

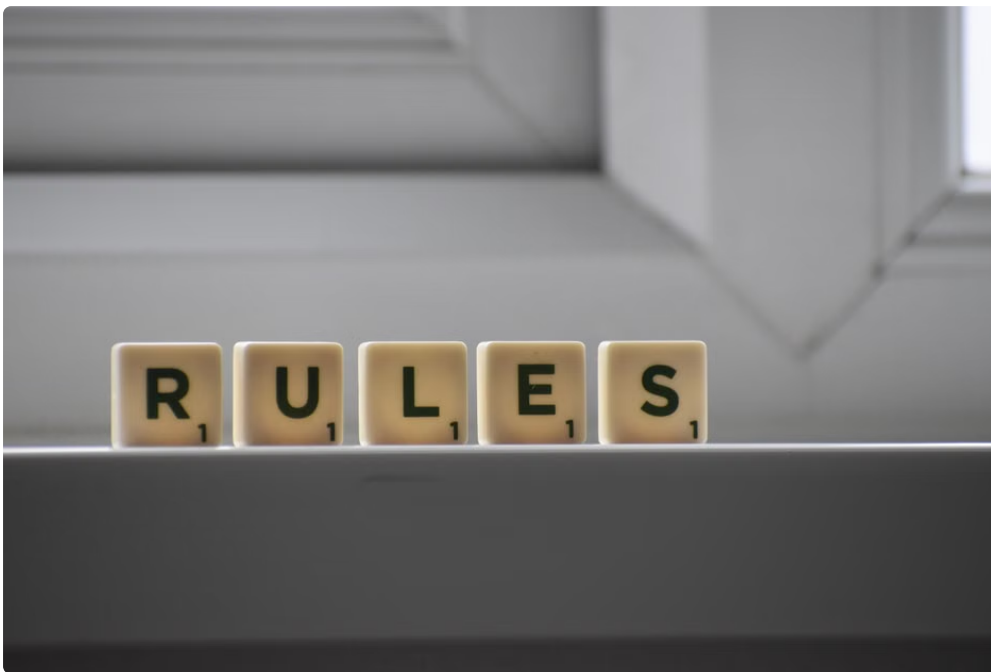
When an estate includes high-value art and collectibles, choosing the correct valuation method is a crucial decision for the executor. Particularly when the goal is to **lower the gross estate value** and minimize estate tax liability, understanding the **alternate valuation rules** under *Internal Revenue Code (IRC) Section 2032* becomes essential.

In this post, we break down how the executor can use the alternate valuation date to reduce estate taxes, the crucial role of **qualified appraisals under oath**, the involvement of the IRS Art Appraisal Services unit and the Commissioner's Art Advisory Panel, and how these dynamics interact with the 2026 estate tax exemption and rates. This is especially important if the estate holds illiquid art, where sale timing can be tricky vis-à-vis strict IRS deadlines.

Understanding the IRS Valuation Dates & the Alternate Valuation Election

For estate tax purposes, the IRS generally requires the estate's assets to be valued as of the decedent's **date of death**. This *fair market value* becomes the baseline for the gross estate's reported worth on **Form 706**—the United States Estate (and Generation-Skipping Transfer) Tax Return.

However, under IRC 2032, the executor can make an **alternate valuation election** that allows assets to be valued six months after the date of death, commonly referred to as the **alternate valuation date**. This election offers an opportunity to potentially reduce estate tax liability if asset values decrease after death.



How Does IRC 2032 Election Work?

- **Timing:** The alternate valuation date is exactly six months after the decedent's death.
- **Scope:** All property included in the estate must be valued using the alternate valuation date once the election is made; it cannot be used selectively.
- **Conditions:** The election is only beneficial if it reduces both the gross estate's value and the resulting estate tax liability.
- **Form 706 Reporting:** The election is indicated on Form 706, which must be filed within nine months after death (though extensions are possible).

Important IRS Timeline Checklist for Executors

Event Deadline Notes Death Date Day 0 Valuation baseline, start of nine-month filing period Alternate Valuation Date 6 months after death Assets appraised here if election made Form 706 Filing Due Date 9 months after death Filing must include election choice; extensions possible Estate Tax Payment Due Date Same as filing due date (9 months) Late payment penalties and interest apply

Tip: Executors should mark these key dates on their calendars immediately after the death to manage compliance and valuation strategically.

Qualified Appraisals Under Oath — Why They Matter More Than Ever

When art or other unusual or hard-to-value assets constitute a significant portion of the estate, proper valuation requires more than just a quick market check. The IRS demands a **qualified appraisal** that is:

- Prepared by a qualified appraiser meeting strict criteria
- Conducted within 60 days of the date the return must be filed (usually within 9 months)
- Reported under oath on Form 706 schedule(s)
- Fully documented, including provenance, condition, market data, and comparable sales

Executors cannot simply guess or use outdated or cursory values. Art is notorious for fluctuating and is often illiquid. This is why the IRS established the **Art Appraisal Services** unit and the **Commissioner's Art Advisory Panel (CAAP)**, which experts often consult when there's significant suspicion or complexity over valuations.

The Role of the IRS Art Appraisal Services Unit and Commissioner's Art Advisory Panel (CAAP)

If an estate includes works valued in the millions, the IRS might have the Art Appraisal Services unit scrutinize the submitted appraisals closely. CAAP, a team of independent art experts, may be called in to provide advisory opinions to the IRS on the fairness and accuracy of valuations. This means all appraisal reports must be detailed, robust, and defensible under scrutiny.

Applying the Alternate Valuation Date Election to Art

How does the alternate valuation date affect artworks, and can it lower estate tax effectively?

Using the alternate valuation date can reduce the *gross estate value* if the art market for the decedent's collection declines in the six months following death. For example, if the art market softens or the specific artist's market cools, the valuations at six months might be materially lower than on the date of death.

But here's the nuance:

- The alternate valuation method applies **to the entire estate** and cannot be applied selectively to only some assets.
- The election only stands if it *lowers the estate tax due*; if estate value falls but tax savings do not, the IRS will reject the election.
- Illiquidity of art makes timing critical because estates have only nine months to file Form 706 and pay any taxes due, but sales of high-value art may take longer.

Challenges with Illiquid Art and the Nine-Month Form 706 Deadline

Even if the alternate valuation date produces a lower value, the estate faces a mismatch between the IRS tax payment timeline and the realities of selling art.

The nine-month deadline to file Form 706 and pay any estate taxes is strict. Extensions for filing can be requested (usually up to six months), but extensions for payment generally cannot. Executors face these challenges:

1. **Valuation must be finalized quickly:** Qualified appraisals must reflect market conditions six months post-death, even if art hasn't sold yet.
2. **Funding the tax bill:** Executors often must use liquidity from other estate assets or borrow funds because art sales, especially at scale, can take 12 months or more.
3. **Risk of IRS disputes:** Aggressive valuation reductions risk audits, particularly when large tax dollars are involved.

2026 Estate Tax Exemption and Rates — Context for Making the Election

The practical value of using the alternate valuation date depends heavily on the prevailing estate tax threshold and rates.

Year	Estate Tax Exemption	Estate Tax Top Rate
2023 (for context)	\$12.92 million (per individual)	40%
2026	\$6.0 million (approximate projected)	40%

Because the exemption amount is expected to be approximately \$6 million in 2026—roughly half of current levels estates may suddenly find themselves above the exclusion threshold and subject to the full 40% estate tax rate. This makes aggressive valuation strategies under IRC Section 2032 even more important moving forward.

Steps for Executors Considering the Alternate Valuation Election to Lower Estate Tax

1. **Review the estate's asset composition early:** Identify art, collectibles, and other potentially volatile assets.
2. **Obtain qualified appraisals promptly:** Engage experienced appraisers familiar with IRS requirements and attestation under oath for both dates (date of death and six months later).
3. **Analyze market trends:** Assess if the market conditions in the six months after death likely lowered the value.
4. **Calculate estate tax under both valuation dates:** Prepare tax projections to confirm if the election will reduce tax.
5. **Document everything meticulously:** Use signed appraisal reports, sales data, and expert opinion to defend valuation choices.
6. **File Form 706 timely with election:** Indicate the IRC 2032 election clearly on Form 706 to preserve the choice.
7. **Plan asset liquidity for tax payment:** Arrange funds or sales to cover taxes due, mindful that art sales may lag the payment due date.

Summary: Can the Executor Choose the Alternate Valuation Date to Lower Estate Tax?

Yes—but with important caveats. The executor can elect the alternate valuation date under IRC Section 2032 to value estate assets six months after death and potentially reduce the gross estate value and estate tax. However, this election applies to the entire estate, must demonstrably reduce estate tax, and depends heavily on robust qualified appraisals under oath. Estates holding high-value art must prepare <https://fineartshippers.com/what-the-estate-tax-means-for-an-inherited-art-collection/> for IRS scrutiny via the Art Appraisal Services unit and potentially the Commissioner's Art Advisory Panel.

Moreover, illiquid art introduces timing and cash flow complexities as the estate must file Form 706 and pay any taxes within nine months of death, well before some art sales can be finalized. Executors need to strategize carefully, meet IRS documentation standards, and estimate tax impact against current and projected exemption amounts—which will be notably lower starting in 2026 while the top estate tax rate remains high at 40%.

Bottom line: The *IRC 2032 election* is a powerful tool to **lower the gross estate value**, but only if wielded prudently with expert appraisals and careful timing considerations for illiquid assets like fine art.



If you're an executor managing a high-value estate, it's essential to work closely with qualified appraisers, estate tax attorneys, and CPAs experienced with art valuation and IRS audit protocols. Early planning and precise documentation are your best defenses to safeguard estate tax savings.