Appraising Fine Art: Lessons from The Appraisal Foundation

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What if the appraiser you hired to appraise your client’s artwork was not legally competent or otherwise not qualified as an expert? How would that impact your client and your case? How would it impact your practice?

The Kollsman Case is Instructive

The 2019 case of Eva Franzen Kollsman v. Commissioner of the Internal Revenue Service1 clearly explained the consequences of not engaging a legally qualified, that is a credentialed, appraiser to valuate a client’s personal property. In Kollsman, the U.S. Tax Court found that the executive at the auction house who appraised the artwork in question in the case was not qualified, lacked objectivity, and failed to offer support for his conclusions. The Tax Court ruled in favor of the Internal Revenue Service (IRS), relying heavily on the testimony of the IRS expert, who was a credentialed personal property appraiser. This decision resulted in an additional $586,000 tax liability for the decedent’s estate because a faulty appraisal was conducted by someone who was not qualified or objective. On appeal, the ruling of the Ninth Circuit Court of Appeals was consistent with the Tax Court, concluding that an appraisal from a prestigious auction house is not adequate assurance of an appraiser’s competency or an appraisal’s quality. Moreover, the ruling established a minimum standard of care for attorneys to recognize appraisal practice as a distinct professional discipline.

What is a Credentialed Appraiser?

To avoid the potential adverse consequences of relying on an unqualified third party, it is important to use a credentialed personal property appraiser. Credentialed personal property appraisers must complete a rigorous admission, training, and testing process as laid out by Appraisal Standards Board (ASB) and the Appraiser Qualifications Board (AQB) of The Appraisal Foundation. This process includes qualifying criteria, industry standards, ethics requirements and continuing education to maintain their credential. All together these criteria and standards ensure the public that appraisers following these standards are performing appraisals that are meaningful and credible.

The Role of The Appraisal Foundation in the Valuation Profession

But you might ask, “What is The Appraisal Foundation and what do these criteria and standards entail?”

The Appraisal Foundation (the “Foundation”) is the nation’s most respected and highest authority on the valuation professional and the services provided by valuation professionals. Organized in 1987, the Foundation was congressionally authorized in 1989 to set standards and qualifications for real estate appraisers and provide voluntary guidance on recognized valuation techniques and methods for all valuation professionals regardless of discipline. This includes personal property, business valuation and mass appraisal whose standards mirror those governing real estate appraisers.

For over three decades, the Foundation has developed standards and qualifications for all areas of valuation through its two boards: The Appraisal Standards Board and the Appraiser Qualifications Board. In particular, the ASB is responsible for the development and updating of the Uniform Standards of Professional Appraisal Practice (“USPAP”). USPAP was first developed in 1987 and contains standards governing real property appraisal, personal property appraisal, and business valuation.

Congress recognized USPAP as the generally accepted valuation standards in the United States in 19892. USPAP is typically updated on a two-year cycle and covers a range of issues for appraisers—from the proper process for conducting a personal property appraisal to ethics requirements that prohibit bias and require an appraiser’s impartiality. USPAP is critical to ensuring an appraiser is following a process that is standardized and recognized by others in their field.

At the same time, the AQB maintains the Personal Property Appraiser Qualification Criteria (the “Criteria”). The Criteria include the minimum education, experience, and examination requirements for sponsoring organizations of the Foundation. These organizations confer personal property designations on their members who meet the Criteria. This ensures that all credentialed appraisers have the same education and training when they enter the field.

Credentialed of Appraisers

It is important to note that the Foundation is responsible for developing and publishing USPAP and Criteria as described above, but it is not responsible for the credentialing of individual appraisers. The sponsoring organizations carry that responsibility. With respect to personal property appraiser credentialling, the Foundation’s three sponsoring organizations are the Appraisers Association of America3, the American Society of Appraisers4, and the International Society of Appraisers5. Each of these organizations maintains a publicly accessible listing of its credentialed members who have completed the necessary qualification requirements and adhere to the standards developed by the ASB and the AQB.

The best way to know if the appraiser you are using is truly qualified is to ensure they hold a credential from one of the organizations mentioned above. If you are searching for a credentialed personal property appraiser in a specific discipline or geographic area, contact these organizations directly, and they will be able to assist you in finding the right appraiser. ♦

1 President of the Appraisal Foundation, Washington, DC (www.appraisalfoundation.org).
4 The Appraisers Association of America, established in 1949, is a national association of personal property appraisers who focus on fine and decorative arts. More information available at https://www.appraisersassociation.org
5 The American Society of Appraisers is a multi-discipline, non-profit, international organization of professional appraisers representing all appraisal disciplines. More information available at https://www.appraisers.org/Home
6 Founded in 1979, the International Society of Appraisers, or ISA, is a professional personal
property appraisal association, representing highly trained and rigorously tested independent appraisers in the United States and Canada. More information available at https://www.isa-appraisers.org/