the regulation's elements in the order an appraisal report presents them. It tests the elements against engagement data and a hypothetical gift of a limited liability company interest. It closes with implications for donors and their CPAs, and with review questions.

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. AppraiseItNow does not appraise real estate.

The problem: a filed gift return that never starts the three-year clock

A donor who files a gift tax return usually assumes that filing closes the matter once enough time has passed. For a gift of a closely held business interest, that assumption fails if the return lacks one element. The adequate disclosure regulation (Treas. Reg. § 301.6501(c)-1(f)) states the condition directly:

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.

Two consequences follow. A return can be filed on time, with tax computed correctly on the figure reported, and still leave the window unopened. And the appraisal, however careful, does not complete the disclosure alone. It completes one part of it. A donor who treats the appraisal as

the whole of disclosure has misread the rule in one direction. A donor who treats any valuation document as sufficient has misread it in the other.

Why a business interest is the hard case

A publicly traded share has a quoted price on the gift date. A membership interest in a family LLC, a block of shares in an S corporation or a limited partnership unit has none. Its value depends on several things:

- the company's financial results and prospects;
- the rights attached to the specific interest, such as voting, distributions, transfer restrictions and buy-sell terms; and
- the judgment of the person who weighs those facts.

Two analysts can begin with the same financial statements and reach different figures. The difference usually comes from how each one normalizes earnings, selects comparable data, or treats the interest's lack of control and marketability. The regulation's concern follows from this. A reviewer who receives only a number cannot evaluate it. A reviewer who receives the data, the method and the reasoning can.

Where an appraisal can fall short

The common failures are practical, not exotic. A gift appraisal of a business interest can fall short in five ways:

- **Wrong subject.** The appraisal values the whole company when the gift was a fraction of it. Or it values a percentage that does not match the ownership records.
- **Missing dates.** The appraisal states a value without separately identifying the transfer date and the date the appraisal itself was prepared.
- **Undisclosed assumptions.** Assumptions are embedded in the analysis rather than stated, so a reader cannot tell which facts were verified and which were taken as given.
- **Thin financial support.** The financial data is summarized at a level too thin for another analyst to rebuild the value.
- **Wrong signer.** The appraiser is someone the regulation excludes, such as a family member of the donor or someone the donor employs.

Each failure corresponds to a specific element of the regulation, discussed in the approach section below.

Background: fair market value, the gift date and the disclosure regulation

Defined terms used in this paper

The following terms are used with these meanings throughout the paper:

Term	Meaning in this paper
Business interest	An ownership stake in a privately held entity, such as LLC units, partnership units or closely held corporate stock, transferred by gift
Gift date	The date of the gift of the interest from donor to donee
Effective date	The date the value applies to
Report date	The date the appraisal report is prepared and signed
Adequate disclosure	The standard a gift return must meet for the IRS's three-year review period to begin
Appraiser test	The regulation's conditions on who may prepare the appraisal
Replication	The ability of a second analyst, given the appraisal, to rebuild the concluded value

The value the regulation is asking about

The gift tax valuation regulation (Treas. Reg. § 25.2512-1) sets the standard of value. A gift is valued at its fair market value on the date of the gift.

That sentence fixes two variables: the standard, which is fair market value, and the date, which is the date of the gift. Everything in the disclosure regulation assumes those two variables are set correctly. An appraisal that describes its process meticulously but values the wrong interest, or values it as of the wrong date, fails at a level below the disclosure checklist.

Professional standards address the date question in their own terms (USPAP, 2024 edition (The Appraisal Foundation)). 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 appraisal, the effective date is the gift date. The report date is usually later, sometimes by many months, because gift returns are often prepared after year end. This is the same distinction the disclosure regulation draws between the transfer date and the date of appraisal. A report built to professional standards therefore already carries both dates. The task is to make sure each one is labeled clearly.

The gift-tax calendar for 2026

The annual exclusion amount is set in the 2026 inflation adjustments (Rev. Proc. 2025-32). 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.

The filing deadline matters to the appraisal schedule in a practical way. The valuation work needs to be finished early enough for the preparer to review it before the return is assembled. The appraisal covers the valuation part of disclosure; the rest of the disclosure is still needed.

What the regulation adds beyond the standard of value

The adequate disclosure regulation does not change how a business interest is valued. It changes what the appraisal must show. Fair market value on the gift date remains the target. The regulation adds a documentation requirement and a qualification requirement. The first ensures that the IRS can follow the reasoning. The second ensures that the reasoning came from someone outside the transaction.

The approach: building a business interest appraisal to the regulation's checklist

The regulation's content requirement can be read as a single sentence (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.

This paper uses that sentence as its analytical framework, taking it one element at a time. For each element, the subsections below explain what it means for a business interest and what a reviewing reader should look for in the report. Where the subsections go beyond the regulation's own words, they say so and present the added material as practical suggestions.

Element 1: the transfer date, the date of appraisal and the purpose

Three items belong on the first pages of the report, each stated separately:

- **Transfer date.** This is the date of the gift and the effective date of the value.
- **Date of appraisal.** This is the report date, the day the appraiser signed the report.
- **Purpose.** This is a statement that the appraisal was prepared to report a gift for federal gift tax purposes. A report prepared for another purpose, such as a buy-sell negotiation or a bank loan, carries its own purpose statement and is a different document.

A report that runs these items together, for example "value as of the date of this report," cannot serve a gift that occurred months earlier. Under the professional standards above, a past effective date is permitted. What matters is that the report says plainly which date the value applies to.

Element 2: description of the property and of the process

The regulation asks for a description of the property and of the process. For a business interest, "the property" is the specific interest transferred, not the company. The regulation does not itemize what that description lists. The following are practical suggestions for a clear description, not regulatory elements:

- the entity's legal name, form and state of organization;
- the number of units or shares transferred and the total outstanding, so the percentage can be checked arithmetically;
- the class of interest, if the entity has more than one class;
- the rights and restrictions attached to that interest under the governing documents, such as voting, distributions, transfer limits, rights of first refusal and buy-sell provisions; and
- any other gifts made at the same time, stated as facts and not as legal conclusions.

"The process" is the sequence the appraiser followed. As a practical matter, a clear process description lists the documents received, any interviews held with management or the donor's adviser, site visits if any, the analyses performed and the order in which conclusions were reached. The reader should be able to see the path from inputs to conclusion before reaching the numbers.

Element 3: assumptions and limiting conditions

Every appraisal rests on some facts the appraiser did not independently verify. The regulation's list of contents includes the appraisal's assumptions and limiting conditions. Professional standards set the conditions for one category of them (USPAP, 2024 edition (The Appraisal Foundation)). 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.

In a gift appraisal of a business interest, typical candidates include:

- that unaudited financial statements fairly present results;
- that an operating agreement amendment provided by counsel is the current version; and
- that no undisclosed liabilities exist as of the gift date.

The practical discipline is to separate these from general limiting conditions, such as reliance on documents supplied and use restricted to the stated purpose. Each specific assumption should be named where the analysis depends on it. A reader who disagrees with an assumption can then see exactly which part of the value it affects.

Where an uncertain fact can be resolved before the report is signed, resolving it is better than assuming it. The ownership percentage is the clearest example, and it is discussed below.

Element 4: the information considered, in replicable detail

This element is where business interest appraisals most often invite questions. The regulation's parenthetical sets the bar: for a business interest, all the financial data, in enough detail to replicate the value.

In this paper, replication means that a second analyst, holding only the appraisal, could rebuild the concluded value. The regulation's wording is the standard. The following are practical suggestions for meeting it, not additional regulatory elements. A report or its exhibits might contain:

- the historical financial statements or tax return data relied on, for each period used, at the line-item level the analysis used;
- each normalization adjustment, such as owner compensation, nonrecurring items or related-party rent, with the amount and the reason for each;
- the projections, if an income method was used, with the assumptions behind growth and margins;
- the market data, if a market method was used, with the selection criteria and the resulting multiples;
- the balance sheet adjustments, if an asset-based method was used, with the source of each adjusted figure; and
- the inputs to any adjustment for lack of control or lack of marketability, with the reasoning connecting those inputs to the specific interest.

As practical advice, a reader gets more from a schedule that shows each adjustment than from a bare adjusted EBITDA total, and more from a stated basis for a discount than from a bare percentage. These are suggestions about usefulness, not tests the regulation states. The working question for a reviewer is not whether the reader agrees with the value but whether the reader can rebuild it.

Element 5: the method, why it was chosen, and the basis for the value

The final content element asks for three things that are often merged into one. They should be kept separate:

- **The method.** This names the approach or approaches applied: income, market, asset-based, or a combination.
- **Why it was chosen.** This explains the fit between the method and this interest. An operating company with stable earnings and a minority interest calls for different emphasis than a holding entity whose value lies in its assets. Where a method was considered and rejected, the reason belongs here too.

- **The basis for the value.** This is the reconciliation: how the indications from each method were weighed, and how the entity-level value was carried to the value of the transferred interest.

The "why" is what distinguishes an argued appraisal from a calculated one. A reviewer who sees that the appraiser weighed alternatives and stated reasons has something to engage with. A reviewer who sees only a method name has nothing to engage with.

The appraiser test

Content is half of the regulation's requirement. The other half concerns the signer (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.

The test has two parts. The exclusion part removes people close to the transaction: the donor, any donee, family members of either, and anyone the donor or a donee employs. The practice part looks to the appraiser's own work: the appraiser holds themselves out as an appraiser or performs appraisals regularly.

A capable in-house controller, a family member who is a CPA, or a long-time bookkeeper the donor employs may each understand the business well. The exclusion is not about competence. Where a relationship raises a question the regulation's words do not plainly answer, the donor's tax adviser makes that determination before the appraiser is engaged.

What AppraiseItNow's appraisers request before the work starts

AppraiseItNow's intake process supplies the inputs that the content elements depend on. 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.

That last sentence is the most practical point in this paper. An ownership percentage error flows into Element 2, because the property is misdescribed, and into Element 5, because the value is carried to the wrong fraction. It cannot be fixed by an assumption if the records could have settled it. The company agreement, any amendments and the capitalization records are the documents that settle it. AppraiseItNow collects what the appraiser needs before the appraisal starts, and asks only for what the appraiser needs.

Evidence: how the requirements play out in practice

Engagement data from AppraiseItNow

AppraiseItNow's own engagement records show where business valuations sit among its appraisal work. Of the 1,226 appraisals AppraiseItNow opened between November 8, 2025 and November 8, 2026, 521 were for charitable donations, 175 for insurance (102 claims and 73 coverage), 144 for estates (61 probate, 46 estate tax and 37 estate settlement), 50 for divorce and 15 for Roth IRA conversions. By asset class, the same 1,226 appraisals included 377 vehicles, 323 general personal property, 174 machinery and equipment, 54 boats, 45 business inventory, 40 fine art and 39 business valuations.

Two observations follow from these figures. First, business valuations are a small share of AppraiseItNow's total volume, 39 of 1,226. Second, the figures given do not identify how many valuations supported Form 709 filings. This paper therefore draws no conclusion about that number, and infers no rate of disclosure deficiency.

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 (www.appraiseitnow.com).

Hypothetical: a gifted LLC interest and an ownership percentage that did not match

The following example is hypothetical. No person, entity or figure in it is real.

A donor owns units in a family operating LLC that distributes industrial supplies. In late 2026 the donor executes assignments transferring units to each of two adult children. The donor's instruction letter to the CPA describes the gift as "20 percent to each child."

Intake. The appraiser receives the following:

- the LLC operating agreement and two amendments;
- federal partnership returns for five years through 2025;
- year-to-date internal statements through the month before the gift date;
- the executed assignments; and
- a letter of intent from a strategic buyer that approached the company two years earlier and did not proceed.

The ownership check. The operating agreement as amended shows 1,500 units outstanding. Each assignment transfers 240 units. Each child therefore received 16 percent, not 20 percent. The donor's "20 percent" reflected an earlier capitalization, before the second amendment admitted a new member. The appraiser confirms the unit count with the donor's counsel in writing. The report then describes the property as 240 of 1,500 units, a 16 percent interest, in

each of two identical transfers. Had the appraiser simply assumed the donor's figure, every downstream number would have been carried to the wrong fraction. The error would have been embedded in Element 2 and in Element 5.

Dates and purpose. The report states the date of the gift as the effective date and as the transfer date. It states its own signing date in early 2027 as the date of appraisal. It states the purpose as reporting the gifts for federal gift tax purposes.

Assumptions. The year-to-date statements are unaudited. The report states that the appraiser relied on them as presented. It identifies the earnings figures that depend on them and notes that management confirmed no material events between the statement date and the gift date. This reliance is listed separately from the general limiting conditions.

Information considered. The exhibits contain the following:

- five years of income statements and balance sheets at the line-item level;
- a schedule of normalization adjustments, namely an owner compensation adjustment to a market-level salary and removal of a one-time legal settlement, each with its amount and source;
- the market data set used, with the screening criteria that produced it; and
- the inputs to the lack-of-control and lack-of-marketability adjustments, tied to specific provisions of the operating agreement: a right of first refusal, a manager-controlled distribution policy, and transfer restrictions requiring manager consent.

Method and reasoning. The appraiser applies an income method based on normalized earnings and a market method based on transaction multiples. An asset-based method is considered and given no weight, because the company is an operating business whose value lies in its earnings rather than its balance sheet. The report says so. The old letter of intent is discussed and given limited weight, because of its age and because it contemplated a purchase of the whole company, not a minority interest. The reconciliation explains the weight given to each indication. It then carries the entity value to a 16 percent interest through the stated adjustments.

Appraiser. The signer is not the donor, either child, a family member of any of them, or anyone they employ, and regularly performs business valuations.

Outcome as far as this example goes. An appraisal that meets the regulation covers the valuation part of disclosure, and the rest of the disclosure is still needed. This example does not decide whether this report meets the regulation, and it does not decide whether the return as a whole adequately discloses the gifts. Those are questions for the donor and the CPA who prepares Form 709. Nor does the example decide how either gift is treated under the annual exclusion or any other provision. The donor's tax adviser makes those determinations.

A crosswalk table for reviewing a business interest gift appraisal

The table below maps each regulatory element to the place it typically appears in a report and to a question a reviewing CPA can ask.

Regulatory element	Where it appears in the report	Reviewer's question
Transfer date	Cover and introduction	Does it match the donor's records of the date of the gift?
Date of appraisal	Signature and certification	Is it distinct from the transfer date?
Purpose	Introduction	Does it name the gift tax filing?
Description of the property	Subject section	Do units transferred divided by units outstanding equal the stated percentage?
Description of the process	Scope section	Can the steps be followed in order?
Assumptions and limiting conditions	Dedicated section	Is each specific assumption tied to the analysis it affects?
Information considered	Exhibits	Could a second analyst rebuild the value from these figures?
Method	Valuation sections	Are all methods applied named?
Why the method was chosen	Valuation sections	Are rejected methods explained?
Basis for the value	Reconciliation	Is the weighting stated and reasoned?
Appraiser not excluded	Certification	Is the signer outside the donor, donees, their families and their employees?
Appraiser in practice	Qualifications	Does the signer hold out as an appraiser or appraise regularly?

Implications: what donors, CPAs and IRA owners should take from the disclosure regulation

For donors of business interests

The regulation rewards preparation done before the gift is valued, not after. Three steps follow from the elements above:

1. **Fix the subject.** Assemble the governing documents and capitalization records first, so the interest can be described in units and percentages that reconcile.
2. **Fix the date.** Make sure the records show the date of the gift clearly, because the gift is valued as of that date and the appraisal's effective date should match it.
3. **Choose the appraiser against the regulation's test, not against convenience.** The person who knows the business best may be someone the regulation excludes.

A donor should also expect the appraisal to be longer and more detailed than one prepared for an internal purpose. The regulation asks for all the financial data in enough detail to replicate the value. That length is the evidence the regulation asks for, not padding.

For CPAs preparing Form 709

For the preparer, the central point is the division of labor the regulation draws. The appraisal covers the valuation part of disclosure; the rest of the disclosure is still needed. The crosswalk table above supports a review of the appraisal's half.

A preparer reviewing an appraisal should test the ownership percentage arithmetically against the company agreement before anything else. AppraiseItNow's intake experience identifies the percentage as the fact most often wrong. It is also the one error a preparer can check without valuation expertise.

The filing calendar affects scheduling. For 2026 gifts, the return is due April 15, 2027. An extension covers filing, not payment. The appraisal's date of appraisal will typically fall in the months before that filing. Its effective date remains the 2026 gift date.

For the same company valued for other tax filings

The same business interest may need to be valued for other purposes: at the owner's death, for a donation of units to a charity, or for a Roth IRA conversion of an IRA that holds the interest. The financial data and governing documents overlap, but the effective date and the purpose change. 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.

The estate valuation regulation sets the estate standard (Treas. Reg. § 20.2031-1). Estate assets are valued at fair market value on the date of death.

The Roth conversion regulation sets the conversion standard (Treas. Reg. § 1.408A-4). A Roth conversion is taxed on the fair market value of the converted assets on the conversion date, less any after-tax basis. The custodian reports it on Form 1099-R.

For an IRA owner, the intake differs from a gift engagement. For a Roth IRA conversion, AppraiseItNow needs the custodian's FBO name and account, the custodian's form, the conversion date and the units converting.

The charitable qualified appraisal rules (Treas. Reg. § 1.170A-16) reach private company interests as well. Privately held stock, LLC interests and partnership interests follow the same rule as other property: a deduction over $5,000 needs a qualified appraisal and Section B. The old $10,000 rule for nonpublicly traded stock ended for gifts after July 30, 2018.

The implication for owners who expect several filings over time is documentary, not legal. A well-organized file serves every later valuation:

- the governing documents with all amendments;
- a capitalization history showing units outstanding by date; and
- financial statements kept on a consistent basis.

Each later filing carries its own purpose and date. Past appraisals or offers help at intake, so a prior gift appraisal is worth keeping in the file.

Conclusion: the appraisal as the valuation half of adequate disclosure

The adequate disclosure regulation makes a conditional promise. The IRS's three years to challenge a gift's value begin only if the return adequately discloses the gift. For a business interest, an appraisal that meets the regulation supplies the valuation part of that disclosure. That part is the hardest for a reviewer to evaluate and the easiest for a donor to underdocument.

The regulation's requirements for the appraisal are these:

- the transfer date, the date of appraisal and the purpose;
- a description of the property and of the process;
- stated assumptions and limiting conditions;
- the financial data in enough detail to replicate the value; and
- the method, the reason for it, and the basis for the value.

The appraiser must also stand outside the transaction and must hold themselves out as an appraiser or perform appraisals regularly.

Read together, these requirements turn the appraisal from a statement of value into an argument for a value, one a second analyst could test. The most frequent practical failure, a misstated ownership percentage, is also the most preventable, because the company's own records answer it. Donors, preparers and appraisers who build the file around the regulation's elements from the outset avoid both failures the regulation guards against: a value that cannot be followed, and a value from a signer who should not have prepared it.

AppraiseItNow's website is www.appraiseitnow.com.

Review questions on adequate disclosure for gifts of business interests

1. Why can a timely filed gift return still leave the three-year window unopened?
2. Which part of adequate disclosure does a compliant appraisal cover, and what is still needed beyond it?
3. In the hypothetical, what document resolved the discrepancy between "20 percent" and 16 percent, and which two regulatory elements would the error have affected?
4. What is the difference between the transfer date and the date of appraisal, and how do professional standards describe the same distinction?
5. What would a second analyst need from the exhibits to replicate a concluded value that relies on normalized earnings?
6. Why does the regulation require the appraisal to explain why a method was chosen, not only which method was used?
7. Name the four categories of people the regulation excludes from serving as the appraiser, and the two ways the appraiser can meet the practice requirement.
8. When the same LLC interest is later valued for an estate or a Roth conversion, which date does each valuation use?

References

- Rev. Proc. 2025-32
- Treas. Reg. § 1.170A-16
- Treas. Reg. § 1.408A-4
- Treas. Reg. § 20.2031-1
- Treas. Reg. § 25.2512-1
- Treas. Reg. § 301.6501(c)-1(f)
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