



## 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

#### ATTENTION! SHOPPERS!

Every once in a while a firm gets some honest feedback from its competitors. We were recently called the "K-Mart" of business valuation firms. At first, we did not quite know how to receive this appellation - a derogatory remark or some sort of acclamation? Yes, our fees for valuation work are modest to moderate compared to our competitors. After a few minutes, we smiled.



- Valuation is all we do - after 500+ valuations in eight years, we have become very efficient at what we do.
- We are a virtual company with little overhead.
- We work by the project, not a monthly budget or chargeable hourly goal.
- After payroll, our next biggest expense is education, to ensure quality service and valuations that exceed the needs of our clients.

So, yes, we are less expensive than our competitors, and our business model generates savings to our clients. We graciously accept the title! □

### VALUATION PERSPECTIVES

#### HOW TO GET THE BIGGEST MARKETABILITY DISCOUNTS

The marketability discount must be based on the individual and specific facts surrounding the security in question. In the

#### 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 . . .

We are very pleased to announce that Mark W. Norris, CPA/ABV, CVA, CFFA, ASA has joined T&M as a Director in our firm. Mark has been appraising



operating and asset holding companies since 1995 and specializes in business litigation and financial reporting standards. Mark is

context of a family limited partnership (FLP), the marketability discount is usually applied to a minority interest with no voting rights and certain restrictions on the sale of the interest. Theoretically, the marketability discount is that discount necessary to generate a sufficient increment in return to the purchaser of a minority interest of an entity's closely-held shares to induce the purchaser to make this particular investment, rather than an alternative investment identical in all respects save marketability.<sup>1</sup>

In other words - Main Street vs. Wall Street. By differentiating the FLP investment from the expected norm, say a closed end mutual fund or a REIT, the following factors which influence the size of the marketability discount begin to come into play.

Factors	Lower Discounts	Higher Discounts
Investment Horizon	5 Years	20 Years
Return on Investment	High	Low
Distributions	Yes	No
Desirability of the Assets	High	Low
Restrictions on Sale	Low	High
Alternative Investments	Few	Many
Growth in Value	High	Low

Most valuation analysts focus on the restricted stock and pre-IPO studies that have been performed on public and private companies over the years. The median discount is about 33%. However, each security is unique and may have more factors in play, such that the discount should be higher or lower. A number of mathematical approaches are available to determine a marketability discount and, for the most part, they are good indicators for the size of the discount; however, as a mathematical equivalency tool, these approaches fail to consider the willing seller - would you sell for a 60% discount? Therefore, we get back to the factors above. The major factors are liquidity (investment horizon) and cash flow (distributions). When initiating an FLP, consider the goal of the partnership and the factors above. □

<sup>1</sup>Mercer, *Valuing Financial Institutions*, p. 202.

## CASES IN BRIEF

In the recent case of *Bergquist v. Commission* (July 28, 2008), several doctors took charitable deductions for donating their stock in a medical corporation. An important issue in this case was the premise of value: going concern or liquidation value. The taxpayers had a fair market value appraisal on a going concern basis of \$402 per share. The IRS expert appraiser valued the shares at \$114 on a liquidation basis (assemblage of assets). The TC agreed with the \$114 value before discounts. What is incredible in this case is that the IRS appraiser applied a discount for lack of control of 35% and a discount for lack of marketability of 45% to arrive at a value of \$37 per share. A copy of the decision may be found on our website [[click here](#)]. *Comment: T&M wonders if our clients might be able to get the same level of discounts in a transfer tax case for the same type of asset. We tend to doubt it.* □

the Current President of the Maryland Chapter of the American Society of Appraisers and is a frequent speaker to students, law firms and wealth management advisory groups. Mark may be reached at 443.519.0007. □

*In the context of a family limited partnership (FLP), the marketability discount is usually applied to a minority interest with no voting rights and certain restrictions on the sale of the interest.*

## 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 . . . ?

Appraisers will soon be subject to the Tax Return Preparer Penalties under Sections 6694 and 6695. The Treasury Department and the IRS intend to finalize these proposed Regulations by the end of 2008, and appraisers will have the same responsibility of non-signing tax return preparers. □

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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