



BUSINESS VALUATION ADVISOR

*Commentary on the business of business valuation
for 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

TAXPAYERS - 3; IRS - 0

It's hard not to smile (or even jump for joy) over the recent tax court decisions. In the past two years taxpayers have come a long way. In the cases of Jelke, Kohler and Astleford, the courts have rebuffed the IRS treatments of built-in capital gains and what the service has claimed as excessive discounts, particularly marketability discounts. In Kohler the combined discounts approached 50%. There were other issues, such as a post death reorganization of the Kohler Co., but the discounts held up to the intense scrutiny of four separate business valuation reports and testimony. The IRS will appeal. In Jelke, the taxpayer was upheld in the consideration of built in capital gains as a dollar for dollar reduction to net asset value. Appraisers have long argued that this represents a true liability to the willing buyer and therefore should be a deduction from value. The IRS has recently filed an appeal. Finally, in Astleford (see Cases in Brief), a general partnership interest was transferred within the context of an FLP with combined discounts of 85%! The discounts related to the market absorption of a large tract of farmland (20%), a marketability discount at the FLP level (30%) and a combined discount for the gifts (35%). The discounts were layered and surely, the Service will appeal this one. □



THE TUCKER & MELTZER DIFFERENCE

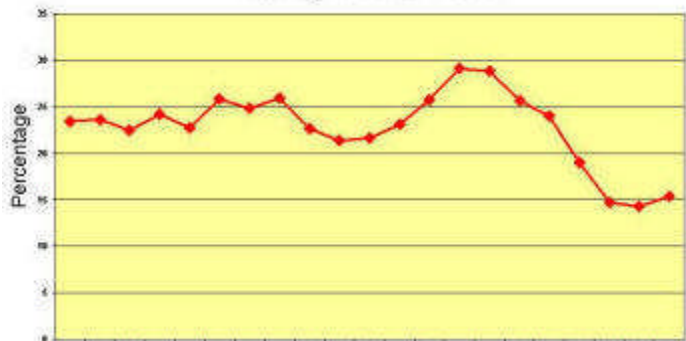
Tucker & Meltzer Valuation Advisors are independent business valuation advisors. We provide no other services (accounting, legal, financial planning or investment). Tucker & Meltzer represents an economical alternative to more expensive accounting and large valuation firms. We offer accurate, well documented, 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.

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VALUATION PERSPECTIVES

Here is the 20 year history (1987 - 2007) of minority interest discounts from Mergerstat's [©]Control Premium Study.

Minority Interest Discounts



The peak years of 2000-2001 were the end of the technology stock bubble (tech wreck) in which enormous premiums were paid for anything ending in "tech". The inverse of the control premium is the implied minority interest discount. For 2007, the median control premium recorded for 650 transactions was 18.2%, implying a minority interest discount of 15.4%. The *Control Premium Study* is used in the valuation of operating companies. For valuations of asset holding companies, with marketable securities or real estate, other market indications are used, such as the discounts to net asset value of closed end funds or REITs. These discounts are predominantly in the 9% - 14% range today, as valuations are based on assets as opposed to goodwill. □

CASES IN BRIEF

JANE Z. ASTLEFORD V. COMMISSIONER T.C. MEMO 2008-128 MAY 5, 2008

In this Family Limited Partnership decision, the Tax Court accepted of a sizeable combined discount for lack of marketability and control for a 50% general partnership interest transferred to an FLP. When gifted, the Tax Court again determined a sizeable discount for the "tiered" ownership interests inherent in the real estate limited partnership. Total discounts to the lower FLP interests totaled 85%. This is sure to be a landmark gift tax case. A copy of the appeal decision [\[click here\]](#) may be found on our web site. □



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 500 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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ANNOUNCING . . .

Brooke Tucker and Anne Meltzer wish to thank our many clients for trusting us with their valuation work over the past two years. □



RECENT ASSIGNMENTS

Solar Heating - Buyout
Electrical Contractor - Sale
Commercial Bank - FLP Gift
Commercial Bank - Estate
FLP - Marketable Securities (2) - Gifts
Material Handling - ESOP
Engineering Firm - ESOP
Government Contractor - Trust
Venture Capital - Stock Options
FLP Real Estate (3) - Gifts

DID YOU KNOW . . .?

The IRS has proposed to amend Sec. 20.2032-1(f) to limit the use of the Alternative Valuation Method (Date) to cases in which gross estate values have fallen after the date of death due to market conditions and not to other post-death events. This is a direct result of the Kohler v. Commissioner case. □

PRIVACY STATEMENT

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