

Why GAO Did This Study

Misstated appraisals used to support tax returns have long caused concern. In 2006, Congress adopted the Pension Protection Act, which changed the criterion for when appraisals are considered to be substantially misstated and created a penalty for improper appraiser practices and qualifications for appraisers with respect to noncash charitable deductions. The Tax Technical Corrections Act of 2007 extended the penalty for misstated appraisals to estate and gift taxes.

Among its objectives, GAO was asked to (1) describe the extent to which individual, estate, and gift tax returns are likely to involve an appraiser and the extent to which IRS audits them; (2) describe how IRS selects returns likely to involve appraisals for compliance examinations, and assess whether the current appraisal threshold is useful; and (3) assess IRS procedures for ensuring that its appraisal experts are qualified.

To accomplish these objectives, GAO analyzed IRS data, reviewed IRS guidance, and interviewed appropriate IRS officials.

What GAO Recommends

GAO recommends that IRS develop a comprehensive quality review program for Art Appraisal Services (AAS) and establish appraisal training requirements specifically for AAS staff. Congress also should consider raising the dollar threshold at which qualified appraisals are required for noncash contributions to reflect inflation. IRS agreed with our recommendations.

View [GAO-12-608](#). For more information, contact James R. White at (202) 512-9110 or whitej@gao.gov.

APPRAISED VALUES ON TAX RETURNS

Burdens on Taxpayers Could Be Reduced and Selected Practices Improved

What GAO Found

Appraisers' most prominent role relative to the three types of tax returns GAO studied is in the valuation of estates. In the most recent years for which GAO had data, appraisers were likely involved in the valuation of property worth from \$75 billion to \$167 billion reported on estate tax returns in 2009. In contrast, less than \$17 billion worth of gifts in 2009 and less than \$10 billion in noncash contributions in 2008 likely involved an appraiser. Gift tax returns that likely used appraisers had higher audit rates than gift returns that were unlikely to have appraisers. The use of appraisers was not associated with higher audit rates for estate tax returns and individual returns with noncash contributions.

The Extent to Which Appraisers Are Involved in Different Types of Returns

Type of return	Returns likely to involve an appraiser as a percentage of all returns in that category	Estimated value of property likely to involve an appraiser
Estate tax returns (filed in 2009)	90 percent to 95 percent	\$75 billion to \$167 billion
Gift tax returns (filed in 2009)	14 percent to 19 percent	\$13 billion to \$17 billion
Returns with noncash contributions (tax year 2008)	Less than 1 percent	Less than \$10 billion

Source: GAO analysis of IRS data.

The Internal Revenue Service's (IRS) procedures for selecting returns to audit do not specifically target noncash contributions or gift or estate tax returns supported by appraisals. Nevertheless, returns with appraisals do get included in the population of audited returns because certain types of returns on which IRS does focus, such as higher-income ones, are also the most likely ones to have noncash charitable contributions that require appraisals. The current appraisal threshold for certain contributions over \$5,000 has existed since 1984. The absence of an inflation adjustment over the past 25 years means that many contributors who pay for appraisals would not have needed to do so when the current threshold was first introduced. IRS seldom takes issue with appraisals for noncash contributions. Consequently, there seems to be little risk in Congress raising the \$5,000 dollar threshold.

IRS appraisal experts in one division met standards for ensuring that they were qualified. However, art appraisal experts in another division are not subject to either a comprehensive quality review program or continuing education requirements specific to appraising art. The lack of comprehensive quality reviews and mission-specific continuing education requirements could make the art appraisers less effective than they otherwise would be.