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# Fair Market Valuation (FMV) Informational Guide and Form

## Fair Market Valuation Information

The Fair Market Valuation (FMV) is used to assign or change the value of an asset. The FMV is also required when requesting an in-kind asset distribution, converting or re-characterizing an asset, or transferring an asset to a beneficiary. Preferred Trust Company requires the FMV to be submitted annually by December 31 for each asset held in an IRA to ensure proper tax reporting to the Internal Revenue Service (IRS).

### When completing the Fair Market Valuation Form the following information and guidelines are applicable and must be followed:

1. When you executed the Preferred Trust Company Custodial Agreement you acknowledged the Asset Valuation Policy, which defines the responsibility of the IRA Account Owner to provide the FMV **each year for each asset**. It is not the responsibility of Preferred Trust Company.
2. The IRA Account Owner **and** the Qualified Independent Third Party Valuator must execute the Fair Market Valuation Form and attach supporting documentation to the valuation provided. **The valuation may not be completed by the IRA Account Owner or a Disqualified Person.**
3. A Qualified Independent Third Party Valuator may be a certified appraiser, licensed real estate professional (broker/realtor), or knowledgeable party (such as a CPA, attorney, financial planner, etc. who is strictly at "arms length" to both you and the investment).
4. Submissions of the FMV can be provided to Preferred Trust Company any time throughout the year or by December 31 of each year.

### Examples of supporting documentation based on asset type:

**Real Estate** | An appraisal is required for Distribution and Conversion/Re-characterization of a real estate asset. For yearly non-taxable reporting, a licensed real estate professional that is strictly at "arms length" from both the investment and you, the IRA Account Owner, may provide a real estate fair market value analysis more commonly referred to as a comparative market analysis (CMA) or broker price opinion (BPO).

**Loans/Promissory Notes** | Generally, the FMV of a Promissory Note is equal to the outstanding principal balance of the loan. If that is the case for the Promissory Note or Deed of Trust held in your IRA, you **do not** need to complete the FMV Form and Preferred Trust Company will use the principal balance as FMV by default. However, if the Promissory Note or Deed of Trust is in default or other circumstances exist which result in the FMV of the Promissory Note or Deed of Trust differing from the outstanding principal balance, you must obtain a Qualified Third Party valuation.

**Corporations, Partnerships, and LLCs** | The FMV of an investment in a corporation, partnership or LLC is typically determined by the tax reporting (K-1) provided by the corporation, partnership or LLC to the IRA Account Owner each year. This determination of value can be somewhat subjective as a K-1 represents book value of the company, which is based on historical cost less depreciation. The IRA Account Owner may elect to have a Qualified Independent Third Party Valuator to value the interest held by the IRA.

**Precious Metals and Brokerage Accounts** | The FMV of precious metals and brokerage accounts are determined by the current public market index statement provided by the IRA Account Owner to Preferred Trust Company. In some circumstances the statement may be required monthly, quarterly or annually.

**Assets Secured by Life Policies** | The FMV of assets secured by a life policy is the initial purchase price until maturity. You **do not** need to complete the FMV Form as Preferred Trust Company will use the initial purchase price as FMV by default.

**Assets in Default/Litigation** | Preferred Trust Company is required to report the FMV of an asset held within an IRA to the IRS, even if that asset is subject to default/litigation. In these situations, the FMV reported is the same as if the asset were not involved in default/litigation, and will continue to be reported as such unless and until Preferred Trust Company receives applicable FMV documentation as described above or documentation from a court, notification from a receiver, etc. to devalue the asset. The IRA Account Owner has the option of obtaining the FMV from a Qualified Independent Third Party Valuator.



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- Q.** **What happens if I do not turn in my Fair Market Valuation Form?**
- A.** Preferred Trust Company is required to obtain the most recent fair market value available for investment(s) in your account at least once a year. If we do not receive the Fair Market Valuation Form, we will report the last known value of the asset(s) held in your account. Please note that the Internal Revenue Service (IRS) requires annual valuations.
- Q.** **May I provide my own valuation of the assets held in my self-directed IRA?**
- A.** No. For assets where fair market value cannot be determined and documented, such as real estate, this must be provided by a qualified, Independent Third Party Valuator who is not a disqualified person.
- Q.** **Who is a disqualified person?**
- A.** The following are disqualified persons: the IRA Account Owner and his/her spouse, the IRA Account Owner ancestors and lineal descendants and their spouses, any corporation, partnership, trust or estate in which disqualified persons have a 50 percent or greater interest, investment managers and advisors, and anyone providing services to the plan (IRA), e.g., the IRA custodian.
- Q.** **How should assets be valued?**
- A.** To comply with the Internal Revenue Code requirement, assets must be valued at fair market value, not cost. A Fair Market Value (FMV) is an estimate of the market value of a property or asset, based on what a knowledgeable, willing, and unpressured buyer would likely pay to a knowledgeable, willing, and unpressured seller in the market.
- Q.** **Who pays for the valuation?**
- A.** Your IRA does. If your IRA account does not have sufficient funds to cover the cost you will have to make an annual contribution, transfer, or rollover funds from another custodial account.
- Q.** **What if the asset is worthless?**
- A.** In order to remove the asset from your IRA account, the Internal Revenue Code requires that there be specific type of documentation to do so. The following are some acceptable examples; Tax Form 1099-C (Cancellation of Debt), Deed in Lieu of Foreclosure or a copy of the recorded Trustee's Deed, county's recorded Tax Deed, Bankruptcy Notice, legal collection efforts, a Cease and Desist Order from an entity such as SEC or a similar state agency.



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# Fair Market Valuation (FMV) Form

PTC IRA Account Number

## SECTION 1 | IRA Account Owner Information

First Name  Middle Initial  Last Name

Daytime Phone Number  Email Address

Street Address  City  State  Zip Code

## SECTION 2 | Asset Information

Asset Name

Percentage of Ownership in IRA

Current Asset Value  **Supporting documentation must be provided to support the Current Asset Value as defined.**

## SECTION 3 | Qualified Third Party Valuator Information

Valuator Company

Valuator Name  Valuator Title

Daytime Phone Number  Email Address

Street Address  City  State  Zip Code

## SECTION 4 | Signatures

I certify that I am qualified to give an independent valuation of the asset as described above. I understand that this valuation will be used for tax reporting purposes to the Internal Revenue Service and that any false or misleading valuation of any asset may result in penalties and fines for both the valuator and the IRA Account Owner.

Valuator Signature  Date

I certify that I have read and understand the Fair Market Valuation guidelines and Asset Valuation Policy of Preferred Trust Company. I certify that I am the IRA Account Owner of the above referenced account and asset and in that capacity I have retained the services of a qualified third party valuator to prepare, present and attest to the value of the asset as defined above. and that the information contained herein is true and accurate to the best of my knowledge.

IRA Account Owner  Date