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The Right Value

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When people realize they require an appraisal, they may not fully understand nor appreciate what type of value is required for a situation. This article will focus on the types of values most commonly sought and when they are required. Using different properties, we also will demonstrate the potential spectrum of value that can occur.

There will be times during a collector's life when an appraisal is necessary. At those times, the collector will want to ensure not only that he or she is obtaining a proper and accurate appraisal, but that he or she is getting the right value for that specific circumstance.

One of the most common situations for collectors involves appraisal for insurance coverage. With valuable antiques, decorative arts, fine art and/or high value furnishings, insurance companies require these items to be scheduled separately and to have the amount of coverage supported by an independent appraisal. The type of value that usually is required in this circumstance is *replacement value*. This means the amount of money that would be required to be paid in the marketplace to replace a property with one of like kind and quality. Depending on the specific wording in the insurance policy, this may involve replacing certain properties with new ones, such as appliances, audio-visual equipment. With antiques or fine art, however, it usually means replacing one property with a comparable property. One can easily appreciate the difficulty in doing this. For example, it would be easier to replace a Duncan Phyfe dining table with a modern reproduction than to replace with a table from the same period.

Replacement also may involve the cost of replicating the property that was lost or damaged. For example, instead of replacing a custom-made bird's-eye maple side table with just another wooden side table, the article is replicated or fabricated by the craftsman who originally made the table.

Replacement value includes not only the cost of acquiring or replicating the property, but also all the relevant costs associated with replacement. These other costs may include all applicable taxes and duties, framing, (in the case of artwork), and transportation (shipping the antique Korean chest that you found in San Francisco to replace the one that was lost in the move from Montreal to Toronto). Professional valuers have knowledge of these factors and quite properly include them in their report.

The other value common to insurance policies is *actual cash value*. This is defined as the cost of that property today including any premium for appreciation or loss due to depreciation. This value would not include any attendant costs. For example, the Korean chest that was purchased for \$800 in 1982 now has an actual cash value of \$3,500. This would be the amount of the cash settlement from the insurance company. Its replacement value, however, may be closer to \$5,000 because of probable and additional attendant costs.

On the other hand, the silverplate flatware belonging to your grandmother may have a replacement value new of more than \$1,000, but the actual cash value would be only a few hundred dollars because it is used.

In reviewing your insurance policy, you want to ensure that you have the most appropriate policy for your situation. Your insurance agent is the best person to advise you. In the event of a claim, the type of value stated in your policy, along with a current appraisal, will determine how the claim will be settled.

Another appraisal situation for some collectors involves the giving of special or extraordinary property to an educational, cultural or charitable organization in exchange for a tax receipt. This receipt is used by the donor/collector to reduce the amount of income tax payable. It is a situation that demands professional advice from an accountant or financial advisor who can advise the collector according to his/her individual circumstances.

In order for a recipient institution or organization to issue a tax receipt, the amount of the receipt must be supported with an independent appraisal of the *fair market value* of the property or properties being donated. According to Revenue Canada, fair market value is defined as the highest price the property would sell for in an open and unrestricted market, between a willing buyer and willing seller, both knowledgeable of all facts, acting at arm's length, and neither one being under any compulsion to act. This definition presumes that the property will sell in its most appropriate or relevant market and when there has been adequate time for exposure. As a note of caution, Revenue Canada is increasingly circumspect about appraisals of fine art and antiques donated at fair market value. Collectors should be aware of the problems Revenue Canada was having with some donations and unsubstantiated appraisals and the types of penalties that have been imposed by the courts on taxpayers because of faulty appraisals. It is important for any donor, when securing an appraisal for gifting purposes, to ensure that the appraisal report is independent and provides substantial evidence that supports any value conclusion.

A third situation in which individuals seek appraisals involves estate disposition. At the time of death, one's estate is deemed to have been disposed of at *fair market value*. Whether the estate is

being divided among heirs or sold off, an appraisal is usually required to determine the fair market value of the assets. Such an appraisal may involve only a few items or it can be quite complex and involve many types of property. Any such appraisal will have to satisfy third party users (in addition to executors and heirs) such as Revenue Canada and the court where wills are probated. Appraisals for this purpose usually are commissioned at the time of estate planning or preparation of wills.

Appraisals of property at fair market value are sometimes required for marital or divorce disposition, where there usually is a division of assets and property.

Appraisals also are required in a situation of personal or business bankruptcy. In this instance, it may be necessary to dispose of properties within a short period of time. Here, the value required would be either *orderly liquidation* or *forced liquidation*. The difference between these two values is the length of time allowed for actual sale, with forced liquidation usually as soon as possible. The liquidation value of a property is akin to cents on the dollar, because properties are sold as quickly as possible and usually in an inappropriate market, which results in a sale for a fraction of the properties' worth. These properties may be sold by a public auctioneer who specializes in selling distressed properties and not the more appropriate art or antiques dealer or auctioneer. The seller usually has very little, if any control on how or where such properties are sold.

In summary, *replacement value*, *actual cash value*, *fair market value*, and *liquidation value* are the common types of value which collectors may face. It is important for the collector to know and understand these types of value in order to ensure that he/she receives the right value for the situation.

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