

One of the most challenging questions for heirs and collectors managing significant art collections arises when an estate decides to skip a formal **date-of-death appraisal**. You might hear advice like “just keep good records” or “the IRS trusts your fair market value estimate,” but when it comes to high-value works, the stakes are much higher—especially in 2026 and beyond.

In this post, we'll examine the practical and legal realities of proving **basis documentation for art** when no qualified appraisal is performed at death. We'll explore the importance of *date-of-death valuations*, what a *qualified appraisal under oath* actually means (looking at the Form 706 context), and the role of IRS specialists like the **Art Appraisal Services unit** as well as the prestigious **Commissioner's Art Advisory Panel**. Finally, we'll discuss the looming effects of the 2026 estate tax exemption reductions and 40% estate tax rate on art owners, plus the tricky nine-month Form 706 filing and payment timeline versus the illiquid nature of art assets.

Why Does Basis Documentation Matter for Art?

When someone inherits art, the value of that art as of the **date of death** sets the *step-up in basis*. This means the heir can use that date-of-death fair market value (FMV) as the asset's cost basis for capital gains tax purposes if they later sell the piece. The higher and more well-documented that FMV, the less capital gains tax the heir pays on appreciation accrued during the decedent's life.

Without solid basis documentation, you are vulnerable to:

- **A capital gains audit risk:** If you cannot prove your basis at sale, the IRS may assume a lower basis, resulting in higher taxable gain.
- **Disallowed deductions or under-reported estate tax:** For estates above the exemption threshold who plan to take charitable deductions, low appraised values can limit these benefits.
- **Liquidity issues:** Deciding whether to pay estate tax or sell the art becomes much harder without proper documentation of value.

What Is a Qualified Appraisal and Why Do Form 706 and IRS Regulations Matter?

Simply put, a **qualified appraisal** is an appraisal that meets IRS standards and is performed by a qualified appraiser competent in valuing art for estate tax purposes. The appraisal must be prepared *under oath* and satisfy detailed IRS requirements to be valid documentation for tax reporting.

Qualified Appraisal Requirements under Form 706

Form 706 is the federal estate tax return. If the estate's total value exceeds the estate tax exemption amount (projected to drop dramatically to around \$5 million for 2026, a fraction of the 2023 level), Form 706 must be filed within nine months of the decedent's death (with a possible six-month extension).

For art, a **qualified appraisal must accompany the Form 706 filing** if the art is claimed as part of the gross estate. The appraisal:

- Must be prepared by an appraiser who regularly performs appraisals of art and is unbiased (not a party to the transaction).
- Must include a detailed description and fair market value of the art as of date of death.
- Must state the appraiser's qualifications.

- Must be signed under penalty of perjury.

The importance of this “under oath” qualifier cannot be overstated. It means the appraisal becomes a sworn document that IRS examiners can rely upon as the value at date of death should the estate come under audit.

IRS Art Appraisal Services Unit and the Commissioner's Art Advisory Panel

You know what's funny? the IRS maintains a specialized art appraisal services unit staffed with experts to review appraisals submitted with form 706. This unit scrutinizes the accuracy and reasonableness of valuations and may request clarification or additional information.

For especially complex or high-value works, the IRS convenes the **Commissioner's Art Advisory Panel**, a group of independent, nationally recognized art appraisers. This panel provides expert opinions on appraisals that IRS examiners use to verify or challenge submitted values.



This institutionalized scrutiny underscores why skipping a qualified appraisal entirely is precarious for estates containing art worth millions: the IRS has robust tools and expert resources to challenge basis valuations and impose substantial penalties or tax adjustments.

The Consequences of Skipping the Date-of-Death Appraisal

You might wonder, "If we don't get a qualified appraisal at death, what happens when we sell later?" The answer is: you face significantly elevated **capital gains audit risk** and documentation hurdles.

1. Missing a Clear Fair Market Value at Date of Death

The IRS expects an objective valuation documenting the *fair market value (FMV) as of the date of death*. Without it, you'll need alternative documentation to establish the basis. This can include:

- Purchase invoices or bills of sale if the decedent acquired the art recently
- Evidence of previous sales of comparable artworks
- Expert appraisals obtained later (which may not be accepted retroactively by the IRS)
- Letters from recognized art dealers or auction houses

However, none of these <https://fineartshippers.com/what-the-estate-tax-means-for-an-inherited-art-collection/> may carry the same weight as a contemporaneous qualified appraisal submitted under oath with Form 706.



2. Illiquidity and Estate Tax Payment Timing Conflict

Estate taxes on high-value art must be paid within nine months of death (Form 706 deadline). The art itself may be very difficult to sell quickly enough to raise cash without a steep discount—especially if you have not documented the art’s basis properly.

If the estate fails to file Form 706 or skips the qualified appraisal, penalties, interest, or audits may follow. Forced sales under duress tend to reduce art sale proceeds, which is bad for heirs and tax compliance alike.

3. Greater IRS Scrutiny at Later Sale

When heirs sell the artwork later, the original basis determines capital gain. Without clear proof of the date-of-death FMV, the IRS could:

- Assign a lower basis—possibly the original decedent’s cost or zero if no records exist
- Propose additional capital gains tax at up to 20% plus net investment income tax
- Demand documentation under audit, requiring costly defense and expert testimony

How to Mitigate These Risks When Skipping the Appraisal at Death

Not every estate must get a qualified appraisal, especially if it appears unlikely to exceed exemption amounts or if the art’s value is modest. But if you do decide to **skip the qualified appraisal**, here are recommended steps to minimize problems:

1. **Document everything in detail:** Keep invoices, purchase contracts, expert opinions, auction results, and provenance records organized and timestamped.
2. **Obtain *at least* an informal opinion of value by a credible art professional near the date of death:** This is not the same as a qualified appraisal but provides some contemporaneous support.
3. **Consider a late appraisal:** If time and funds permit, you may submit a late appraisal to the IRS with an extension request or during audit, but success varies.

4. **Consult your estate's CPA or tax attorney beforehand:** Ask directly how skipping the appraisal affects your basis documentation and audit risk. Request they explain IRS scrutiny procedures and penalties.
5. **Use technology tools and databases:** Track auction results and market trends for the specific artist or category to support valuations later.

2026 Estate Tax Exemption Changes Amplify the Stakes

Year	Estate Tax Exemption Amount	Top Estate Tax Rate
2023	\$12.92 million (approximate per individual)	40%
2026 (Projected)	Approx. \$5 million	40%

With the whopping exemption reduction set for 2026, many estates that previously escaped estate tax filing and appraisal requirements will now be required to file Form 706 and contend with qualifying their art at fair market value. That means more estates will face the choice: obtain and submit a qualified appraisal under oath or risk contest with the IRS and headaches when heirs sell.

Summary: Best Practices for Basis Documentation of Art

- **If your estate is near or above exemption amounts:** Always obtain a qualified appraisal under oath at date of death and submit with Form 706.
- **If you must skip appraisal:** Meticulously document provenance, purchase price, comparable sales, and expert opinions to build a defensible basis record.
- **Understand IRS processes:** The IRS has specialized Art Appraisal Services and an expert advisory panel, so guessing valuations without arm's length appraisal carries real risk.
- **Plan for illiquidity:** Art sales take time; consider estate tax payments are due within nine months—plan liquidity early.
- **Stay up-to-date:** With changing tax laws, exemptions, and IRS scrutiny, consulting professionals who understand art and tax nuances is critical to avoid costly mistakes.

Final Note:

Skipping the appraisal might feel like an easy way to reduce upfront costs. This reminds me of something that happened learned this lesson the hard way.. But art's value and tax costs rarely remain static. Missing a qualified date-of-death appraisal can haunt heirs for years, magnifying audit risk and complicating future sales. Investing in a thorough, compliant appraisal not only preserves the estate's liquidity and tax compliance but provides peace of mind in the complex world of art estate planning.

To avoid vague advice, always ask your CPA or appraiser specifically:

"Is this appraisal qualified under IRS regulations for Form 706 purposes?" "What documentation will I have for basis if we skip the appraisal today?" "What is our documented fair market value as of date of death?"

Answering these questions up front is the best defense against costly disputes later.