FIRST QUIZ - CLASS 2

IRS DEFINITION OF FAIR MARKET VALUE (FMV)
“Fair market value” as defined by Treasury Regulation Sections 1.170A-1(c)(2) and 20.2031-1(b) is "the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts." (According to Technical Advisory Memorandum 9235005 [May 27, 1992], fair market value should include the buyer's premium.) Treasury Regulation Section 20.2031-1(b) continues "the fair market value of a particular item of property includible in the decedent’s gross estate is not to be determined by a forced sale price. Nor is the fair market value of an item of property to be determined by the sale price of the item in a market other than that in which such item is most commonly sold to the public, taking into account the location of the item wherever appropriate. Thus, in the case of an item of property includible in the decedent's gross estate, which is generally obtained by the public in the retail market, the fair market value of such an item of property is the price at which the item or a comparable item would be sold at retail."

Components of this concept:
1. Price
2. Willing buyer and willing seller
3. Neither party being forced into sale
4. Both parties knowledgeable of ALL facts at hand
   - Reason for sale
   - Date of sale/advertised sale
   - Provenance
   - Authenticity
   - Condition (inspection)
5. Being sold in an appropriate market / location / type

RETAIL REPLACEMENT VALUE (RRV)
"The highest price in terms of cash or other precisely revealed terms that would be required to replace a property with another of similar age, quality, origin, appearance, provenance, and condition, within a reasonable length of time in an appropriate and relevant market."

Components of this concept:
1. Actual cash or equivalent goods
2. If goods, "replacement quality" subject to approval
3. Immediacy, within reason
4. Anticipated costs
   - Commissions
   - Sales tax
5. Relevant market
   - Retail, if necessary
6. Highest and best use
Difference between FMV and RRV - Basically FMV = auction; RRV = retail
In most cases, FMV is an auction value, which is lower than retail value (although changing)
In most cases, auction values have all of the components of FMV
Replacement value includes all applicable fees and commissions; FMV does not
Replacement value includes a quicker turnaround time for your money or goods; FMV requires proper advertising and display.
Highest and best use can be applied to both values.
Neither value is a wholesale value