



## 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

#### WHAT TO DO WITH PRIVATELY HELD STOCK IN AN ESTATE



It is quite common for estate attorneys and valuation analysts to be faced with determining the value of an interest in an asset holding company in the estate of a deceased client. Whether the assets include real estate or investments, the procedures are straightforward. First, determine the value of the asset using a real estate appraisal or broker's statements and then apply the appropriate discounts for lack of control and lack of

marketability.

However, what happens when the client's estate holds stock in a privately held company? In this situation, the valuation process differs greatly. First and foremost, determining the value of an operating company is a more complex process. Instead of being able to rely on one piece of documentation, such as an appraisal or a broker's statement, a great deal of information is required to value an operating company. When valuing a privately held company, the valuer will most likely rely on the income approach and possibly the market approach. These methods require analyzing the current and historical financial statements as well as the company's working capital needs, capital expenditures and debt structure. And since it is rare that a person dies right at the company's year end, it can be quite difficult to get "current" financial statements. Also, depending on the business's growth and stability, projected financial statements might be needed as well.

#### 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.

#### Announcing . . .



Brooke Tucker recently attended the 30th annual ESOP Association Conference in Washington, DC.

Another difference is in the application of the discounts for lack of control and lack of marketability. If the interest held by the estate is a non-voting interest, the discounts would generally be much higher than the discounts to value of an asset holding company. This is due primarily to the more liquid nature of real estate and investments than an operating company. Therefore, determining the appropriate discounts can also take more time and analysis.

Based on these factors this type of valuation is more complex, takes more time, and is more costly than the valuation of a simple asset holding company. □

## VALUATION PERSPECTIVES

Like many professions, business appraisal seems to move glacially in some ways. For so many years we espoused the theory of markets and concepts such as fair market value. Then we find empirical evidence that markets really do behave the way our theorems would indicate. In the past year, there have been major developments in the manner in which practitioners can obtain market data. Consider the following advancements in the profession, just in the past few years.



- Duff & Phelps Risk Premium Report is gaining credence in the market for the closer determination of equity risk premiums.
- Liquistat™ is a completely new way of determining a discount for lack of marketability using real arms length transactions of restricted stocks.
- Multiattribute Utility Model™ (MUM) assists the valuer in determining the amount of enterprise versus personal goodwill in a company.
- Quantitative Marketability Discount Model™ (QMDM) assists in determining the discount for lack of marketability.
- SEAM© and The Simplified Model© are methods to determine value of S Corp earnings. *See Dallas v. Commissioner below.*

All of these new tools are gaining credence in the valuation community and within the IRS. □



Brooke Tucker and Anne Meltzer attended NACVA's 2007 14th Annual Consultants' Conference in Washington, DC.

## RECENT ASSIGNMENTS

Medical Clinic - Buy-Sell  
Real Estate FLP (3) - Estate  
Architectural Firm - MBO  
Nursing Home - Buy-in  
Title Insurance - Sale  
Real Estate FLP (2) - Gifts  
Govt Contractor - Transfer  
Govt Contractor - Tech Transfer  
Food Mfr. - Goodwill Impairment

## BUSINESS VALUATION ALERT

Howard A. Lewis, MS, ASA, National Program Manager for the Valuation at the IRS presented IRS Update - Valuator Professional Responsibility at the recent NACVA Conference. Of major interest to valuation firms is the enhanced practitioner oversight. **"Competent, ethical appraisers responsibly following professional standards, have nothing whatsoever to worry about."** The service now has over 350 valuers of which 130 have been accredited by ASA, NACVA or IBBA. In his presentation he indicated that the IRS was looking for the accuracy and the reasonableness of the value conclusion and was looking to correct the worst abusers.

## CASES IN BRIEF

### TAX COURT THROWS OUT TAX EFFECTING S CORP EARNINGS (AGAIN)

In *Robert Dallas v. Commissioner* (U.S. Tax Court T.C. Memo 2006-212 filed September 28, 2006) the tax court rejected the petitioner's two appraisal firms' methods of tax effecting S Corp earnings. The valuation experts reduced the pre-tax S Corp earnings by 35% and 40%, reasoning that the likely hypothetical buyer would be a C Corporation. The court found no compelling testimony to this assertion. The court found the value per share to be \$801 vs. \$584, a difference in value per share of 37%. For a copy of the T.C. Memo, click [here](#).

More than half of all U.S. corporations are S Corporations. - *Editor*.



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 300 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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