



The Art Advisory Panel
Of the
Commissioner
Of
Internal Revenue

Annual Summary Report
for 2001
(Closed Meeting Activity)

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The Art Advisory Panel of the Commissioner of Internal Revenue

Three closed meetings of the Commissioner's Art Advisory Panel were held in 2001: Paintings and Sculpture on April 11 and September 25; and Decorative Arts and Antiques on October 31. 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 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 2001 Panel Reviews

Three closed meetings of the Commissioner's Art Advisory Panel were held in 2001: Paintings and Sculpture on April 11 and September 25; and Decorative Arts and Antiques on October 31. The meetings were chaired by Ms. Karen Carolan, Manager of Art Appraisal Services, Appeals, Internal Revenue Service, Washington, DC.

The Panel reviewed 687 items with an aggregate taxpayer valuation of \$114,951,036 on 89 taxpayer cases under consideration. The claimed value of the average charitable contribution item was \$78,768 and the average estate and gift item was \$175,182. The Panel recommended total adjustments of \$73,136,615 on the reviews now concluded for these meetings. On the adjusted items, the Panel recommended adjustments amounting to a 69 percent reduction on the overvalued items in charitable contribution claims and a 97 percent increase on the undervalued items in estate and gift appraisals.

The Panel recommended acceptance of 52 percent of the appraisals reviewed. Adjustments were recommended on 47 percent of the reviewed appraisals. One percent of the appraisals reviewed by the Panel required additional staff development before a value decision could be made. Included were cases in which taxpayers' requested Statements of Value under Revenue Procedure 96-15.

The Panel reconsidered 46 estate items in 5 taxpayer cases originally valued at \$17,922,874 by the taxpayers and \$26,139,094 by the Panel. After reviewing the additional information and the revised taxpayer value of \$16,828,250 the Panel recommended \$23,559,555 on these items. The Panel also reviewed items on other tax related issues.

In addition to the Panel items, 23 taxpayer cases with a claimed value of \$42,750,115 involving numerous items were reviewed by Art Appraisal Services appraisers. The cases consisted of 16 estate cases with claimed values of \$14,176,365 and 7 charitable contribution cases with claimed values of \$27,573,750. 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. Nine cases were accepted. Adjustments of \$15,905,664 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 1998-2001:

	1998	1999	2000	2001
Percentage of Responses Received on Cases Reviewed	65%	46%	34%	19%
Percentage of Responses Agreed at Exam/Appeals	95%	95%	94%	79%

Attached is the statistical breakdown of the cases reviewed by the Art Panel in 2001 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		83					
Panel Reviewed Items		631	Total Taxpayer Claimed			\$110,540,036	
Average Value	\$175,182						
Items Requiring Further Staff Development	1%	8	Claimed On Development Items			\$ 1,420,000	
Reviews Concluded							
Items	99%	623	Total Taxpayer Claimed			\$109,120,036	
			Total Panel Recommended			\$169,296,713	
			Taxpayer Claim	Panel Value		Adjustment	
Number Accepted	325	52%	\$26,382,036	\$ 26,382,036			
Number Adjusted	298	47%					
Adjusted +	210	33%	\$67,816,500	\$133,489,396	+	\$ 65,672,896	(+97%)
Adjusted -	88	14%	\$14,921,500	\$ 9,425,281	-	\$ 5,496,219	(-37%)
			Total Panel Recommended Adjustments			\$ 71,169,115	
			Net Panel Adjustments			\$ 60,176,677	

**Cases Considered By The Commissioner's Art
Advisory Panel
2001**

Charitable Contributions (Total)

		Number		Value	
Cases		6			
Panel Reviewed Items		56	Total Taxpayer Claimed	\$ 4,411,000	
Average Value	\$78,768				
Items Requiring Further Staff Development	0%	0	Claimed On Development Items		
Reviews Concluded					
Items	100%	56	Total Taxpayer Claimed	\$ 4,411,000	
			Total Panel Recommended	\$ 2,503,500	
			Taxpayer Claim	Panel Value	Adjustment
Number Accepted	35	63%	\$1,495,500	\$1,495,500	
Number Adjusted	21	37%			
Adjusted +	2	3%	\$ 115,000	\$ 145,000	+ \$ 30,000 (+26%)
Adjusted -	19	34%	\$2,800,500	\$ 863,000	- \$1,937,500 (-69%)
			Total Panel Recommended Adjustments	\$1,967,500	
			Net Panel Adjustments	\$1,937,500	

**Cases Considered By The Commissioner's Art
Advisory Panel
2001**

Art Advisory Panel of the Commissioner of Internal Revenue 2001

Mr. Warren Adelson	*	Director Adelson Galleries, Inc. New York, NY
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		Deputy Director Art Institute of Chicago Chicago, IL
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

* Retired in 2001

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		Senior Vice-President Sotheby=s, Inc. New York, NY
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
Mr. David Nash		Mitchell-Innes & Nash, Inc. New York, NY
Dr. Lawrence Nichols	*	Curator of European Painting and Sculpture Toledo Museum of Art Toledo, OH
Mr. James L. Reinish		Martha Parrish & James Reinish, Inc. New York, NY
Dr. Andrew Robison		Mellon Senior Curator National Gallery of Art Washington, DC
Mr. Patterson Sims		Director Montclair Museum of Art Montclair, NJ

Dr. Charles Stuckey

Consultant
Former Senior Curator
Kimbell Art Museum
Fort Worth, TX

Mr. David Tunick

David Tunick, Inc.
New York, NY

Ms. Gillian Wilson

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

Internal Revenue Service

Attendees

Mr. Daniel L. Black
National 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