Practical Piano Valuation

Errata and Updates

As often happens after publishing a new book, especially one on a topic not previously addressed, we have second thoughts about a few of the ideas presented in the first edition of *Practical Piano Valuation*. Because it's too soon to publish a revised edition, we present our revisions here so that readers can benefit from them without waiting for a second edition.

In the book, we suggested some guidelines for deciding which market to search for comps when determining Fair Market Value (FMV) for insurance and tax purposes. We based these guidelines on the guidance from insurance companies and the Internal Revenue Service: that one should search the market in which the insured would most likely shop for a replacement piano (insurance), or "in which such item is most commonly sold to the public" (IRS). There are no statistics revealing which types of piano are most commonly purchased or sold in which markets, but based on our experience, we hypothesized that higher-valued pianos are most often bought and sold in the retail market (i.e., from piano dealers) and lower-valued pianos in the private-party market (between private individuals), and that one should choose the market in which to search for comps accordingly.

This advice is logical, and the rules and regulations are written with just enough ambiguity to allow for this—and other—interpretations. However, we now believe that it's not the best advice, and perhaps not what was intended by the officials and agencies that created the rules and regulations.

When determining FMV for a Federal tax deduction for a noncash charitable contribution, we find the IRS's use of the term "such item" (see above) ambiguous. Does it refer to where items of the same *type* (e.g., Steinway grands) are most commonly sold to the public, which might be either the retail-dealer market or the private-party market? Or does it refer to where the *specific* item being appraised would be most commonly sold to the public were it to be sold by its owner—which, for pianos in good condition, almost by definition would be in the private-party market? In addition, although there is general agreement that the lowest-priced pianos are most often sold to the public in the private-party market (e.g., via classified ads), there appears to be no general agreement, even within the same geographic area, as to where higher-end pianos are most commonly sold. All that being said, and though their rationales differed, we found that most of the experienced appraisers we spoke with, including some with extensive IRS-related experience, believe that the agency wants them to use private-party comps for figuring FMV for Federal tax purposes. Exceptions, of course, would be pianos that are not in at least good used condition, for which one might use its salvage value (sale to a dealer or rebuilder) as its FMV. (Other exceptions would be instruments valued primarily for their historic or artistic qualities, or for their association with a celebrity or event, which might most commonly be sold at auction—but those pianos are not covered in our book.)

There is another reason why one might prefer to use private-party comps over retail-dealer comps: If the donee organization sells the donated piano within three years of receiving it, the donee must report the sale to the IRS. If the sale price is less than the appraised value, it might suggest to the IRS that the piano was overvalued by the donor, who therefore took a larger tax deduction than deserved, in which case the IRS may (but is not required to) assess the donor for an underpayment of tax. Since *any* sale by the donee is likely to be for less than an appraised value based on retail-dealer comps, use of such comps may trigger a financial hit to the donor down the road.

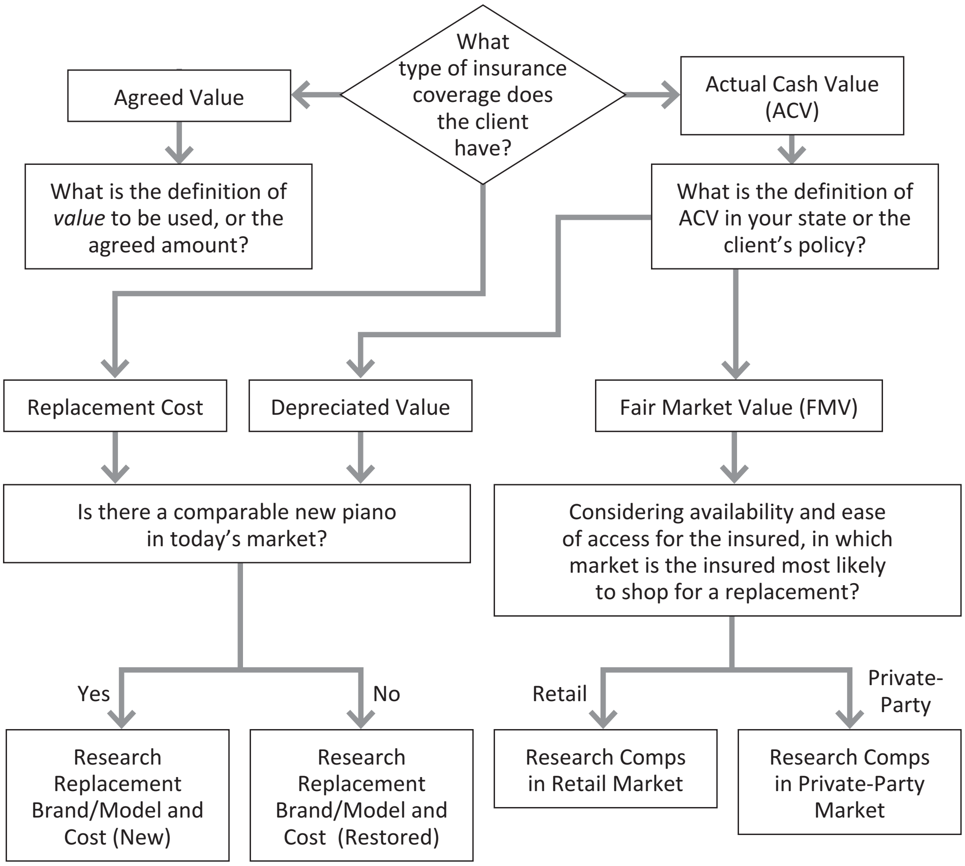
All things considered, we now recommend that, unless you have a compelling reason to use retail-dealer comps, you are on safest ground by using private-party comps for determining Fair Market Value for Federal tax purposes—regardless of the piano's value. As we mentioned in the book, we also recommend suggesting to the donor that they seek a pledge from the donee not to resell the piano for at least three years.

When figuring FMV for insurance purposes, we now believe that, regardless of the piano's value, one should first search for comps in the local *retail* market (i.e., piano dealers), turning to the private-party market (or nonlocal retail) only when a reasonable comp cannot be found in local retail—perhaps because the brand is obscure, the piano is unusual, the condition is poor, or local retail outlets for such pianos don't exist. The reason is that when an insurer pays out for a total loss, it expects the payment to be sufficient for the insured to find a replacement quickly and easily, and not to have to shop around for a bargain online or in odd places. In most cases in which the brand is common and the piano is in relatively good condition, a suitable replacement can most quickly and easily be found at a local retail dealer. It's true that inexpensive used pianos may be more likely to be available in the private-party market, and higher-priced pianos through piano dealers, but the guiding principles in determining market should be availability and ease of access for the insured, and not price alone.

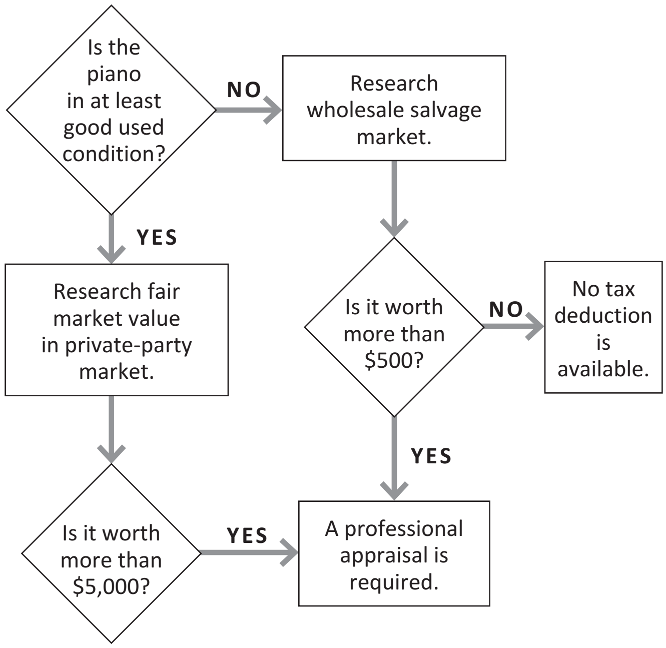
(*Note*: The method for determining insurance replacement value varies by insurer, policy, and state, and is not always Fair Market Value. See book for details.)

Below are revised flow charts for determining value for insurance and tax purposes, replacing the charts on pages 50 and 51. The text will be updated at a later time.

Establishing Insurable Value



Tax Deduction for Noncash Charitable Donation



See Chapter 7 for more information.