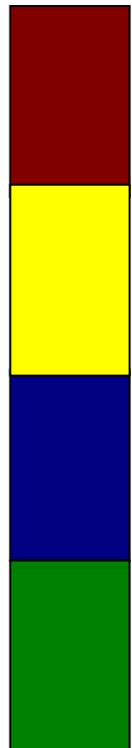


The Art Advisory Panel
of the
Commissioner
of
Internal Revenue

Annual Summary Report for
Fiscal Year 2012
(Closed meeting activity)



Overview

Created in 1968, the Art Advisory Panel of the Commissioner of Internal Revenue (the Panel) provides advice and makes recommendations to the Art Appraisal Services (AAS) unit in the Office of Appeals for the Internal Revenue Service (IRS). Chartered under the Federal Advisory Committee Act (FACA), the Panel helps the IRS review and evaluate the acceptability of tangible personal property appraisals taxpayers submit in support of the fair market value claimed on the wide range of works of art involved in income, estate, and gift tax returns.

When a tax return that has been selected for audit includes an appraisal of a single work of art or cultural property valued at \$50,000 or more, the local IRS office must refer the case to AAS and subsequent referral to the Panel when applicable. The AAS staff provides the support and coordination of the Panel meetings and its appraisers independently review taxpayers' appraisals for art works not referred to the Panel.

The Panel provides essential information to help foster voluntary compliance. The information and recommendations play an important role in the IRS's efforts to cost-effectively address the potentially high abuse area of art valuation. The information, advice, and insight into the world of art the Panelists provide cannot be obtained effectively from within the IRS and does not duplicate work performed in the IRS or elsewhere. The AAS appraisers review appraisals by researching publicly-available information; the Panel provides additional knowledge of private sales based on their personal experience as dealers, scholars, and museum curators, and from information obtained from other members of their relatively small industry. The panelists' knowledge is particularly beneficial when questions exist about the authenticity of works of art.

Art Appraisal Services takes steps to ensure objectivity and taxpayer privacy. Information provided to the Panelists does not include the taxpayer's name, type of tax, the tax consequences of any adjustments to the value, or who did the appraisal. To minimize recognition by the Panelists of a taxpayer's entire collection, the art works are usually discussed in alphabetical order by artist or, in the case of decorative art, by object type. 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 meeting.

Before Panel meetings, AAS appraisers send photographs and written materials to the panelists about the works of art under review. The materials include information from the taxpayer's appraisal, such as size, medium, physical condition, provenance and claimed value, and the AAS appraiser's own research, including available information on public and private sales of relevant art work.

During their meetings, the panelists review the information provided, along with the research and findings of both the Panelists and staff appraisers. After discussing each item individually, they reach a consensus on its value. Panel discussions are lively, but serious; despite the different perspectives of dealers, museum curators, and scholars, disagreements

are rare. When disagreements happen, they generally result from insufficient information. In these cases, the Panelists may indicate that additional research, such as inspecting the property or consulting with additional experts, is necessary before making a recommendation as to value. Once the AAS appraiser completes the additional work, the item may be brought up for review at a subsequent Panel meeting.

The Panel's recommendations are advisory. The AAS staff reviews all of the Panel's recommendations, which become the position of the IRS only with AAS concurrence. For the reviews AAS has also finalized for these meetings, AAS adopted in full 96.5% of the Panel's recommendations during FY 2012; it adopted the rest in part.

The AAS staff provides written reports or memos to the requesting IRS office, with a copy for the taxpayer, outlining the Panel's recommendations for adjustments to fair market value with all supporting evidence.

Taxpayers may request reconsideration of an adjusted claimed value only if they provide additional information or new probative evidence. The staff may submit such information to the Panel for reconsideration at a subsequent meeting.

Panel Leadership

The Director, Art Appraisal Services serves as the Panel Chair and Designated Federal Officer (DFO) for purposes of the FACA.

Panel Sub-Committees

The DFO has the authority to create subcommittees or workgroups. Subcommittees may be established for any purpose consistent with the Panel's charter, and they are comprised of Panel members. There are currently two subcommittees: the Fine Arts Panel, which reviews paintings, sculpture, watercolors, prints, and drawings, etc; and the Decorative Arts Panel, which reviews antique furniture, decorative art, ceramics, textiles, carpets, and silver, etc.

Meetings

The Panel generally meets once or twice a year in each specialty area. Due to a reduction in related receipts, however, the Decorative Arts Panel did not meet during FY 12. Panel meetings are closed to the public since all portions of the meetings concern matters that are exempted from disclosure under the provisions of section 552b(c)(3), (4), (6) and (7) of Title 5 of the U.S. Code. This determination, which is consistent with section 10(d) of the Federal Advisory Committee Act, as amended (5 U.S.C. App.2), is necessary to protect the confidentiality of tax returns and return information as required by Internal Revenue Code § 6103.

The meetings held during this reporting period included:

Type	Date	Location
Fine Arts	April 19, 2012	New York, NY
Fine Arts	September 20, 2012	Washington, DC

Summary of Panel Recommendations

During FY12, the Panel completed its review of 444 items with an aggregate taxpayer valuation of \$281,859,200 on 43 taxpayer cases under audit. The average claimed value of a charitable contribution item was \$613,684; the average claimed value for an estate and gift item was \$626,890.

The Panel recommended accepting 51% and adjustments to 49% of the appraisals it reviewed. Two percent of the appraisals reviewed require additional staff development before the Panel can make a value recommendation. The Panel recommended total net adjustments of \$66,066,800. On the adjusted items, the Panel recommended a net 52% reduction on the charitable contribution appraisals and a net 47% increase on items in estate and gift appraisals.

The Panel reconsidered 26 items in 3 taxpayer cases originally valued at \$58 million by the taxpayers and \$82,150,000 by the Panel. After reviewing the additional information, the Panel revised their recommendations to \$82,650,000. The Panel also provided valuation expertise regarding 42 works of art in two income tax cases unrelated to charitable contributions. The items from these five taxpayer cases are not included in the information above or that follows.

Comprehensive Recommendations Report

Panel Type	# of items	Total T/P Claimed Value	Total Panel Recommended Value
Fine Art	444	\$281,859,200	\$347,926,000

Type of Tax	# of items adjusted	T/P Claimed Value	Type of Adjustment	Panel Recommended Value
Estate	171	\$113,925,200	Increase	\$191,285,000
	24	\$18,118,000	Decrease	\$11,195,000
Gift	9	\$19,350,000	Increase	\$28,000,000
	2	\$8,500,000	Decrease	\$4,500,000
Charitable Cont.	1	\$120,000	Increase	\$150,000
	11	\$17,075,000	Decrease	\$8,025,000
Totals	218	\$177,088,200	Net Increase	\$243,155,000

Art Advisory Panel of the Commissioner of Internal Revenue 2012

Ms. Stephanie Barron	Senior Curator Twentieth Century Art Los Angeles County Museum of Art Los Angeles, CA
Mr. Douglas Baxter	President The Pace Gallery New York, NY
Mr. Leon Dalva	Dalva Brothers, Inc. New York, NY
Ms. Alice Duncan	Director Gerald Peters Gallery New York, NY
Mr. Michael Findlay	Director Acquavella Galleries, Inc. New York, NY
Mr. Brock Jobe	Deputy Director Winterthur Museum Winterthur, DE
Mr. Christian Jussel	Unaffiliated Scholar/Art Adviser New York
Mr. Ian Kennedy	Curator of European Paintings & Sculpture to 1900 The Nelson-Atkins Museum of Art Kansas City, MO
Ms. Rebecca Lawton	Curator of Paintings and Sculpture Amon Carter Museum Fort Worth, TX
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. Howard Rehs	Director Rehs Galleries, Inc. 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. Louis Stern	Louis Stern Fine Arts Inc. Los Angeles, CA
Dr. Scott Schaefer	Senior Curator of Paintings J. Paul Getty Museum Los Angeles, CA
Mr. David Tunick	David Tunick, Inc. New York, NY