

Louis Kravitz & Associates, Inc.

ACTUARIES · CONSULTANTS · RECORDKEEPERS

ALERT!

INTERNAL REVENUE SERVICE TO AUDIT VALUATIONS OF PLAN ASSETS (June, 1992)

The Internal Revenue Service recently announced that one of its audit priorities is to identify plans that improperly value plan assets.

BACKGROUND

All qualified retirement plans are required to determine the fair market value of plan assets each year. The determination of fair market value of publicly traded assets is usually straightforward. However, the fair market value of non-publicly traded assets, such as partnerships and stock of closely held companies is not always easily determined. We understand that the common practice of carrying these assets at "cost" or at the "capital account" amount shown on a partnership's K-1 is **not acceptable**.

PURPOSE AND IMPLEMENTATION OF THE PROGRAM

The program appears to be an attempt by the IRS to raise tax revenues. The taxes and penalties for failure to properly value assets can be severe.

The IRS has already started gathering the information needed to implement this program in the defined benefit area. For plan years beginning in 1991, defined benefit plans must indicate on Schedule B of Form 5500 the "date of the last independent appraisal of property such as real estate, collectibles and closely held stock, etc."

We understand that the IRS and the Department of Labor are planning to move the reporting of appraisals from the Schedule B to the Form 5500 itself in 1992. Therefore, all plans will soon have to report asset appraisal information.

WHAT MUST BE DONE

Make certain that all non-publicly traded assets in the plan are independently appraised to determine their fair market value. Documentation should be maintained to support a prior year's valuation.

This issue may be of particular importance to corporate trustees as well as CPA's who prepare statements of trust assets for their clients.