

An Overview of the Many Ways That An Appraiser Can Assist the Private Client Services Community

By Sarah Reeder, ISA CAPP

As a member of the International Society of Appraisers' recently implemented Private Client Services Program for high-net-worth-individuals, I am excited to have the designation and specialized training to work with this community in my firm. However, I feel the very first step needed to help these professional relationships thrive going forward is for appraisers to proactively enlighten the Private Client Services community about the myriad of ways we can ease and inform their work to assist their clients. In the 2018 "Appraising in the World of High-Net-Worth Individuals" workshop featuring speakers from family offices, estate planning firms, and other professionals serving this community, it became clear to me that many of the experts in this field are not yet fully aware of the countless ways appraisers can assist their work. We in the appraisal field now have an opportunity to inform them about the broad range of our professional roles.

This article is an introductory overview of the many ways appraisers can assist the private client services community with an initiation to a discussion that I hope will be continued and expanded on in the future by my appraisal colleagues and our professional counterparts serving high-net-worth individuals. Often one only considers calling in an appraiser if something has been damaged or a client passes away, but appraisers can be critically helpful for high-net-worth-individuals at every life stage. Rather than a one-time service provider, I feel appraisers are more akin to an auto mechanic—experts with highly specialized knowledge to be checked in with regularly to maintain and protect one's collection assets, just like routine scheduled oil changes with a trusted mechanic keeps a car running smoothly for years.

In the following article I will outline a range of ways appraisers can be of significant assistance to estate planning experts, accountants, lawyers, insurance firms, family offices, collection managers, and similar professionals serving high-net-worth individuals. This list will not be exhaustive but is intended to expand the popular understanding of the breadth of expert resources appraisers can provide and help spark new future contributions to this ongoing conversation from my colleagues in the field.

One area of focus that applies to our outreach to specialists in all of these industries is the benefit of an increased emphasis on spreading awareness about the Uniform Standards of Professional Appraisal Practice: what it is, what ethical and professional regulations are included in it, and why it is critical for the protection of their high-net-worth clients. The Private Client Services community should always work with appraisers who are USPAP-compliant. I spend a great deal of time in my own appraisal firm talking about the Uniform Standards of Professional Appraisal Practice, or USPAP. On a regular basis I encounter attorneys and similar high-level professionals who were previously unaware of the existence of USPAP and delighted to hear my explanation of how it serves to protect their clients. The elements of USPAP pertaining to avoiding appraiser conflicts of interest and prohibited conditional fee structures are especially important for the Private Client Services community to be aware of given the multiple hats appraisers sometimes wear in their professional roles. I consider greater emphasis on educating what USPAP is and the benefits of working with USPAP-compliant appraisers (which all members of the International Society of Appraisers Private Client Services Program are required to be) as a keystone in the future growth of opportunities for collaboration between appraisers and high-net-worth individuals.

USPAP is one of the very best assets we have in the appraisal field to illustrate the massive changes and improvements that have taken place in our industry over the last several decades. I've found that some gatekeepers initially retain an image of the appraisal field as it was known many years ago in its unregulated state before the introduction of USPAP in 1987. They react very favorably when I bring them up to date about the sweeping improvements in standards and the high bar of training needed

to become an appraiser now. It's incumbent on us now in the appraisal field to continue this educational outreach and demonstrate to the Private Client Services community how well suited we are to assist in the protection of their clients' collections.

Estate Planning Experts, Accountants and Lawyers

Traditionally in the estate field one only considers bringing in an appraiser after a client has passed, but in reality, appraisers are useful experts for estate professionals to collaborate with long before a client's date of death.

Appraisers are critically useful for estate planning purposes as they provide the independent, objective perspective that can accurately assess that a treasured heirloom's worth is limited to sentimental value, while the ignored painting no one likes hanging behind it is actually a rare masterpiece. Having accurate valuation feedback about the art collections and other tangible personal property belonging to a high-net-worth client can help estate planning specialists better design the structure of estate plans to reduce tax liability and protect the interests of heirs. Identification of which items are truly valuable in a financial context rather than a personal context is the best way to accomplish this, and also mitigates the chances of future conflict within the client's family. I'm sure nearly every appraiser has encountered assignments where the client's family has argued bitterly over an item with an inaccurately perceived high value. Getting a clear assessment about which items are monetarily valuable and which aren't from a USPAP-compliant appraiser who is objective, independent, and has no vested interest in the outcome or appraised values is the best way to reduce these conflicts and help protect the estate holdings that do have high value. For estate professionals specializing in high-net-worth clients, these items can be exceptionally valuable and may be better held for estate planning purposes in structures like art LLCs.

It can be useful to work with an appraiser quite early on in the estate planning process to catalog and provide a comprehensive assessment of the client's assets if this has not already been completed as

part of regular collection management. This serves to document the tangible personal property assets in the client's holdings and give the high-net-worth individual the opportunity to review each item in the collection together with estate planning professionals to determine the most appropriate course of action for each piece in the development of the estate plan. Any potential complications that need a specialized treatment in the estate plan, such as a \$50 million dollar painting, can be identified and mitigated early on rather than being discovered after the client's death and triggering a tax burden for the estate that could have been reduced with informed preventative planning. It also gives the estate planning professional a clearer picture of the client's total net worth by quantifying the art and other tangible personal property, providing the opportunity to more accurately compare net worth across all asset categories against estate taxation thresholds and make appropriate adjustments to the comprehensive estate plan.

The appraiser can also assist as a consultant in the creation of family distribution reports for personal use within the family. While they do not replace or preclude the legally mandated appraisal reports for the estate and often occur far too early to be appropriate for setting basis, the execution of an internal family distribution report with limited intended users can greatly smooth the process of settling the subsequent dispersal of tangible personal property among heirs. Ideally, this sort of report helps support the process of the high-net-worth client working with her or his estate professional to identify which items in the collection she or he wishes to go to certain heirs, which can dramatically reduce headaches and expensive complications for estate professionals caused by the family discord and legal disputes that so often plague the settlement of estates where the deceased's wishes have not been clearly identified about who should get what. It also provides the deceased with the satisfaction of being involved in this decision-making process during life and helps document important provenance information about the collection known by the owner, such as which gallery a certain work was purchased at, which can increase future value.

The most obvious function for appraisers in estate settings is of course preparing an estate appraisal report at fair market value as of the estate's effective date. In order to classify as a "qualified appraiser" as defined by the Internal Revenue Service, in addition to the stringent educational and experience requirements, the appraiser who prepares an appraisal report with the IRS as an intended user cannot be what they consider an "excluded individual." I am not a legal professional but feel the definition of what an "excluded individual" is as outlined in the Internal Revenue Service's Publication 561 should be carefully reviewed by all involved in the preparation of an appraisal report with the Internal Revenue Service as an intended user. While these excluded individual requirements were originally written with language specific for the context of charitable contribution appraisal reports, the concepts of disqualifying previous involvement have extended in application to estate intended uses:

"The following persons cannot be qualified appraisers with respect to particular property.

1. The donor of the property, or the taxpayer who claims the deduction.
2. The donee of the property.
3. A party to the transaction in which the donor acquired the property being appraised, unless the property is donated within 2 months of the date of acquisition and its appraised value is not more than its acquisition price. This applies to the person who sold, exchanged, or gave the property to the donor, or any person who acted as an agent for the transferor or donor in the transaction.
4. Any person employed by any of the above persons. For example, if the donor acquired a painting from an art dealer, neither the dealer nor persons employed by the dealer can be qualified appraisers for that painting.

5. Any person related under section 267(b) of the Internal Revenue Code to any of the above persons or married to a person related under section 267(b) to any of the above persons.
6. An appraiser who appraises regularly for a person in (1), (2), or (3), and who does not perform a majority of his or her appraisals made during his or her tax year for other persons.

In addition, a person is not a qualified appraiser for a particular donation if the donor had knowledge of facts that would cause a reasonable person to expect the appraiser to falsely overstate the value of the donated property. For example, if the donor and the appraiser make an agreement concerning the amount at which the property will be valued, and the donor knows that amount is more than the FMV of the property, the appraiser is not a qualified appraiser for the donation.” (Source: Publication 561)

For this reason, and also just as a good general practice, it’s my opinion that it is exceptionally useful for estate attorneys, accountants, and similar estate planning offices to develop positive working relationships with a number of different USPAP-compliant appraisers, and maintain a roster of these appraisers in their professional network so they can call on an entirely different appraiser to perform the estate appraisal from the appraiser or appraisers who were associated with the earlier collection cataloging, estate planning, and family distribution document. It is crucial to have a large enough roster of appraisers to be able to engage an appraiser not previously involved with that particular estate for the final estate appraisal report, both to meet IRS requirements and also to protect the estate from any claims of conflicts of interest or favoritism from an appraiser with a long association with the client. The ISA Private Client Services Program will be a major tool in helping estate professionals serving high-net-worth clients to source multiple appraisers with the appropriate training and build a diverse resource network.

Insurance Firms

I've found a major blind spot among many clients of their awareness of the need to regularly update insurance appraisal reports to reflect and incorporate market changes. Just in the last several months of appraisal assignments, I've had the opportunity to review previous appraisal reports on file dating to the 1990s, 1980s, and even one from the early 1970s. Clearly, the appraised values in these reports are no longer an accurate representation of the current market and clients are massively vulnerable in the event of loss, particularly those traditionally served by the Private Client Services community who often have significant collections. This absence of popular awareness of how frequently insurance appraisal reports should be updated, which is closer to every few years rather than every few decades also contributes to a systemic issue where many insurance providers are missing the opportunity to collect premiums that accurately reflect the current value of the insured items, which in many cases have enjoyed several decades of appreciation. It is an all-too-common situation that doesn't serve either the clients—who are underinsured and not sufficiently protected—or the insurance companies—who are missing out on collecting millions in premiums due to the prevalence of decades-old appraisals on file. Appraisers can remedy this situation and we are ready to help. This is an area where future collaborative educational outreach by both insurance firms and appraisers to their shared client base about appropriate time frames for insurance appraisal updates will be especially beneficial to improve client collection protection and expand business opportunities for both fields.

Regular updates of insurance appraisals also incorporate new additions to collections which have been acquired since the last report was issued, which is another important function of appraisal updates. It's not uncommon in my insurance assignments to find that several major pieces have been acquired since the last update and have been sitting unprotected in the client's residence for years. As anyone who has ever been involved with a damage claim can attest, it is so much simpler to have all items documented and protected before any damage or loss occurs rather than having to reconstruct the item's appearance and condition from minimal records or photographs. Having an updated insurance appraisal also supports and facilitates a number of other collection-related activities, such as easing the

process of arranging to move a painting between a client's homes or sending it to a museum to be included in an exhibition as a loan. Before the work leaves the wall, it is important to have a current appraised value already in place for the work's protection. Achieving comprehensive collection protection with regular appraisal updates reduces stress for the collector and improves the service and business opportunities of insurance firms.

Collection Management

A linchpin in all the activities described above is collection management, which is a separate service that many appraisers regularly provide. Collection management is an overarching, integrative practice that can take a variety of forms depending on each client's interests and vision. In collection management, appraisers in the role of consultants can:

- advise on planned future purchases and assess market conditions for the artist being considered
- serve as a liaison with art handlers and similar professionals
- inspect, photograph, and document new incoming additions to the collection and arrange for them to be added to insurance coverage
- inventory and catalog all of the items in the client's collection and maintain a collection database
- work with the client to help identify and evaluate areas of desired expansion and future purchases for the collection.

It is akin to having one's one private museum registrar and curator, serving as the steward of a client's collection and maximizing opportunities for the client to enjoy the elements that bring the most joy (such as contemplating new purchases or having certain paintings included as a loan in an institutional exhibition so others can share in seeing the works) without having to worry about the day-to-day maintenance. Appraisers can be every useful in bespoke collection development as well, gaining a

deep understanding of the client's taste and collecting aims. They can also help research and source new artists tailored to the client, as well as assisting in building positive relationships with these artists that can enhance the client's enjoyment of the collecting process.

Due to the restrictions in USPAP about appraiser conflicts of interest, it's critical that appraisers serving in collection management roles for a client remain vigilant about activities that would present a conflict of interest and bring in other qualified appraiser colleagues when appropriate to fulfill those roles, but collection management is an area of service where appraisers' skills, connoisseurship, and market experience is currently sorely underutilized.

Family Offices

Appraisers are an important resource for family offices, which are a centralized team of professionals managing all financial and practical logistics for a high-net-worth family or small group of families. Building long-term relationships with a diverse network of appraisers with different specialties and areas of expertise will ensure that a family office can provide comprehensive appraisal services for the full extent of the family's collections. Maintaining a large roster of appraisers in a family office's network also protects the interests of the family by making sure that there are enough appraisers with private client services experience available that a different appraiser can be selected for different appraisal intended uses as the family's needs arise. For example, the family office can coordinate with one appraiser for an insurance appraisal report and a second different appraiser for a charitable contribution of a painting to a museum to help shield the client from any future claims, however unjustified, of appraiser influence or favoritism. Maintaining objectivity and avoiding previous involvement are critical for both the appraiser and the protection of the client, which is why developing a deep bench of highly trained appraisers experienced in working with the private client services community will be extremely beneficial to all. This is one of the areas of continued future growth I'm most excited to contribute to in the International Society of Appraiser's Private Client Services Program.

About the Author

Sarah Reeder, ISA CAPP, is a Certified Member of the International Society of Appraisers with the Private Client Services designation and an Accredited Member of the Appraisers Association of America. She is the owner of Artifactual History® Appraisal and the Co-Editor of Worthwhile Magazine™, an online publication about the art and appraisal world. She can be reached at info@afhappraisal.com.