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TUCKER & MELTZER

VALUATION ADVISORS

July 2010, Issue 13

BUSINESS VALUATION ADVISOR

*Commentary on the business of business valuation
for attorneys, accountants, estate planning professionals and business owners*

This newsletter is for the information of attorneys, financial planners and business owners who deal with business valuation issues and are interested in the current thinking in business appraisal. It is not a "how to" publication, but more of an explanation of a complex professional service.



COMMENTARY

Uncle Sam Wants You to pay more taxes. Tax law changes should be sending a strong warning to the wealthy.

The federal estate tax lapsed on January 1st of this year. On January 1, 2011 the law reverts back to a \$1 million exemption and a 55% estate tax, unless Congress intervenes with a \$3.5 million exclusion as has been discussed so much over the past two years. It is our opinion that Congress will do nothing and the estate tax will go back to the rather punitive tax rates of the 1990s. The result -



many, many more families will be subject to estate taxes. The IRS reports that "We continue to focus on high-income and high-wealth taxpayers as a priority area for us," referring to the frequency with which audits are performed.

In our view, now is a good time for families to consider estate tax planning and transfer wealth down to the younger generations.

As of this writing Senators Lincoln (D-Ark.) and Kyl (R-Ariz.) introduced a proposal to set the estate tax rate at 35% with a \$5 million exemption. ■

VALUATION PERSPECTIVES

Searching for the New NORMAL as in Normalization of Earnings.

Valuation analysts perform a task known as normalization, in which earnings are adjusted for various conditions such as excessive salaries, corporate perks, aggressive depreciation, etc. At what is being considered the end of the recession, we are faced with many companies which have lost revenues and declined in profitability. For these businesses, analysts must try to discern the appropriate amount of growth to allow for the recovering entity. What happens to companies coming out of the trough of recession? Do renewed revenues happen as

THE TUCKER & MELTZER DIFFERENCE

Tucker & Meltzer Valuation Advisors are independent business valuation advisors. We provide no other services (accounting, legal, financial planning or investment). Tucker & Meltzer represents an economical alternative to more expensive accounting and large valuation firms. We offer accurate, well documented, up to date, and market based value comparisons and promise an exceptional turn-around time. We have the experience and knowledge to handle the tough jobs and we look forward to having the opportunity to work with you. ■

Brooke, Anne and Jennifer attended the 2010 Annual Consultants' Conference for the National Association of Certified Valuation Analysts in early June.



ANNOUNCING . . .

Anne R. Meltzer, CPA, ABV was elected to the Board of Directors of the **Baltimore Estate Planning Council** for the 2010-2012 term.

rapidly as they disappeared? Some customers are not coming back and new customers need to be grown from scratch. Is the Company in recovery mode? Rebuilding? Bouncing back? When will pre-recession revenues return?



Because of the downturn in revenues and earnings, analysts are requiring financial projections in order to perform discounted cash flow analyses as the best method to determine values. Often, management is treating the financial forecasts as a "back to normal" situation, when the New NORMAL is actually something quite less. Analysts cannot simply write up management's forecasts, but must apply a healthy skepticism and common sense to the numbers. In some cases, analysts must determine the probability that such a future will occur. When applied properly, the value becomes reasonable, logical and defensible. ■

CASES IN BRIEF

Estates of Black v. Commissioner, 133 TC No. 15 (12/14/09)

Judge Halpern stated the following in this opinion, "Therefore, we agree with petitioner that these cases, like *Estate of Schutt*, present a unique set of circumstances that, on balance, require a finding that Black LP was formed for a legitimate and significant nontax purpose, i.e. to perpetuate the holding of Erie stock by the Black family." The "buy and hold" philosophy and good reasons for it formed the basis for finding that the 2036(a) "bona fide sale for adequate and full consideration" exception was present. Samuel Black Jr. started with the Erie Indemnity Co. in 1925 and bought Erie shares at every chance, until his holdings were worth nearly \$80 million in 1993. Black formed a family limited partnership (FLP) into which he contributed all his Erie stock and maintained a 1% GP interest, disbursing LP interests among his son and grandsons' trusts. When he died in 2001, the Erie stock was worth over \$318 million. The IRS challenged the FLP transfers under Sec. 2036(a), claiming its full, fair market value should be brought back into the estate for taxation. The court rejected an IRS deficiency determination with respect to the estate of Samuel P. Black Jr. of more than \$129 million. A copy of the decision may be found on our web site, [click here](#). ■



We are very pleased to announce that **Jennifer P. Rosenberg** has obtained her Accredited in Business Valuation credential from the AICPA. She is now a CPA/ABV.



Mark W. Norris, CPA/ABV, CVA, ASA, CFFA has been named the Chair of the Valuation Credentialing Board for the National Association of Valuation Analysts (NACVA) for 2010-2011.



BUSINESS LITIGATION SUCCESS

Mark Norris recently provided valuation and expert testimony for a large regional law firm in a Federal case involving an industrial manufacturer and a Department of the State of Pennsylvania in an economic damages case. The court ruled in favor of the client with an award of \$6.5 million. An appeal will be likely. ■

RECENT ASSIGNMENTS

Institutional Asset Management
Private Equity Group - Fair Value
RE Holding Companies
Automobile Dealerships (2)



Tucker & Meltzer - Valuation Advisors is a business valuation firm focused on the needs of family limited partnerships and closely-held companies. The firm's founding partners have

extensive experience and credentials in valuing closely-held and asset holding companies. We have performed over 800 valuations for companies in a large number of industries, reflecting our broad experience in accounting, finance, litigation services, valuation theory and capital transactions.

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