

The Hidden Risk in Relying on Property Assessment Values for Estate Filings

By: Cole Smith, Senior Consultant

The quiet error no one sees until it's too late

Efficiency and cost management are important to any professional advising an estate. In this role, many fiduciaries choose to rely on the county's assessed value of real estate assets instead of ordering a qualified appraisal.

The logic appears sound: The assessed value is official, easily accessible online, and often appears conservative due to mass appraisal techniques employed by municipal assessor offices. However, this approach can be risky and misleading, since assessed values are created for tax uniformity, not market accuracy. Jurisdictions often utilize broad statistical models rather than accounting for the nuances of an individual property. In many jurisdictions, assessments are updated infrequently and can lag market conditions by several years.

A recent National Bureau of Economic Research (NBER) study found that a one-percent change in market value typically results in less than a 0.3-percent adjustment to assessed value over a three-year period.

This can result in a significant gap in value and potential exposure if the Internal Revenue Service (IRS) reviews the return. The IRS requires a fair market value supported by a qualified appraisal, not a modeled estimate. The NBER study also notes assessment models used to value real property often aim to stabilize municipal revenues rather than reflect true market conditions. Once a filing is questioned, the cost of amended returns, legal representation, and interest often significantly exceeds the original cost of a qualified appraisal.

What the IRS requires

For estate tax purposes, the IRS defines fair market value as the price at which a property would change hands between a willing buyer and a willing seller, neither being under any compulsion to act and both having reasonable knowledge of the relevant facts. This definition appears in Treasury Regulation §20.2031-1(b) and serves as the foundation for how all real property must be reported on Form 706.

The key phrase in this definition is "fair market value," which is also an appraisal term and the basis for the opinion of value as of the date of death or the alternate valuation date, if elected. Fair market value is not the same as an assessed value, insured value, or modeling estimate as reported by local assessor offices for real estate tax purposes. To meet IRS standards, the opinion must be developed by a qualified appraiser following the Uniform Standards of Professional Appraisal Practice (USPAP) and documented in a complete written report.

Within a qualified appraisal report, the IRS reviews a detailed and defensible analysis which utilizes market data to clearly defend the fair market value. When an estate relies on an assessor's figure or an unverified estimate, it provides none of that documentation. And in the event of an audit, the estate bears the burden of proof.



The cost of an indefensible value

Valuation remains one of the most common reasons the IRS examines estate and gift tax returns. According to the Treasury Inspector General for Tax Administration, nearly 90 percent of estate and gift tax audits involve adjustments related to asset valuation, particularly for real property and closely held business interests. The IRS also employs internal valuation specialists and may commission its own appraisals to validate or challenge reported values. The IRS prioritizes returns that show discrepancies between reported values and market data, recognizing that even modest misstatements can result in significant tax revenue losses.

When a property is found to be undervalued, the resulting excess tax, penalties, and accrued interest can quickly exceed the cost of obtaining a qualified appraisal and cause significant delays to estate administration. A credible, USPAP-compliant real estate appraisal is the most effective way to prevent these complications and demonstrate due diligence in the eyes of the IRS.

Protecting your clients and their legacy

Empire Valuation Consultants is one of the nation's leading and most respected independent valuation consulting firms, specializing in providing real estate valuation services based on our technical industry expertise, knowledge of local markets, and insight into market dynamics and commercial real estate values. We specialize in defensible, USPAP-compliant appraisals for estate and gift tax purposes. Our team combines decades of real estate and business valuation experience to achieve the analytical rigor required by the IRS. Each engagement is supported by clear documentation, transparent methodology, and a focus on compliance that gives fiduciaries and advisors confidence in their filings.

For inquiries, contact Cole Smith, Senior Consultant, at csmith@empireval.com, and Roslyn Lo, MAI, Managing Director, at rlo@empireval.com.



Cole Smith
csmith@empireval.com

Cole Smith is a Senior Consultant in Empire Valuation Consultants' Real Estate Valuation practice, which he joined in 2024. He is a Certified General Appraiser licensed in Washington, D.C., Maryland, and Virginia, with six years of experience specializing in the valuation of commercial real estate assets.

Cole has assisted in valuing more than \$5 billion in assets across 35 states for purposes including tax compliance such as estate tax reporting and charitable donation, financial reporting in accordance with ASC 805, and litigation matters. He has significant expertise in estate and gift tax valuations, delivering precise assessments for complex property types.

Prior to joining Empire, Cole held roles at CohnReznick and Deloitte, where he specialized in fair value and litigation support assignments for institutional real estate portfolios.