

VALUATION OF GEMS AND JEWELRY



The Appraisal
FOUNDATION

Authorized by Congress as the Source of Appraisal
Standards and Appraiser Qualifications

There are a number of reasons you may find yourself in need of a jewelry appraisal. You may have recently acquired an important piece of jewelry, you may be donating an item to a charity or, as an executor of an estate, distributing family treasures among heirs. Whatever your reason, the purpose of this brochure is to help you understand a gem and jewelry appraisal, the process, and what you need to know in choosing an appraiser who is right for you.

After reviewing this brochure, you will understand the definition and elements of a credible appraisal, the appraisal process, the importance of appraiser qualifications and independence, and how to proceed if you think that a correction or clarification should be made to the appraisal report.

A qualified gem and jewelry appraiser is not only an expert in valuation but must also be a credentialed gemologist – a scientist with expertise in identifying the precious gems and manufacturing techniques that are unique to the jewelry industry. The appraiser must understand and have the ability to identify jewelry from different periods of history, and the connoisseurship to evaluate gems and jewelry for their quality and workmanship.

Appraisals for various intended users and uses are approached differently. The value required by your insurance company to protect an item in the event of a loss may be different than the value required by the Internal Revenue Service (IRS) in the case of a charitable donation. The standards for estimating values for various purposes are set forth in the Uniform Standards of Professional Appraisal Practice (USPAP). Properly trained and credentialed appraisers adhere to these standards when preparing your appraisal, assuring that you will have a quality product that will meet your needs.

*This brochure was produced by The Appraisal Foundation. The Foundation sets the Congressionally-authorized standards and qualifications for real estate appraisers, and provides voluntary guidance on recognized valuation methods and techniques for all valuation professionals. This work advances the profession by ensuring appraisals are independent, consistent, and objective. More information on The Appraisal Foundation is available at **www.appraisalfoundation.org**.*



WHAT IS AN APPRAISAL?

An appraisal is an opinion of value¹. You may request an appraisal of your jewelry for any number of reasons. If you would like to obtain insurance for a new purchase or an inherited item of jewelry, your insurance company may require an appraisal which thoroughly describes the item and gives an opinion of current replacement value in the marketplace. Items that may not be possible to replace identically will be valued for replacement with a comparable item.

With regard to appraisals subject to specific IRS regulations or court-directed instructions, such as a jewelry donation, jewelry appraisal for probate or dissolution of a marriage, or gift-tax appraisals, you may need a *Fair Market Value Appraisal*. A *Fair Market Value Appraisal* includes an analysis completed in compliance with specific IRS or court-directed instructions. After discussing your particular goals with you, your appraiser determines the appropriate scope of work including the research and analysis required to produce a credible opinion of value.

WHAT IS A QUALIFIED GEM AND JEWELRY APPRAISER?

A professional gem and jewelry appraiser combines expertise in two areas of science. Your appraiser should be an accredited gemologist, or “gem-scientist,” trained and equipped to identify the materials commonly encountered in the jewelry industry. Several organizations worldwide test and certify gemologists. Two well-

¹ USPAP 2014-15 Edition, Page U-1, line 8, The Appraisal Foundation.

known gemological educational organizations are the Gemological Institute of America (GIA), and the Gemmological Association of Great Britain (GEM-A).

Your appraiser should also be trained in generally accepted appraisal practices including compliance with the *Uniform Standards of Professional Appraisal Practice* (USPAP). As technology continues to impact the gem and jewelry industry, it is even more important to choose an appraiser with current credentials. Many appraisal organizations require their members to re-certify on a regular basis and stay current with their gemological and appraisal skills, today's technological advances, and generally recognized appraisal standards. Several well-known organizations test and certify appraisers in valuation theory and practice.

When the results of an appraisal are to be included with a Federal tax return, it is important to be aware of the IRS guidance² regarding the appropriate requirements for the "qualified" appraiser. For example, the IRS requires that the appraiser has successfully completed college or professional-level coursework relevant to the property being valued.

The client should select an appraiser who has met minimum education qualifications and experience requirements (the Appraiser Qualifications Board of The Appraisal Foundation has set the minimum educational qualifications for personal property appraisers as 120 classroom hours), has demonstrated competency in valuing the type of property being appraised and has earned an appraisal designation from a recognized professional appraisal organization. Finally, the appraiser should comply with USPAP.

The IRS recommends the appraiser have at least two years' experience valuing the type of property being appraised.

THE APPRAISAL PROCESS

First, your appraiser will interview you regarding the reason you require an appraisal. Many people consult an appraiser saying, "I just want to know what it is worth." The appraiser will explain the many levels of "worth" or value, such as the value of a piece of jewelry purchased new from the retail jeweler or the value of a piece of jewelry purchased second-hand, or what an item would be worth if you were going to sell it, and even then, where you are considering selling it. Your appraiser will help you understand the intended use of your appraisal, in order to correctly assess its value.

² Internal Revenue Service Publication 561. (Rev. April 2007). Cat. No. 15109Q. Determining the Value of Donated Property. p. 9.

The Scope of Work, which is the type and extent of research and analyses required to prepare the appraisal, is determined by the appraiser at this time. In each appraisal, an appraiser must identify the problem to be solved, determine and perform the scope of work necessary to develop credible assignment results, and disclose the scope of work in the report.

Second, your appraiser will inspect the item(s) you wish to have appraised. Whether you have one item or several, your appraiser can help you sort your items according to your needs, separating items that may be either costume jewelry or below your chosen value threshold. Sometimes tests or research must be performed before an appraiser can help you sort the less-valuable items from those you wish to have appraised. After your appraiser has determined the scope of work for your particular appraisal, you will be given an estimate of the fee for the professional services being provided. No properly credentialed appraiser will charge you based on a percentage of the appraised value, unless mandated by law. The fee should be based on either an hourly rate, by the piece, or by the project.

A jewelry appraiser will begin the process by thoroughly examining your item and describing it in detail. In most cases, an item is photographed in as much detail as necessary to re-create an item, or replace it with an item of comparable quality. Metals are tested when possible to confirm the precious metal content. Gems are tested to confirm their identity, graded for quality, and mounted gems are measured to calculate their weight by formula. Loose gemstones are weighed on a scale. Items of jewelry are examined for quality and style of workmanship. Has the item been



repaired or is it original? Is it in good condition? Have gems been replaced or are they damaged? Is there any evidence of historical provenance or special ownership? Is there an original box and accompanying papers and receipts? Often diamonds and gems bear laboratory reports which denote certain findings that can significantly affect value, such as country of origin, or the presence or absence of various gem treatments.

After completing the examination, the appraiser will determine the best approach to value the item, based on your particular needs. There are three main approaches to value: the cost approach, the market data or sales comparison approach, and the income approach.

- The *cost approach* is the appraiser's opinion of the current replacement cost to reproduce the existing piece of jewelry. The cost approach is a valuable approach to use when appraising newer items that can easily be replicated.
- The *market data or sales comparison approach* utilizes recent sales of comparable items, and is usually accomplished by researching auction or other available sales records. An appraiser will analyze and compare sales characteristics that include the historical time period of the jewelry, (e.g., Art Deco, Victorian or Modern); similar levels of quality and provenance (e.g., Tiffany & Company and Cartier); and, the types of gems involved, their size and quality and the closeness of their recorded dates of sale and in what part of the world they were sold. This approach is often used in valuing older items which cannot be readily valued by the cost approach.
- The *income approach* is rarely used in valuing jewelry, unless the jewelry is producing an income, as can be the case when it is being rented for special occasions, or part of a collection such as the Titanic jewelry that can be viewed by the public for a fee.

After the approach or approaches to value are chosen, the appraiser will complete the research and analysis and will develop an opinion of value. A detailed narrative and evaluation of each item is written, and the formal report is prepared and delivered to the client.

ESSENTIAL ELEMENTS OF A CREDIBLE APPRAISAL

A credible appraisal clearly identifies the objects appraised, the scope of work performed by the appraiser, the client and other intended users, and the intended use of the report. The appraisal report must include the type and definition of value

(e.g., market value), the effective date of value, the subject property's relevant characteristics, and any other special instructions from the owner, the courts, or federal law, etc. A credible appraisal must effectively communicate the data and analysis required to support the opinion of value.

There is no single standard appraisal report form, format, or style. Regardless of the type of appraisal report used, all appraisal reports must contain sufficient information to enable the intended users to understand the report properly and be credible. The *Uniform Standards of Professional Appraisal Practice* include specific requirements for what must be included in the appraisal report.

A credible appraisal must comply with the *Uniform Standards of Professional Appraisal Practice* and all regulatory requirements, as well as client-specific requirements.

WHAT SHOULD A GEM OR JEWELRY APPRAISAL INCLUDE?

Regardless of the intended use, the appraiser should prepare the report in compliance with the *Uniform Standards of Professional Appraisal Practice* and include:

- A cover document outlining the appraisal's purpose and use and to whom the item(s) belong.
- Identification of the intended use and intended user of the appraisal.
- Methods and resources used to provide a value conclusion, comparative sales data, and the rationale for the value opinion.
- A complete description of the item written in sufficient detail to identify the exact piece without a photo (although a photo may be attached to the appraisal as well).
- The date and location where the item was visually inspected.
- A statement that the appraiser has no personal financial interest in the property or what the financial interest is. It is best if the appraiser has no relationship to the parties involved and no personal interest in the item to be appraised.
- A signed certification compliant with the *Uniform Standards of Professional Appraisal Practice* requirement.
- The appraiser's qualifications.

There are many important elements to consider when valuing gems and jewelry. Generally, the more valuable the object, the more elements must be considered.

A qualified appraiser is trained to look for specific components of value in specific objects and understands the effects of supply and demand on value.

There are a number of factors to consider when appraising collections. The appraiser will review auction results and price guides as a place to begin.

SELF-REGULATED APPRAISAL PROFESSION

Unlike real property appraisers, personal property appraisers are not licensed or certified by the state appraiser regulatory agencies. Therefore, when hiring a personal property appraiser, consider hiring an appraiser who is credentialed by a recognized professional appraiser organization that adheres to the minimum criteria established by the Appraiser Qualifications Board (AQB) of The Appraisal Foundation.

Most professional gem and jewelry appraisers belong to appraiser membership organizations in the United States and around the world, which have a Code of Ethics that members are required to uphold. Some of the organizations include Appraisal Sponsors of The Appraisal Foundation, which are listed at the end of this brochure. Along with a Code of Ethics, these organizations adhere to, at a minimum, the education and experience criteria established by the AQB. There are other personal property appraiser professional organizations that are not Appraisal Sponsors of The Appraisal Foundation. Although these organizations may have Codes of Ethics, and voluntarily adhere to the minimum criteria established by the AQB, they are under no mandate to do so. Finally, some personal property appraisers do not belong to any appraisal membership organization.

THE IMPORTANCE OF APPRAISER INDEPENDENCE

Professional appraisers are trained to deflect any attempt to influence the appraisal or opinion of value, and to remain independent, impartial and objective. Since the appraiser has the sole responsibility for the analyses, opinions, and conclusions contained in the appraisal, his or her independence is a critical element to enhance the public trust that appraisals contain credible opinions of value. Appraisers complying with the *Uniform Standards of Professional Appraisal Practice* are required to maintain this level of independence, to perform assignments without bias and to include in the appraisal certification the following statement.

*I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.*³

An appraiser in a store selling jewelry may have a bias toward their own merchandise.

³ USPAP 2014-15 Edition. Page U-58, lines 1883-1884. The Appraisal Foundation.

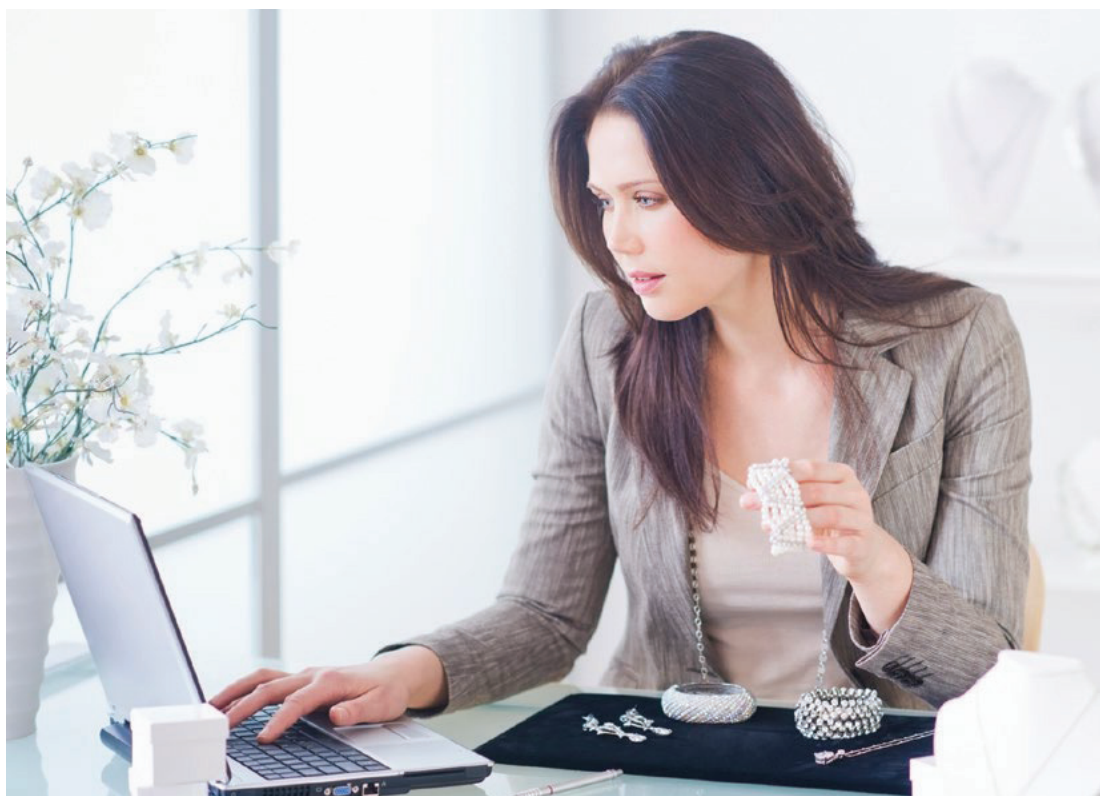
COMPONENTS OF VALUE

Function - The use of jewelry can add to or subtract to its value in the marketplace. As trends and fashion change, jewelry may become outdated and obsolete. This is reflected in the market and must be a consideration of the appraiser.

Quality - An aesthetic concept, quality is used in judgment of inherent merit, worthiness, or excellence in something. An appraiser must be able to discern whether the object being valued is exceptional, unexceptional or mass-produced, and how well the workmanship was executed. The qualified appraiser should be experienced and trained to recognize the differences.

Rarity - An extremely rare object can be quite valuable in spite of condition issues. Since the market is determined by supply and demand, the rarer an object, generally the more valuable it may be in a competitive market.

Maker / Artist - Companies and people who produce jewelry. The maker's reputation can add value to an object. If it was made by a well-known or collected artisan or craftsman, or is a popular brand name, it will likely be more valuable. Signed works by recognized artists can also have higher values.



Authenticity - Genuine objects typically have more value than reproductions or “knock-offs.” In valuing jewelry, value may be significantly affected if an object is not authentic. Many early and original items are difficult to authenticate and a qualified appraiser should be able to determine when examination by a specialist in authentication is needed.

Condition - Physical characteristics perceptible in or on materials or objects can have considerable impact on value in the market. Generally, objects in their original condition are more valuable; conversely, works that have been improperly restored or damaged beyond normal wear and tear can decrease in value. The qualified appraiser determines issues such as: the completeness of the object; the originality of its component parts; and changes or alterations that have been made to the object.

Provenance - An object’s history of ownership, or its association with a significant person, can increase the value of an object. It can also add to its authenticity.

Age - Dating an object assists in its authentication, thereby determining if it is of proper period or a reproduction object.

Material - The material used to create an object affects value; higher quality and rare materials can add value to the object. A qualified appraiser should be able to determine whether rarity outweighs material value and whether quality of workmanship outweighs rarity.

Fashion and Trends - Styles come and go. Some gems and jewelry may be more or less valuable than others at different times in history based on the changes in the attitudes of the buying public. Understanding these markets is important in order to produce a credible appraisal.



FREQUENTLY ASKED QUESTIONS

Do I have to leave my jewelry?

Every appraiser works differently, depending on the particular assignment. In some cases your appraiser can examine and document your items during your appointment, and you will not have to leave them. In other instances it may be necessary to leave items for advanced testing or research, and if you have a large number of pieces, it may be necessary to leave them or schedule subsequent appointments. Discuss your preferences with your appraiser.

How much does an appraisal cost?

Appraisers charge by the hour, by the piece, or at an agreed fee for the project. Rates can vary widely, but should be competitive amongst similarly qualified appraisers, offering similar service in your area. Ask the appraiser what they provide for their appraisal service. Do they charge a reduced rate for updates? Do they provide electronic copies? Do they offer a volume discount? Appraisers abiding by USPAP standards cannot charge a percentage of the appraised value unless required by local law.

How long is an appraisal good for?

An appraisal is a snapshot of market value as of the date of valuation. As the market moves up or down, values will change. Generally, it is a good practice to update your appraisal periodically. Your insurance company may require a new appraisal based on their policies, and their time-frames can vary, from annually to every three to five years. Check with your insurance company for their requirements. Many insurance companies will automatically raise your value a certain percentage every year, which will also raise your costs for insurance. Check to see if this practice actually tracks with the market. If you become aware of a shift in precious metals markets, you may wish to contact your appraiser for advice. Appraisals for IRS purposes have specific valuation date requirements.

How do I know my diamonds won't be switched?

The better you know your jewels, the less you have reason to worry. Your appraiser will be happy to show you ways to identify your gems and document their unique characteristics. No two diamonds are alike. Your appraiser may be able to photograph the interior of your diamond, which is as unique as a fingerprint.

IMPORTANT TERMINOLOGY

Appraisal – An opinion of value. The act or process of developing an opinion of value by an impartial and properly qualified appraiser.

Appraisal Review – The act or process of developing and communicating an opinion about the quality of another appraiser’s work.

Credible Appraisal – A credible appraisal is one that is worthy of belief. A credible appraisal includes support, by relevant evidence and logic, for the opinion of value.

Value – The monetary relationship between objects and those who buy, sell, or use those objects.

Effective Date of Valuation – The date that the appraiser inspected the object, developed the opinion of value, or another date of relevance to the client or intended user. The client may request a date of valuation to obtain an opinion of value on the date of death for an estate; date of a charitable contribution; transfer of gift, or sale date.

The Appraisal Foundation – The Appraisal Foundation is a Congressionally authorized non-profit organization established in 1987. The Appraisal Foundation is dedicated to the advancement of the appraisal profession. The Foundation accomplishes its mission through the work of its three independent boards: the Appraisal Practices Board (APB), the Appraiser Qualifications Board (AQB) and the Appraisal Standards Board (ASB).

Appraisal Standards Board (ASB) – The ASB sets forth the rules for ethics and competency in developing an appraisal and reporting its results within the *Uniform Standards of Professional Appraisal Practice* (USPAP).

Appraiser Qualifications Board (AQB) – The AQB establishes the minimum qualification criteria for state licensing, certification and recertification of real property appraisers. The AQB also develops qualification criteria for personal property appraisers, which appraiser organizations that are Appraisal Sponsors of The Appraisal Foundation must comply with. Other personal property appraisers and appraiser organizations may also elect to comply with these criteria as well.

Appraisal Practices Board (APB) – The APB is charged with the responsibility of identifying and issuing opinions on recognized valuation methods and techniques, which may apply to all disciplines within the appraisal profession. Compliance with guidance issued by the APB is voluntary.

Authentication – Verification by an authorized, qualified person that jewelry was produced by a certain person or was produced in a certain place or period of history. Generally appraisers are not authenticators, and unless they have an area of expertise in research and publication in the appropriate field, an outside expert is required to resolve issues of authenticity.

Personal Property – Identifiable tangible objects that are considered by the general public as being “personal” – for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible property that is not classified as real estate.⁴

Comparable – A shortened term for comparable sale, a sale record for a similar object used for comparing objects in the sales comparison approach in order to develop an opinion of value.

Sales Comparison Approach – A set of procedures in which a value is derived by comparing the property being appraised to similar properties that have been sold recently, then making adjustments to the sale prices of the comparables based on their differences with the property being appraised. Adjustments to comparable object prices are based on marketplace conditions and the object’s characteristics of value.

Cost Approach – A set of procedures through which a value is derived for an object by estimating the current cost to create a reproduction of or replacement of the object. This estimate may include deducting depreciation from the total cost.

Income Approach – A set of procedures through which an appraiser develops a value for an income-producing property by calculating the present value of anticipated cash flows.

⁴ USPAP 2014-15 Edition. Page U-4, lines 116-118. The Appraisal Foundation.

SPONSORING ORGANIZATIONS OF THE APPRAISAL FOUNDATION

Appraisal Sponsors:

American Society of Appraisers
American Society of Farm Managers & Rural Appraisers
Appraisers Association of America
Columbia Society of Real Estate Appraisers
Instituto de Evaluadores de Puerto Rico
International Association of Assessing Officers
International Right of Way Association
International Society of Appraisers
Massachusetts Board of Real Estate Appraisers
National Association of Independent Fee Appraisers
North Carolina Professional Appraisers Coalition

Affiliate Sponsors:

American Bankers Association
Farm Credit Council
National Association of Realtors

International Sponsor:

Royal Institution of Chartered Surveyors



The Appraisal Foundation is the nation's foremost authority on the valuation profession. The organization sets the Congressionally-authorized standards and qualifications for real estate appraisers, and provides voluntary guidance on recognized valuation methods and techniques for all valuation professionals. This work advances the profession by ensuring appraisals are independent, consistent, and objective. More information on The Appraisal Foundation is available at www.appraisalfoundation.org.



The Appraisal FOUNDATION

Authorized by Congress as the Source of Appraisal
Standards and Appraiser Qualifications

The Madison Building
1155 15th Street NW, Suite 1111
Washington, DC 20005-3517

tel 202 347 7722
fax 202 347 7727

www.appraisalfoundation.org

CONNECT WITH US ON

