



**The Art Advisory Panel
of the
Commissioner
of
Internal Revenue**

**Annual Summary Report
for 2003
(Closed Meeting Activity)**



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The Art Advisory Panel of the Commissioner of Internal Revenue

Four closed meetings of the Commissioner's Art Advisory Panel were held in 2003: Paintings and Sculpture on April 9 and October 8; and Decorative Arts and Antiques on June 11 and December 17. All meetings were closed to the public by determination of the Commissioner that the substantive discussions and records of the Panel dealt with the value of works of art involved in a federal tax return and were thus concerned with matters listed in sections 552b(c)(3), (4), (6), and (7) of Title 5 of the United States Code. Consequently, the meetings at which such matters are discussed and the records of such meetings should not be open to the public. This is necessary to protect the confidentiality of tax returns under section 6103 of Title 26 of the United States Code.

The Art Advisory Panel assists the Internal Revenue Service by reviewing and evaluating the acceptability of property appraisals submitted by taxpayers in support of fair market value claims on works of art involved in Federal Income, Estate and Gift taxes in accordance with the Internal Revenue Code.

All taxpayer cases selected for audit which include art work or cultural property with a claimed value of \$20,000 or more must be referred to Art Appraisal Services for review by the Commissioner's Art Advisory Panel. Art Appraisal Services provides the staff support and coordination of the Art Panel and reviews appraisals of taxpayer cases on art works not referred to the Panel.

The Panel meets in Washington, DC usually once or twice a year in each specialty area. Approximately 250-300 items are reviewed at each one-day meeting. Prior to the meetings, the staff appraisers send photographs and written materials to the Panelists concerning the works of art to be reviewed. The written materials include information from the taxpayer's appraisal, such as size, medium, physical condition and provenance, as well as the staff's own market research, including information on public and private sales of relevant art work. Sometimes, one or more of the Panelists or staff will have seen the property and may have additional information to provide during the meeting.

Steps are taken to ensure the objectivity of the Panel. The Panelists are not told of the tax consequences, i.e., whether an item is a charitable contribution or from an estate. Also, to minimize recognition by the Panelists of a taxpayer's entire collection, the art works are discussed in alphabetical order by artist or, in the case of nonwestern art, by culture.

At the meetings, the taxpayer's appraisal and any other supporting evidence provided, along with the research and findings of both the Panelists and staff appraisers, are reviewed. After discussing each item individually, a consensus is reached on each item. Panel discussions are lively, but serious, and in spite of the different perspectives of dealers, auction house experts and museum curators, disagreements are rare. When disagreements do occur, they generally result from insufficient information. In these cases, the Panelists will indicate that additional research, such as inspection of the property or consultation with additional experts, is necessary before a decision can be made. Once the additional work is completed, the item is brought up for review at a subsequent meeting. In the event of a conflict of interest involving a Panelist and a work of art under review, the Panelist does not participate in the discussion and is excused from the room.

The Panel's conclusions are reviewed by the office of Art Appraisal Services and recommendations of fair market value are sent to the requesting IRS office. To assist the taxpayer's understanding of the Art Advisory Panel's conclusions, a report detailing its determination, together with a list of the participating Panelists, is prepared and a copy is given to the taxpayer.

Taxpayers may request reconsideration of an adjusted claimed value only if they provide additional information or new probative evidence. Such information, if deemed substantive by the staff, is submitted to the Panel for reconsideration at a subsequent meeting.

The determinations of the Art Advisory Panel become the position of the Internal Revenue Service. If agreement is not reached at the Examination level, the office of Art Appraisal Services and the Art Advisory Panel will provide assistance to Appeals and District Counsel. This assistance includes participating in taxpayer conferences, preparing expert reports and securing expert witnesses, including members of the Panel and other outside experts.

Incorporated for the purposes of this annual report is the summary meeting report prepared by the designated committee manager. This report identifies the dates of the meetings, summarizes the statistics on appraisal reviews of estate and gift returns and charitable contribution deductions, and lists names of attending Panelists and Internal Revenue Service officials.

Summary of 2003 Panel Reviews

Four closed meetings of the Commissioner's Art Advisory Panel were held in 2003: Paintings and Sculpture on April 9 and October 8; and Decorative Arts and Antiques on June 11 and December 17. The meetings were chaired by Ms. Karen E. Carolan, Manager of Art Appraisal Services, Appeals, Internal Revenue Service, Washington, DC.

The Panel reviewed 637 items with an aggregate taxpayer valuation of \$206,235,671 on 122 taxpayer cases under consideration. The claimed value of the average charitable contribution item was \$212,712 and the average estate and gift item was \$149,943. The Panel recommended total adjustments of \$68,736,077 on the reviews now concluded for these meetings. On the adjusted items, the Panel recommended adjustments amounting to a 40 percent reduction on the overvalued items in charitable contribution claims and an 79 percent increase on the undervalued items in estate and gift appraisals.

The Panel recommended acceptance of 45 percent of the appraisals reviewed. Adjustments were recommended on 51 percent of the reviewed appraisals. Four percent of the appraisals reviewed by the Panel required additional staff development before a value decision could be made. Included were six cases in which taxpayers' requested Statements of Value under Revenue Procedure 96-15.

The Panel reconsidered 48 estate items in 19 taxpayer cases originally valued at \$12,980,000 by the taxpayers and \$23,711,000 by the Panel. After reviewing the additional information and the revised taxpayer value of \$13,155,000 the Panel recommended \$18,296,000 on these items. The Panel also reviewed items on other tax related issues.

In addition to the Panel items, 16 additional taxpayer cases with a claimed value of \$8,229,200 involving numerous items were reviewed by Art Appraisal Services appraisers. The cases consisted of 8 estate cases with claimed values of \$4,102,650 and 8 charitable contribution cases with claimed values of \$4,126,550. These cases involved the valuation of various objects, such as art of Africa and the Americas, Far Eastern and Asian art, prints, furniture, photographs, decorative arts, antiquities, musical instruments, religious artifacts, and historical properties. Four cases were accepted. Adjustments of \$3,463,100 were recommended on the remaining cases.

To date the following responses have been received on the disposition of the cases reviewed by the Art Advisory Panel between 2000-2003:

	2000	2001	2002	2003
Percentage of Responses Received on Cases Reviewed	38%	50%	39%	19%
Percentage of Responses Agreed at Exam/Appeals	95%	94%	95%	96%

Attached is the statistical breakdown of the cases reviewed by the Art Panel in 2002 by tax consequences as well as a list of the Panel members and other attendees.

Karen E. Carolan
Chair, Commissioner's Art Advisory Panel

Estate & Gift (Total)

	Number		Value
Cases	118		
Panel Reviewed Items	581	Total Taxpayer Claimed	\$87,117,171
Average Value	\$149,943		
Items Requiring Further Staff Development (4%)	23	Claimed On Development Items	\$ 3,738,000

Reviews Concluded

Items (96%)	558	Total Taxpayer Claimed	\$83,379,171
		Total Panel Recommended	\$107,587,294
		Taxpayer Claim	Panel Value
Number Accepted	279 (48%)	\$27,760,661	
Number Adjusted	279 (48%)		(+79%)
Adjusted +	171 (29%)	\$38,165,500	\$68,252,850
Adjusted -	108 (19%)	\$17,453,010	\$11,573,783
		Total Panel Recommended Adjustments	\$35,966,577
		Net Panel Adjustments	\$24,208,123

Cases Considered by the Commissioner=s Art Advisory Panel

2003

Charitable Contributions (Total)

	Number		Value
Cases	4		
Panel Reviewed Items	56	Total Taxpayer Claimed	\$119,118,500
Average Value \$212,712			
Items Requiring Further Staff Development	0	Claimed On Development Items	0

Reviews Concluded

Items	56	Total Taxpayer Claimed	\$119,118,500	
		Total Panel Recommended	\$ 91,349,000	
		Taxpayer Claim	Panel Value	Adjustment
Number Accepted	11 (20%)	\$37,600,000		
Number Adjusted	45 (80%)			
Adjusted +	3 (5%)	\$ 6,500,000	\$ 9,000,000	\$
2,500,000				
Adjusted -	42 (75%)	\$75,018,500	\$44,749,000	\$30,269,500 (-40%)
		Total Panel Recommended Adjustments		\$32,769,500

Cases Considered by the Commissioner=s Art Advisory Panel

2003

Art Advisory Panel of the Commissioner of Internal Revenue

2003

Ms. Stephanie Barron	Senior Curator Twentieth Century Art Los Angeles County Museum of Art Los Angeles, CA
Mr. Douglas Baxter	President PaceWildenstein New York, NY
Mr. William Beadleston	President William Beadleston, Inc. New York, NY
Dr. Neal Benezra	Director San Francisco Museum of Modern Art San Francisco, CA
Dr. Edgar Peters Bowron	Audrey Jones Beck Curator of European Art Museum of Fine Arts Houston, TX
Mr. Jay Cantor	Director The Cassatt Project New York, NY
Mr. Leon Dalva	Dalva Brothers, Inc. New York, NY
Mr. Michael Findlay	Director Acquavella Galleries, Inc. New York, NY
Mr. Brock Jobe	Professor of American Decorative Arts

	Winterthur Museum, Garden & Library Winterthur, DE
Mr. Christian Jussel	Consultant (formerly) Senior Vice-President Sotheby's, Inc. New York, NY
Mr. Ian Kennedy	Curator of European Paintings & Sculpture to 1900 The Nelson-Atkins Museum of Art Kansas City, MO
Mr. Leigh Keno	Leigh Keno American Antiques New York, NY
Ms. Barbara Mathes	Barbara Mathes Gallery New York, NY
Ms. Nancy McClelland	McClelland + Rachen New York, NY
Ms. Susan Menconi	Partner Menconi & Schoelkopf Fine Art New York, NY
Mr. James L. Reinish	Martha Parrish & James Reinish, Inc. New York, NY
Mr. Joseph Rishel	Curator European Painting before 1900 & John G. Johnson Collection Philadelphia Museum of Art Philadelphia, PA
Dr. Andrew Robison	Mellon Senior Curator National Gallery of Art Washington, DC
Mr. David Tunick	David Tunick, Inc. New York, NY

Ms. Gillian Wilson

(formerly) Curator of Decorative Arts
J. Paul Getty Museum
Los Angeles, CA

Internal Revenue Service Attendees

Ms. Karen S. Ammons
Deputy Chief Appeals

Ms. Karen E. Carolan
Chief, Art Appraisal Services
Chair, Art Advisory Panel

Mr. Joseph E. Bothwell
Appraiser

Mr. Wiley C. Grant
Appraiser

Ms. Carolee G. Kennedy
Appraiser

Ms. Barbara Read-Staub
Appraiser