

VALUE MATTERS®

Gift, Estate, & Income Tax Valuation Insights Newsletter

Valuation Date Discipline

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Executive Summary

In estate and gift tax related business valuation, few inputs are as consequential, and as frequently underestimated, as the valuation date. While the concept appears straightforward, the practical implications are anything but. The valuation date determines the universe of information available to the appraiser, frames the applicable standard of value, and anchors the conclusion in a specific economic, industry, and subject company context.

For advisors working with clients on estate planning, wealth transfer, or compliance matters, a clear understanding of valuation date discipline is essential. Misalignment between the valuation date and the relevant transaction, or a failure to properly consider what was “known or knowable” as of that date, can undermine the reliability of an appraisal and invite unnecessary scrutiny. This issue of Value Matters outlines key considerations related to valuation dates in estate and gift tax appraisals, including governing rules, practical challenges, and implications for advisors and their clients.

Valuation Dates in Estate and Gift Tax Contexts

Estate Tax (Form 706)

For federal estate tax purposes, the default valuation date is the date of death. This date establishes the point at which all includable assets are valued for purposes of determining the gross estate. However, the Internal Revenue Code permits the use of an alternate valuation date, generally six months after the date of death, if two conditions are satisfied: (1) the election results in a lower total gross estate value, and (2) the election results in a lower estate tax liability.

While conceptually straightforward, the alternate valuation date introduces practical complexity. Specifically, the election is made at the estate level, but its impact must be assessed across all assets. As a result, appraisers are often required to develop valuation indications at both the date of death and the alternate valuation date to support the election decision. This dual-date requirement underscores an important point: valuation is not merely a point estimate, but also a function of timing. Even over a relatively short six-month time period, changes in market conditions, company performance, or transaction activity can materially affect value.

Gift Tax (Form 709)

For gift tax purposes, the valuation date is generally the date of transfer. Ideally, the appraisal aligns precisely with that date. In practice, however, timing mismatches are common. Clients may request a valuation in advance of a contemplated gift, using the result as a planning tool, and the actual transfer may occur weeks, or even months, after the valuation date. This lag introduces a critical question: How long does a valuation remain reliable?

The answer depends on whether the original valuation date remains an appropriate reference point for the facts and circumstances relevant to the transfer. When it does not, the valuation may be considered “stale.”

When Does a Valuation Become Stale?

There is no bright-line rule governing the “shelf life” of a business valuation. Unlike certain regulatory frameworks that prescribe explicit time limits, business valuation practice relies on professional judgment informed by facts and circumstances. That said, several factors commonly influence whether a valuation has become stale.

Macroeconomic conditions can shift. Changes in interest rates, inflation expectations, or broader capital market conditions can materially affect discount rates, capitalization rates, and valuation multiples. Periods of heightened economic volatility can shorten the useful life of a business valuation. Industry developments, such as regulatory changes, shifts in competitive dynamics, or changes in supply chains, may alter the outlook for a subject company. Company-specific performance also matters, as new financial information, particularly if it deviates meaningfully from prior financial information or prior expectations, can affect projected cash flows and risk assessments. In addition, transaction activity, including the emergence of offers, letters of intent, or other indications of value in an active market process, **can be highly relevant**. In certain contexts, such information may be considered “known or knowable” as of a given date and therefore must be incorporated in an appraisal.

A Reference Point: IRS Publication 561

While not directly applicable to gift tax valuations, **IRS Publication 561**, which relates to charitable contributions, provides a useful reference point. The publication suggests that appraisals are generally considered valid if prepared within 60 days of the contribution date. Although this guidance is specific to charitable donations, it offers insight into how the IRS may view the timeliness of an appraisal. In practice, many advisors view a 60-day window as a reasonable benchmark, subject to the facts and circumstances described above.

The practical implication is that when there is a meaningful lag between the valuation date and the transfer date, best practice is often to roll the valuation date forward to match the transfer date. While this may involve incremental cost and effort, it enhances the defensibility of the appraisal and reduces the risk of challenges.

Important Timing Considerations for Estate and Gift Filings

Beyond the valuation date itself, several related deadlines influence the business appraisal process. For estate tax filings (Form 706), the due date is nine months after the date of death, with a six-month extension available. Tax payments, however, are generally due at the original filing deadline, as extensions do not extend the time to pay. For gift tax filings (Form 709), the due date is April 15 of the year following the gift, with an extension available if the taxpayer files for an income tax extension.

Failure to file or pay in a timely fashion can result in penalties and interest. From a valuation perspective, these deadlines often dictate engagement timing and may constrain the ability to revisit valuation dates if delays occur.

What Is “Known or Knowable” as of the Valuation Date?

A central principle in business valuation is that conclusions must be based on information that was known or knowable as of the valuation date. This concept serves as a boundary between permissible forward-looking analysis and impermissible hindsight.

Business valuation is inherently forward-looking, and appraisers routinely incorporate expectations about future performance, market conditions, and risk. However, those expectations must be grounded in information that was reasonably available (known), or could have been reasonably anticipated (knowable), at the valuation date. Subsequent events may be considered only to the extent they provide evidence of conditions that existed as of the valuation date, and they cannot introduce entirely new information that was not foreseeable as of the valuation date.

Courts have consistently reinforced this principle. In cases such as *Estate of Michael Jackson v. Commissioner*, the Tax Court emphasized that valuation experts must rely on information that was known or knowable at the valuation date and avoid the use of hindsight. Similarly, more recent decisions, including the *Estate of Pierce*, highlight the importance of aligning forecasts and assumptions with contemporaneous expectations rather than retrospective outcomes.

From a practical standpoint, this principle often arises in situations involving post-valuation-date financial results, subsequent transactions or offers, and the resolution of contingent events. The business appraiser must determine whether such information reflects conditions that were already in place, or whether it represents new developments that could not have been anticipated.

The “known or knowable” standard becomes particularly relevant when a company is engaged in an active sale process. If, as of the valuation date, the company had received indications of interest, entered into negotiations, or was otherwise pursuing a transaction, those facts may be considered knowable, even if the transaction closes after the valuation date. In such cases, ignoring the transaction process may understate value, while overreliance on post-date outcomes may introduce hindsight bias. The appropriate treatment requires careful analysis of what was reasonably foreseeable at the time.

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The banner features a dark blue background with a faint image of a person's face. At the top center is the Mercer Capital logo, which consists of a stylized 'M' icon followed by the text 'MERCER CAPITAL'. Below the logo, the title 'Buy-Sell Agreements' is written in large, white, sans-serif font. Underneath the title, the subtitle 'What Estate Planners Need to Know' is written in a smaller, white, sans-serif font. A large, semi-transparent play button icon is centered over the text. On the left side, there is a circular portrait of Thomas C. Insalaco, with his name and credentials 'Thomas C. Insalaco, CFA, ASA, Mercer Capital' listed below. On the right side, there is a circular portrait of Robert H. 'Bo' Trudeau, with his name and firm 'Robert H. "Bo" Trudeau, Purcell, Flanagan & Hay' listed below.

Integrating Valuation Date Discipline into Practice

For advisors and their clients, valuation date discipline is not merely a technical consideration, it has practical implications for planning, compliance, and risk management. Where possible, the valuation date should align closely with the relevant transaction date, such as the date of gift. Misalignment introduces uncertainty and may necessitate updates or supplemental analysis.

Advisors should remain attentive to developments that could affect value between the valuation date and the transaction or filing date, as significant changes may warrant revisiting the business valuation. Understanding filing deadlines and extension options can also provide flexibility in managing the timing of valuations. In some cases, it may be preferable to delay finalizing an appraisal to incorporate more current information, provided that doing so remains consistent with the applicable valuation date.

Clear documentation of the information considered, and the rationale for including or excluding certain data, is essential. This is particularly important when addressing subsequent events or evaluating whether a business valuation remains current.

Practical Considerations for Clients and Their Advisors

Several practical takeaways emerge from the valuation date considerations. The valuation date is foundational, as it defines the analytical framework and the relevant information set. Timing mismatches create risk, because when business valuations and transactions are not aligned, the reliability of the appraisal may be questioned. Business valuations can become stale, and while there is no fixed expiration date, changes in economic, industry, or company conditions can erode relevance. The concept of “known or knowable” is a limiting principle, allowing for forward-looking analysis while prohibiting hindsight. Rolling a valuation forward is often prudent, as updating a valuation to match the transaction date can enhance defensibility. Finally, deadlines matter, and filing requirements and tax payment obligations should be considered in planning business valuation engagements.

Concluding Observations

Valuation date discipline is a cornerstone of credible business appraisal practice in estate and gift tax contexts. While the governing rules are relatively clear, their application requires careful judgment and coordination among clients, advisors, and business valuation professionals.

At Mercer Capital, we routinely work with attorneys, CPAs, and wealth advisors to navigate these issues. Our experience suggests that proactive attention to valuation dates, particularly in situations involving timing gaps, evolving facts, or active transactions, can mitigate risk and improve outcomes. Ultimately, a well-supported valuation is not only a function of methodology and data, but also of timing. Ensuring that the valuation date is appropriate, and that the analysis reflects what was known or knowable as of that date, is essential to producing a defensible and reliable conclusion of value.



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Business valuations prepared for federal tax transactions are at the core of Mercer Capital's valuation practice. Since 1982, we have been providing objective valuations for federal estate, gift, income tax, and corporate transactional matters. We are recognized experts in this challenging area of valuation practice.

Mercer Capital is one of the largest independent business valuation and transaction advisory firms in the nation, with a deep bench of seasoned professionals. We have provided thousands of valuation opinions for corporations of all sizes across virtually every industry vertical. With the size of our staff and the firm's technical and project management expertise, we can handle projects of any size, no matter how complex.

And we understand what the IRS considers important. From corporate income tax planning to transfer tax planning and administration, a federal tax valuation plays a central role in positioning your or your client's business for success. That is why we take great care to ensure our federal tax valuations are substantiated and well-documented, enabling you to implement effective planning strategies with confidence.

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- Compensation in Kind – Reg. §1.61-2(d)(1)
- Compensation Planning – IRC §§83(b) and 409(A)
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- Valuation of Closely Held Securities Held by a Stock Bonus, Pension or Profit-Sharing Plan of an Employer – IRC §401(a)(28)(C)
- Worthless Securities – IRC §165

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