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Gift, Estate, & Income Tax Valuation Insights Newsletter

Documenting Fair Market Value: Lessons from *Estate of Rowland v. Commissioner* A Guide for Estate Planners

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Executive Summary

Business valuations that are well-documented with support for the methodology used and how the concluded value was arrived at are at the core of effective estate tax planning. The recent decision in *Estate of Rowland v. Commissioner* (T.C. Memo. 2025-76) reinforces that truth by showing how incomplete valuation documentation within Form 706 can jeopardize an otherwise straightforward portability election.

While *Rowland* involved a filing delay, the Court's opinion makes clear that a deficient or poorly documented valuation can be just as damaging as a missed deadline. For estates holding closely held business interests, which are often significant and complex assets, the importance of thoroughly documenting the process of reaching fair market value cannot be overstated.

Background: The Portability Election and Form 706

Under Internal Revenue Code § 2010(c)(5)(A), a surviving spouse may use any portion of the deceased spouse's unused estate tax exclusion (the deceased spousal unused exclusion, or "DSUE") if the first spouse's executor properly elects portability.

That election must be made through a timely filed and complete Form 706. Even when an estate owes no estate tax, the return must contain detailed and supportable valuations of every asset, including business interests. Omitting or estimating values exposes the election to IRS challenge and potential invalidation.

Facts of the Case

Fay Rowland died in 2016, leaving an estate approximately \$3.7 million below the filing threshold. Her executor obtained a six-month extension but filed Form 706 nearly six months after the extended deadline.

The return also lacked key valuation detail: 1) schedules reflected only estimated totals, not fair market values for individual assets; and 2) the executor claimed the “relaxed reporting” exception for assets passing to a surviving spouse, yet a portion of the estate passed to grandchildren’s trusts, making the exception inapplicable.

When the surviving spouse’s estate (Billy Rowland) later claimed Fay’s DSUE, the IRS denied the election, arguing the filing was neither timely nor properly prepared. The Tax Court agreed, which led to Billy’s Estate paying approximately \$1.5 million in additional taxes.

The Court’s Reasoning

Timeliness Was Not Enough

The Court held the return untimely, but even if it had met the filing window, it failed the requirement of being “complete and properly prepared.” Completeness, the Court emphasized, includes providing valuation information sufficient for the IRS to verify reported amounts and compute the DSUE accurately.

Valuation Documentation Is Integral to Completeness

Treas. Reg. § 20.2010-2(a)(7) requires a Form 706 filed solely to elect portability to include the same detail as a taxable return, except for assets passing entirely to a spouse or charity. The Rowland estate’s generalized estimates prevented the IRS from evaluating the DSUE computation.

The Court rejected arguments of substantial compliance and equitable relief, holding that valuation documentation is not simply a procedural technicality, but rather a statutory prerequisite.

Why Business Valuations Matter

For many families, closely held business interests comprise a large share of estate value. These assets require specialized valuation under Revenue Ruling 59-60. A well-supported valuation not only establishes compliance but also enhances the credibility of the entire filing.

A defensible business valuation requires:

- Identifying the rights and benefits of the interest being valued (control, transfer restrictions, etc.).
- Using relevant market evidence, including public comparables and transaction data.
- Applying sound financial analysis that addresses expected cash flows, risk, and growth prospects.
- Reporting clearly and effectively to the IRS and other readers.

Documentation: The Bridge Between Valuation and Compliance

The *Rowland* decision underscores that a valuation unsupported by documentation is no valuation at all. A properly prepared Form 706 should therefore include:

- Narrative descriptions of each business interest, outlining ownership, structure, and rights.
- Detailed valuation schedules explaining how conclusions were reached.
- Supporting exhibits, such as financial statements and methodology summaries.
- Explicit reference to appraisal standards that demonstrate compliance with USPAP and Treasury requirements.

Without these elements, a return fails the “complete and properly prepared” standard which is exactly what happened in *Rowland*.

Practical Guidance for Estate Planners

1. **Engage Qualified Appraisers Early.** Business interests should be appraised by professionals experienced in federal transfer tax matters and IRS examinations.
2. **Coordinate Across Disciplines.** Attorneys, accountants, and appraisers should align on ownership structures and entity specifics to ensure consistent reporting.
3. **Avoid Estimates or Prior-Year Values.** Fair market value is determined as of the date of death; using approximations risks inconsistency with IRS standards.
4. **Explain Discounts and Assumptions.** Clearly document the rationale for any discount for lack of control or marketability.
5. **Maintain Comprehensive Records.** Preserve valuation reports, source data, and correspondence to support the filing if later reviewed or audited.

Conclusion

The *Estate of Rowland v. Commissioner* decision delivers a clear message: Form 706 filings must contain credible, well-documented fair market value determinations for all assets, particularly business interests, or risk invalidation. Portability hinges not only on timeliness but on the completeness and substantiation of reported values. The strength of the filing lies in the quality of its appraisals and the documentation supporting them.

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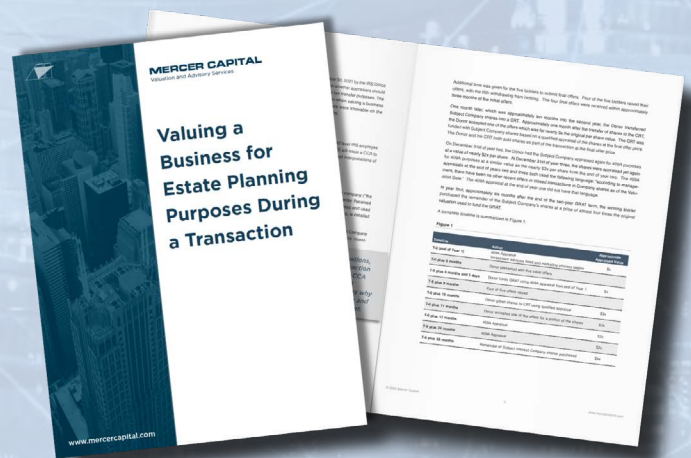
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