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need for estate planning.

# Northeastern Michigan

# Estate Planning Council

# Discounts, Discounts, Discounts



## October 22, 2015

*Presented by:*

*Lance S. Hall, ASA*



Valuation and Financial  
Advisory Services



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- Discussion Context:

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# Presentation Outline

Discounts

Discounts

And More Discounts



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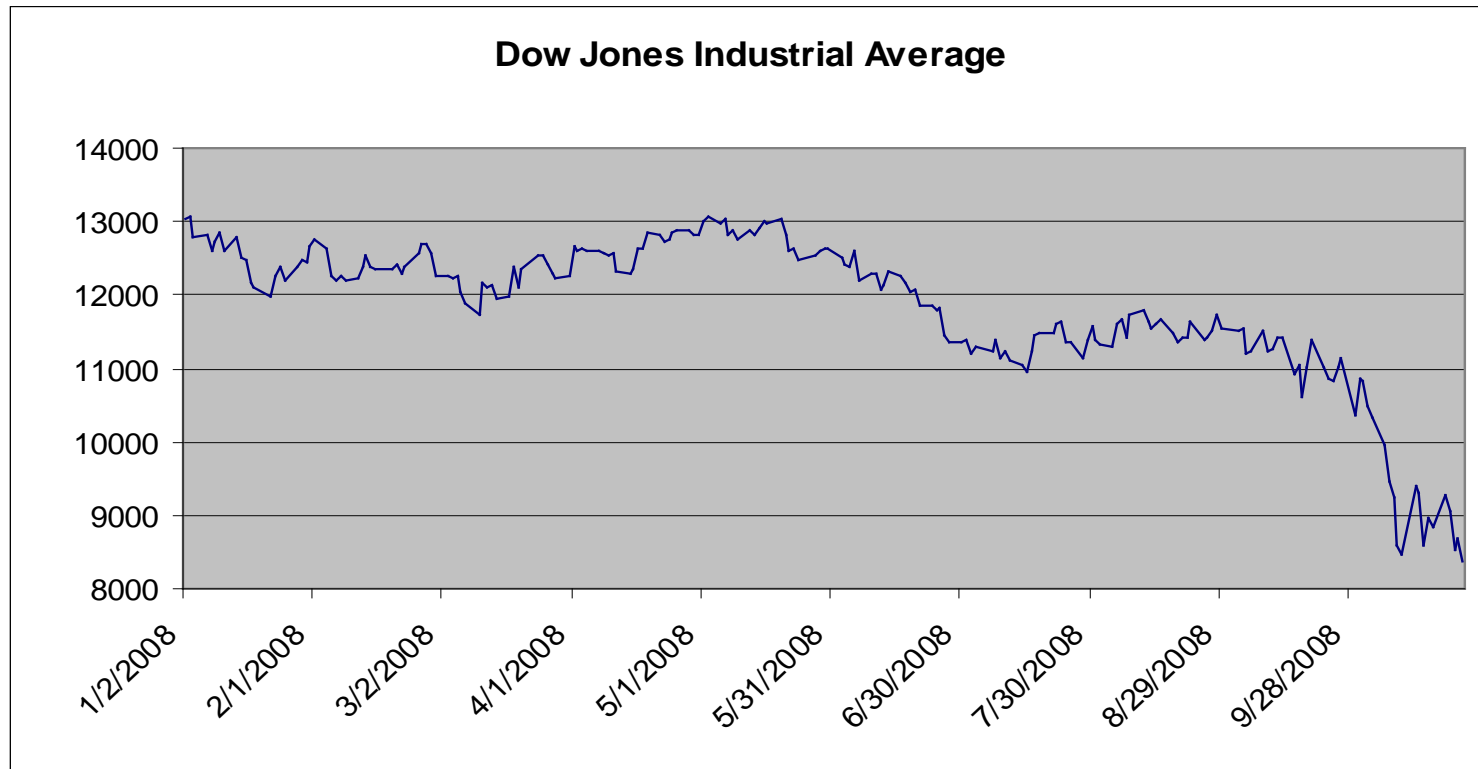


# The High VIX Discount



# The High VIX Discount

- 2008: The Dow Plummets

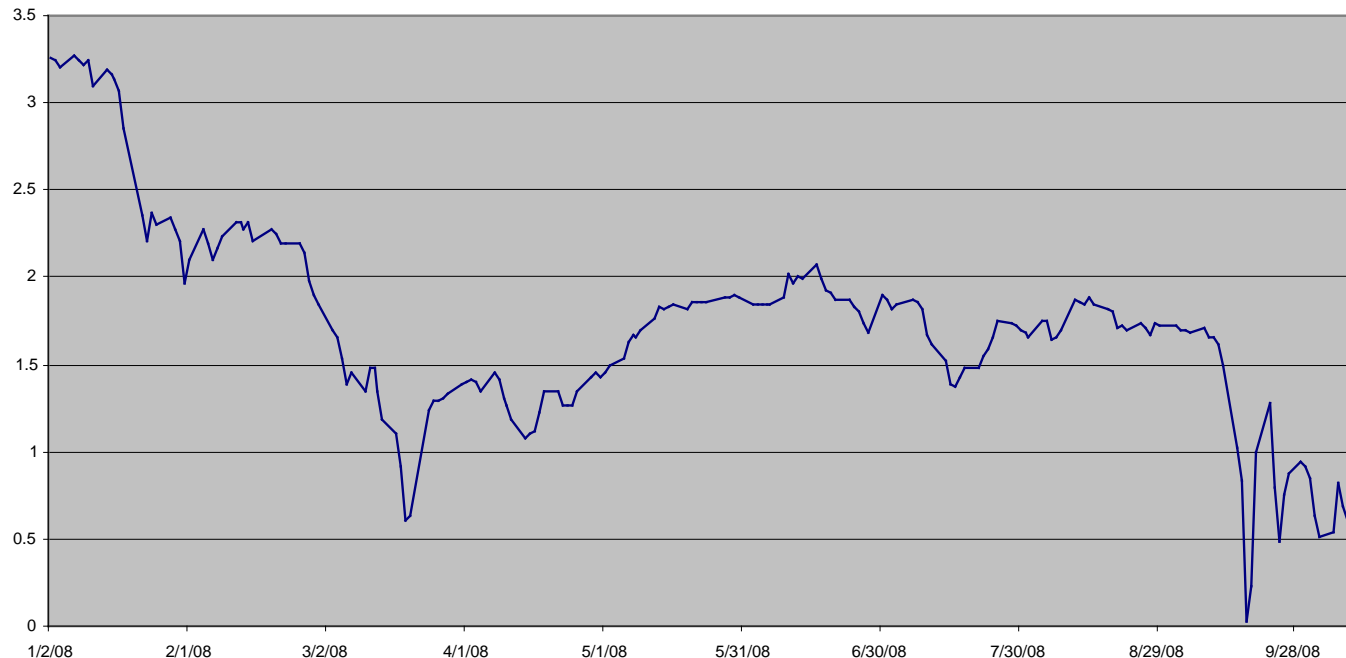




# The High VIX Discount

- Great Fear Causes Investors to Pull Out of Stock Market and Invest in Safe Treasuries

3-Month Treasury Yields





# The High VIX Discount

- Chicago Board Options Exchange's **Volatility Index**
  - VIX "is a good indicator of the level of fear or greed in U.S. and global capital markets. When investors are fearful, the VIX level is significantly higher than normal." [1]

[1] Antognelli, Ferreira, McArdle, and Traub. "Fear and Greed in Global Asset Allocation." The Journal of Investing. (Spring 2000), pp. 27–32.



# The High VIX Discount

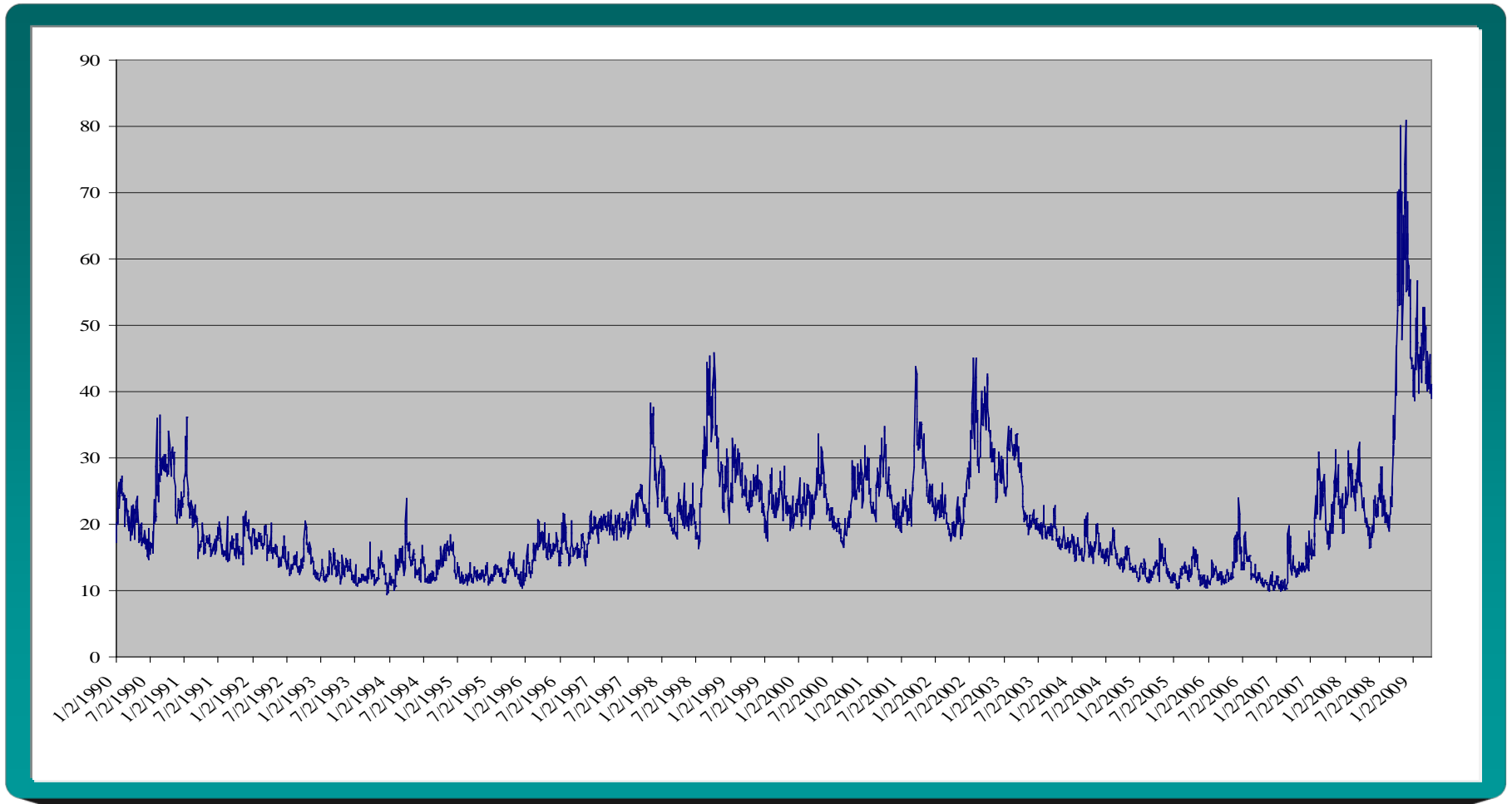
- Chicago Board Options Exchange's **Volatility Index**
  - "VIX values greater than 30 are generally associated with a large amount of volatility as a result of investor fear or uncertainty, while values below 20 generally correspond to less stressful, even complacent, times in the markets."<sup>[1]</sup>

<sup>[1]</sup> Investopedia, a Forbes digital company.



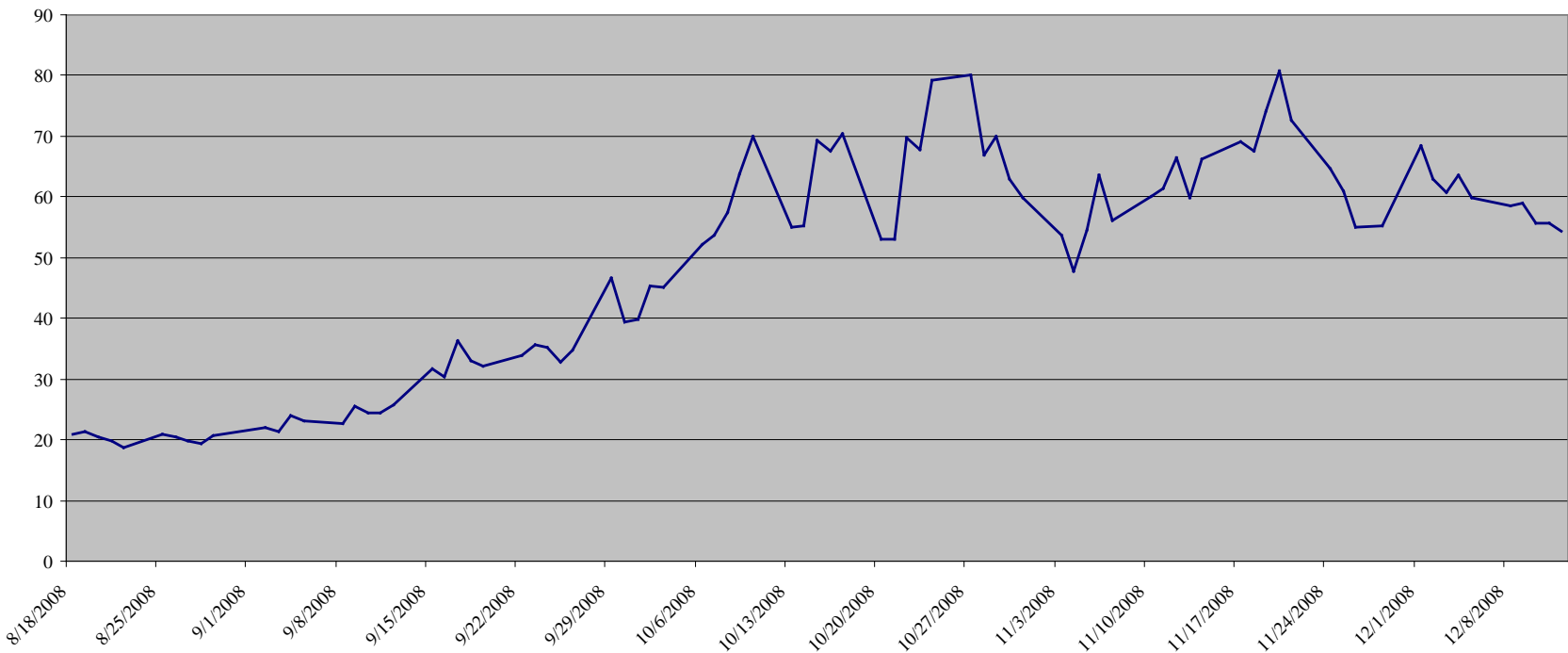
# The High VIX Discount

## VIX



# The High VIX Discount

## 2008 Fall VIX Readings



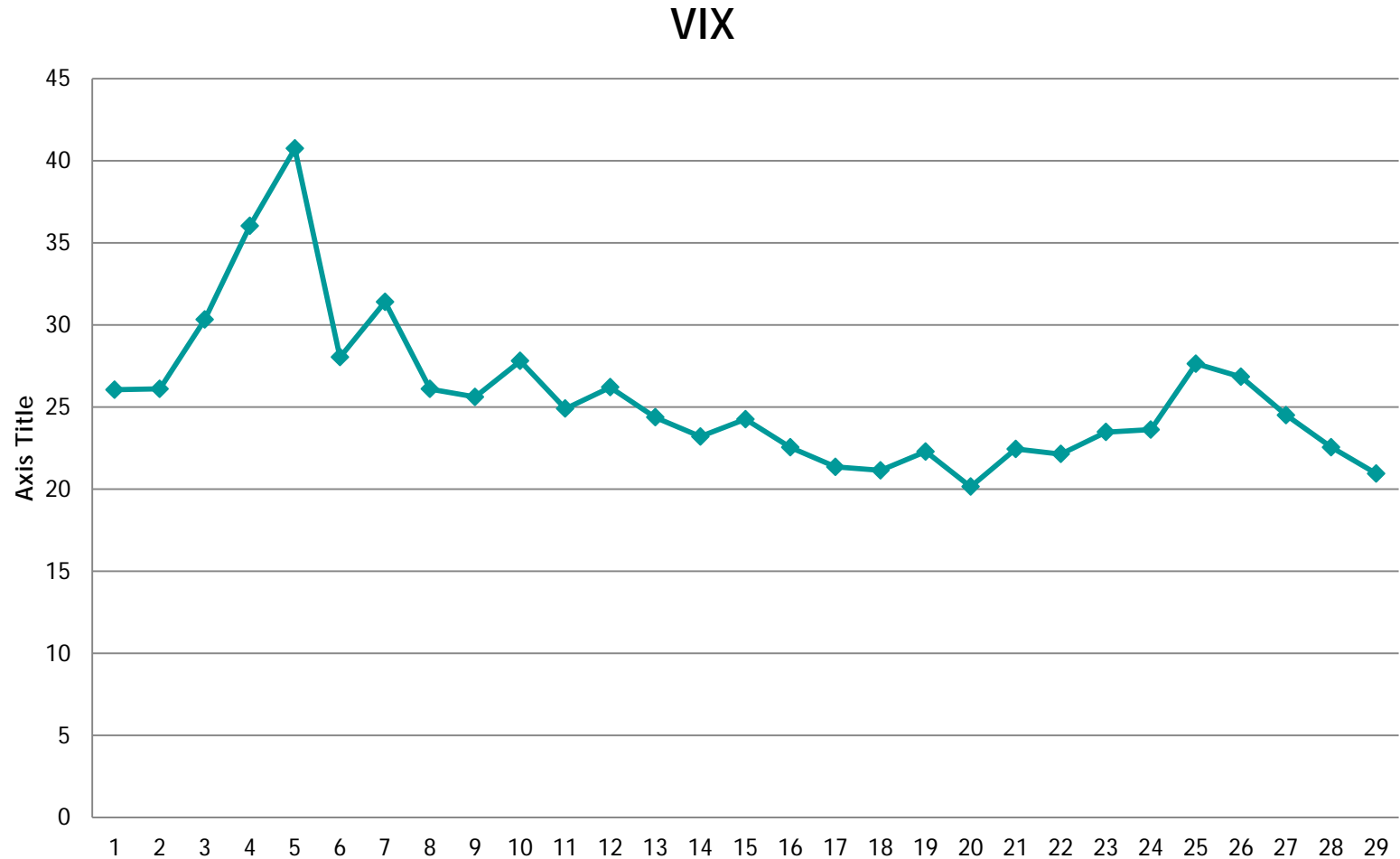
# The High VIX Discount



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# The High VIX Discount



# The High VIX Discount

## VIX Adjustment Analysis

	<u>VIX Range</u>			Multiplicative Adjustment Factor <sup>1</sup>	Adjusted Discount <sup>1,2</sup>
	<u>Low</u>		<u>High</u>		
Observed:	11.2	-	23.1	1.00	<b>30.0%</b>
	23.1	-	25.2	1.16	<b>34.8%</b>
	25.2	-	32.9	1.23	<b>36.9%</b>
Implied:	32.9	-	40.0	1.39	<b>41.7%</b>
	40.0	-	50.0	1.57	<b>47.1%</b>
	50.0	-	60.0	1.78	<b>53.4%</b>

(1) Multiplicative difference between the RSED for each transaction and the actual discount for such transaction.

(2) Based on an RSED of 30%.



# The Key-Person Risk Discount







# The Key-Person Risk Discount

- *Estate of Furman* – T.C. Memo. 1998-157 (April 30, 1998)
  - “Where a corporation is substantially dependent upon the services of one person, and where that person would no longer be able to perform service for the corporation by reason of death or incapacity, an investor would expect some form of discount below fair market value when purchasing stock in the corporation to compensate for the loss of that key employee.”



# The Key-Person Risk Discount

- **Key-Person Risk - Estate & Gift Tax**
  - *Estate of Furman* - T.C. Memo. 1998-157 (April 30, 1998)
  - *Estate of Mitchell* - T.C. Memo. 1997-461 (October 9, 1997)
  - *Estate of Renier* - T.C. Memo 2000-298 (September 25, 2000)



# The Personal Goodwill Discount





# The Personal Goodwill Discount

- **Personal Goodwill**
  - Success through Personal Relationships:
    - Customers, Suppliers, Key Employees
  - Company Associated with Key Person
    - Unique Charisma
    - Named After Key Person
  - Unique Knowledge or Skill of Key Person
  - No Obligation to Stay - Free to Leave
    - No Non-Compete or Employment Agreement



# The Personal Goodwill Discount

- **Personal Goodwill**
  - Buyer will only Buy if Key Person Remains
  - Product is not Unique and Many Other Competitors Exist
  - Any Patents owned by the Individual and Not the Company
  - Company's Location not a Primary Reason for Customer Relationships



# The Personal Goodwill Discount

## *Estate of Adell*







# The Personal Goodwill Discount

- *Estate of Adell* – T.C. Memo. 2014-155 (August 4, 2014)
  - Tax Court's Conclusion: \$9.3 Million
  - Why?
    - Son's Personal Goodwill
      - Urban Preachers were Son's Personal Relationships
      - DirecTV was Son's Personal Relationship
      - A Buyer would Buy only if Son remained



# The Personal Goodwill Discount

## *Bross Trucking*





# The Personal Goodwill Discount

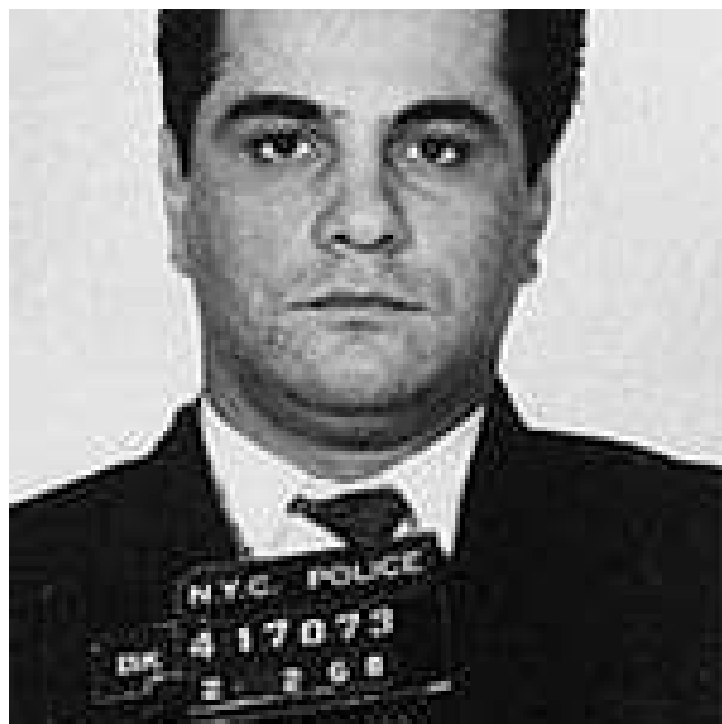
- ***Bross Trucking v. Commissioner*** – T.C. Memo. 2014-107 (June 5, 2014)
  - Did Dad make a gift to Sons?
    - No Employment Agreement
    - No Non-Compete
    - No Physical Assets Transferred
    - Sons did not work at Bross Trucking
    - Dad did not work at LWK Trucking
    - LWK had additional service lines
    - LWK employed 50% of Bross Trucking employees



# The Mafia Discount



# The Mafia Discount





# The Non-Homogeneous Property Discount







# The Non-Homogeneous Property Discount

- *Estate of Bennett* – T.C. Memo. 1993-34 (February 1, 1993)
  - “We think some discounting is necessary to find a buyer willing to buy [the company’s] package of desirable and less desirable properties.”



# The Built-In Gain Discount





# The Built-In Gain Discount

- *Estate of Davis* – 110 T.C. No. 35 (June 30, 1998)
  - “We are convinced ... that even if no liquidation of [the corporation] or sale of its assets was planned ... a hypothetical willing seller and a hypothetical willing buyer would not have agreed on that date on a price for each of the blocks of stock in question that took no account of [the corporation’s] built-in gains tax.”



# The Corporate Form Discount





# The Corporate Form Discount

- *Estate of Bennett* – T.C. Memo. 1993-34 (February 1, 1993)
  - “The benefits and burdens of corporate form are often the very reasons upon which the decision to apply or to not apply a discount for lack of marketability is based.”



# The Emotional Discount







# The Emotional Discount

- ***Estate of DiSanto*** – T.C. Memo. 1999-421 (December 27, 1999)
  - “The redemption was emotional for the DiSanto family. Emotional factors may preclude a redemption price from representing fair market value.”



# The Confusion Discount





# The Confusion Discount

- *Estate of Newhouse* – 94 T.C. 193 (February 28, 1990)
  - “Where a state law issue about the relative rights and duties of different classes of stock is incapable of resolution except through actual litigation, as evidenced by the profound disagreement of several noted experts, a willing buyer would experience uncertainty about the rights of the common shareholder. The willing buyer and willing seller would take into account the likelihood of protracted and unpredictable litigation in negotiating a purchase price.”



# The Confusion Discount

- *Adams v. U.S.* – 88 AFTR2d Par. 2001-5361 (August 24, 2001)
  - “[The] legal uncertainty – which raises the specter of costly litigation in addition to an adverse result – is itself a factor that must be taken into account when appraising the fair market value of an assignee’s interest for estate tax purposes.”



# The Williamson Act Discount





# The Williamson Act Discount

- *Estate of Luton* – T.C. Memo. 1994-539 (October 27, 1994)
  - “The discount should reflect that restrictions are placed on the land as a result of the Williamson Act and that the assets of the corporation are not liquid.”



# The Lack-of-Full-Control Discount







# The Lack-of-Full-Control Discount

- *Estate of Wheeler* – 77 AFTR2d 1405 (December 4, 1995)
  - “Where indications of value are predicated upon control or complete ownership, a discount must be applied to provide indications of value for a ... less-than-controlling interest.”

# The Lack-of-Full-Control Discount

		<u>Mean</u>	<u>Median</u>
Domestic Transactions $50\% < X < 80\%$	52	21.8%	17.2%
Domestic Transactions $80\% < X < 100\%$	4177	38.0%	29.4%
Implied Discount		11.7%	9.4%



# The Prior Court Decisions Discount





# The Prior Court Decisions Discount

- *Estate of LeFrak* – T.C. Memo. 1993-526 (November 16, 1993)
  - “... we must remind the parties that the amount of discount must be decided on the basis of the record in the instant case, and not on what a court found reasonable in another case involving different evidence.”



# The Rules-of-Thumb Discount





# The Rules-of-Thumb Discount

- *Estate of Renier* – T.C. Memo. 2000-298 (September 25, 2000)
  - “We place no weight on [the expert’s] opinion. His report contains no explanation of, or analytical support for, the various ‘rules of thumb’ employed in reaching several of its valuation estimates.”



# The Swing-Vote Premium





# The Swing-Vote Premium

- *Estate of Newhouse* – 94 T.C. 193 (February 28, 1990)
  - “Having a substantial or even the largest block of stock does not necessarily create effective control, and it certainly does not in this particular closely held corporation.”





# The Swing-Vote Premium

- *Estate of Davis* – 110 T.C. No. 35 (June 30, 1998)
  - “... as of the valuation date it was unlikely that a member of decedent's family would join with an outsider to compel [the company] to act or not to act in a specified matter.”



# The Swing-Vote Premium

- *Estate of Magnin* – T.C. Memo. 2001-31 (February 12, 2001)
  - “The willing buyer and willing seller standard renders irrelevant the actual buyer and actual seller; however, the other stockholders are not irrelevant under the standard.” [emphasis added]



# The Influence Premium





# The Influence Premium

- *Estate of Wright* – T.C. Memo. 1997-53 (January 29, 1997)
  - “Before a control premium may be applied ... something more than ‘substantial influence’ is required.”



# The Influence Premium

- *Estate of Hendrickson* – T.C. Memo. 278 (August 23, 1999)
  - “While we recognize that elements of control may enhance marketability, we do not think that the estate shares were rendered marketable by virtue of their effective control.”



# The *Mandelbaum* Discount





# The *Mandelbaum* Discount

- ***Peracchio v. Commissioner*** – T.C. Memo. 2003-280 (September 25, 2003)
  - “To the extent [the expert] believes that the benchmark range of discounts we utilized in *Mandelbaum v. Commissioner* is controlling in this or any other case, he is mistaken. Nothing in *Mandelbaum* suggests that we ascertained that range of discounts for any purpose other than the resolution of that case.”



# The Non-Voting Discount





A globe is centered on a clock face, with the hands of the clock visible. The globe is yellow and black, and the clock face is green and white. The background is a dark teal color with three small white squares in the top right corner.

# The Non-Voting Discount

- *Estate of Kosman* – T.C. Memo. 1996-112 (March 11, 1996)
  - “The JFE study showed that premiums for superior voting rights usually ranged from 2 to 4 percent. Respondent’s experts said that the JFE study shows that a 2 to 4 percent discount should apply to stock with inferior voting rights in this case, even though Kosman, Inc., stock was not publicly traded. We apply a discount of 4 percent to value the nonvoting common shares.”

# The Non-Voting Discount

Voting Shares		Non-Voting Shares		(Discount)/ Premium	Company	Voting Shares		Non-Voting Shares		(Discount)/ Premium
Ticker	Closing Price	Ticker	Closing Price			Ticker	Closing Price	Ticker	Closing Price	
CMCS.A	54.410	CMCSK	55.270	1.6%	<b>Viacom, Inc.</b>	VIA	40.170	VIA/B	38.150	-5.0%
CMCS.A	58.630	CMCSK	59.197	1.0%	10 Day Average	VIA	43.846	VIA/B	43.044	-1.8%
CMCS.A	59.938	CMCSK	60.175	0.4%	20 Day Average	VIA	48.377	VIA/B	47.842	-1.1%
CMCS.A	61.104	CMCSK	61.034	-0.1%	50 Day Average	VIA	57.475	VIA/B	57.055	-0.7%
CMCS.A	58.314	CMCSK	58.045	-0.5%	200 Day Average	VIA	67.009	VIA/B	66.731	-0.4%
ROIA	2.550	ROIAK	2.520	-1.2%	<b>Brown-Forman</b>	BF-A	109.050	BF-B	99.040	-9.2%
ROIA	2.535	ROIAK	2.526	-0.4%	10 Day Average	BF-A	116.727	BF-B	106.629	-8.7%
ROIA	2.551	ROIAK	2.549	-0.1%	20 Day Average	BF-A	117.897	BF-B	107.603	-8.7%
ROIA	2.991	ROIAK	2.961	-1.0%	50 Day Average	BF-A	113.132	BF-B	103.729	-8.3%
ROIA	2.727	ROIAK	2.718	-0.3%	200 Day Average	BF-A	98.009	BF-B	94.677	-3.4%
CBS-A	48.640	CBS	43.950	-9.6%	<b>Crawford &amp; Co.</b>	CRD/B	6.520	CRD/A	6.380	-2.1%
CBS-A	52.153	CBS	48.270	-7.4%	10 Day Average	CRD/B	6.708	CRD/A	6.582	-1.9%
CBS-A	53.657	CBS	50.240	-6.4%	20 Day Average	CRD/B	6.819	CRD/A	6.582	-3.5%
CBS-A	56.187	CBS	53.538	-4.7%	50 Day Average	CRD/B	7.711	CRD/A	7.091	-8.0%
CBS-A	59.065	CBS	57.009	-3.5%	200 Day Average	CRD/B	8.634	CRD/A	7.616	-11.8%
								Mean		-4.3%
								10 Day Avg Mean		-3.2%
								20 Day Avg Mean		-3.2%
								50 Day Avg Mean		-3.8%
								200 Day Avg Mean		-3.3%
								Median		-3.6%
								10 Day Avg Median		-1.9%
								20 Day Avg Median		-2.3%
								50 Day Avg Median		-2.9%
								200 Day Avg Median		-1.9%
								<b>Selected Discount</b>		<b>3.0%</b>





# The Assignee Discount





# The Assignee Discount

- *Adams v. U.S.* – 88 AFTR2d Par. 2001-5361, N.D. Tex. (August 24, 2001)
  - “...the legal uncertainty that obscures the extent, if any, to which an assignee has the right to provoke liquidation or, alternatively, to force a straight pro rata redemption of his interest, suggests that any effort to exercise such putative rights would be met with strong resistance from the remaining partners. This legal uncertainty - which raises the specter of costly litigation in addition to an adverse result—is itself a factor that must be taken into account when appraising the fair market value of an assignee’s interest for estate tax purposes.”



# The Assignee Discount

- *Kerr v. Commissioner* – 113 T.C. No. 30 (December 23, 1999)
  - “The only relevant difference between the rights of limited partners and assignees relates to a limited partner’s right to vote on major decisions—a right not extended to the assignees.”



# The Right-of-First-Refusal Discount





# The ROFR Discount

- *Estate of Mandelbaum* – T.C. Memo. 1995-255 (June 12, 1995)
  - “... we believe that the [ROFR] create[s] a chilling effect on prospective investors, and, accordingly, that some consideration must be given to the agreements’ effect on the issue of marketability.”



# The ROFR Discount

- *Estate of Borgatello* – T.C. Memo. 2000-264 (August 18, 2000)
  - “... we believe that [the stock purchase agreement] would have some chilling effect on a hypothetical sale ....”





# The ROFR Discount

- *Estate of Heck* – T.C. Memo. 2002-34 (February 5, 2002)
  - “We are satisfied that some amount of the discount is attributable to the ROFR ....”



# The Tiered Discount





# The Tiered Discount

- *Astleford v. Commissioner* – T.C. Memo. 2008-128 (May 5, 2008)
  - Question: Does a minority interest in an entity that, in turn, owns a minority interest justify taking discounts for lack of control and lack of marketability on both minority interests?



# The Tiered Discount

- *Astleford v. Commissioner* – T.C. Memo. 2008-128 (May 5, 2008)
  - Answer: Yes – Under limited circumstances.



# The Tiered Discount

- *Astleford v. Commissioner* – T.C. Memo. 2008-128 (May 5, 2008)
  - “We note that this Court, as well as [the IRS], has applied two layers of lack of control and lack of marketability discounts where a taxpayer held a minority interest in an entity that in turn held a minority interest in another entity.”  
(footnote #5)



# The Tiered Discount

- *Astleford v. Commissioner* – T.C. Memo. 2008-128 (May 5, 2008)
  - “The 50-percent Pine Bend interest constituted less than 16 percent of AFLP’s NAV and was only 1 of 15 real estate investments that ... were held by AFLP and lack of control and lack of marketability discounts at both the Pine Bend level and the AFLP parent level are appropriate.” (footnote #5 cont.)



# The Tiered Discount

- *Astleford v. Commissioner* – T.C. Memo. 2008-128 (May 5, 2008)
  - “However, we also have rejected multiple discounts to tiered entities where the lower level interest constituted a significant portion of the parent entity’s assets, or where the lower level interest was the parent entity’s ‘principal operating subsidiary.’ ” (footnote #5 cont.)



# The Tiered Discount

- ***Gow v. Commissioner*** – T.C. Memo. 2000-93 (March 20, 2000)
  - The Taxpayer's expert's combined discounts for lack of control and lack of marketability for the tiered structures totaled 66.7 percent for one date, and 70.8 percent for the other date. The Tax Court accepted the Taxpayer's expert's discounts.





# The Undivided Interest Discount





# The Undivided Interest Discount

- ***LeFrak v. Commissioner*** - *T.C. Memo. 1993-526*  
(November 16, 1993)
  - Appraisers must consider the “cost, uncertainty, and delays attendant upon partition proceedings as the basis for allowing a discount in valuing fractional interests in real property.”



# The Undivided Interest Discount

- *Estate of Cervin* - T.C. Memo. 1994-550 (October 31, 1994)
  - “Such partition would involve substantial legal costs, appraisal fees, and DELAY.” [emphasis added]



# The Undivided Interest Discount

## ■ Post TAM Court Case Discount Summary

- *LeFrak* - 30%
- *Cervin* - 20%
- *Barge* - 26%
- *Williams* - 44%
- *Brocato* - 20%
- *Busch* - 10%
- *Stevens* - 25%
- *Forbes* - 30%
- *Baird* - 60%

Mean = 29.4%

Median = 26%



# The Art Discount





# The Art Discount

- ***Estate of Elkins*** - 140 T.C. No. 5 (March 11, 2013)
  - Undivided Interest in 64 Works of Art (50% to 73.1%)
  - Cotenant Agreement:
    - Waived the “right to institute a partition action, and, in so doing, he relinquished an important use of his fractional interests in the cotenant art.”



# The Art Discount

- ***Estate of Elkins*** - 140 T.C. No. 5 (March 11, 2013)
  - Taxpayer's Experts:
    - Big Four CPA Firm - 44.75% Discount
    - David Nash - 5 = 50% to 80%; 19 = 80% to 90%; 40 = 95% Discounts
    - Clothier & Head - 2 = 51.7%; 2 = 65.8%; 2 = 71.7%; 19 = 71.1%; 39 = 79.7% Discounts



# The Art Discount

- ***Estate of Elkins*** - 140 T.C. No. 5 (March 11, 2013)
  - IRS's Experts: None
  - IRS's Arguments:
    - § 2703(a)(2)
    - Only Market is Retail Market
    - Inconsistent with Commissioner's Charitable Gifting Standard





# The Art Discount

- ***Estate of Elkins*** - 140 T.C. No. 5 (March 11, 2013)

- Section 2703(a)(2):

- (a) General rule:

For purposes of this subtitle, the value of any property shall be determined without regard to -

- (1) any option, agreement, or other right to acquire or use the property at a price less than the fair market value of the property (without regard to such option, agreement, or right), or

- (2) any restriction on the right to sell or use such property.



# The Art Discount

- ***Estate of Elkins*** - 140 T.C. No. 5 (March 11, 2013)
  - Court's Ruling on Section 2703(a)(2)
    - Since the waiver of the right-to-partition is an applicable restriction as it pertains to Section 2703(a)(2) it must be ignored.



# The Art Discount

- ***Estate of Elkins*** - 140 T.C. No. 5 (March 11, 2013)
  - Court Ignores Section 2703(b):
    - (b) Exceptions:
      - Subsection (a) shall not apply to any option, agreement, right, or restriction which meets each of the following requirements:
        - (1) It is a bona fide business arrangement.
        - (2) It is not a device to transfer such property to members of the decedent's family for less than full and adequate consideration in money or money's worth.
        - (3) Its terms are comparable to similar arrangements entered into by persons in an arm's-length transaction.



# The Art Discount

- ***Estate of Elkins*** - 140 T.C. No. 5 (March 11, 2013)
  - Court's decision on Commissioner's Charitable Gift Standard:
    - Rejected Retail Market = Undiscounted
    - "[t]here is no bar, as a matter of law, to an appropriate discount from pro rata fair market value in valuing, for estate tax purposes, decedent's undivided fractional interests in the art."



# The Art Discount

- ***Estate of Elkins*** - 140 T.C. No. 5 (March 11, 2013)
  - Court's Determination of Discounts:
    - “[T]he hypothetical buyer would be in an excellent position to persuade the Elkins children, who, together, had the financial wherewithal to do so, to buy the buyer's interest in any or all of the works, thereby enabling them to continue to maintain absolute ownership and possession of the art.”



# The Art Discount

- ***Estate of Elkins*** - 140 T.C. No. 5 (March 11, 2013)
  - Court's Determination of Discounts:
    - “[w]e believe that a 10% discount would enable a hypothetical buyer to assure himself or herself of a reasonable profit on a resale of those interests to the Elkins children.”



# The Art Discount

- ***Estate of Elkins*** - No. 13-60472, 5<sup>th</sup> Circuit (September 15, 2014)
  - 5th Circuit Overturns Tax Court:
    - “... when, as here, the *only* evidence on an issue is that presented by but one party - and by the one that did not have the burden of proof, at that - there is ‘no preponderance’: It takes two to tango.”



# The Art Discount

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  - 5th Circuit Overturns Tax Court:
    - “... when, as here, the *only* evidence on an issue is that presented by but one party - and by the one that did not have the burden of proof, at that - there is ‘no preponderance’: It takes two to tango.”
    - “... there is no viable factual or legal support for the court’s own nominal 10 percent discount.”
    - “... the Elkins heirs are neither *hypothetical* willing buyers nor *hypothetical* willing sellers, any more than the Estate is deemed to be the hypothetical seller.”





# The Art Discount

- ***Estate of Elkins*** - No. 13-60472, 5<sup>th</sup> Circuit (September 15, 2014) (cont.)
  - 5th Circuit Overturns Tax Court (cont.):
    - “... the situation is only exacerbated by the effect of the various restrictions on partition, alienation, and possession that survived the death of the Decedent.”
    - “... we conclude that the discounts determined by the Estate's experts are not just the only ones proved in court; they are eminently correct.”



# The Art Discount

- ***Estate of O'Keefe*** - T.C. Memo. 1992-210 (April 8, 1992)
  - “Unlike shares of stock which are fungible, individual works of art are both distinctive and unique in medium, size, composition, quality and saleability. The application of an across-the-board discount to works of art, which by its very nature ignores the uniqueness of works of art, would not be appropriate.”

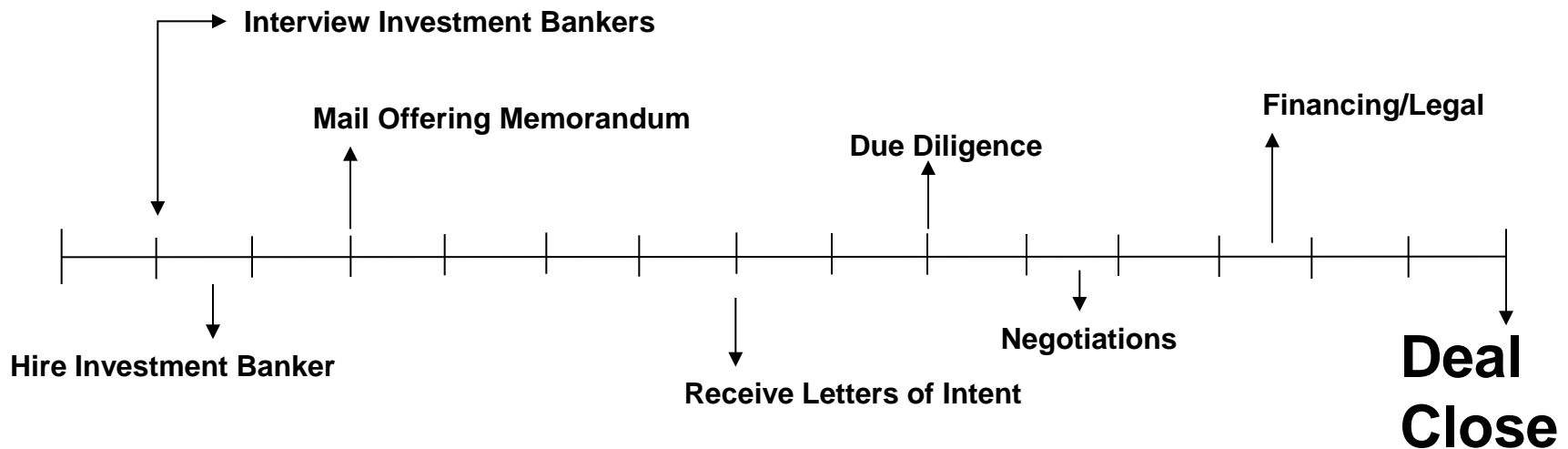


# The Pre-Deal Discount



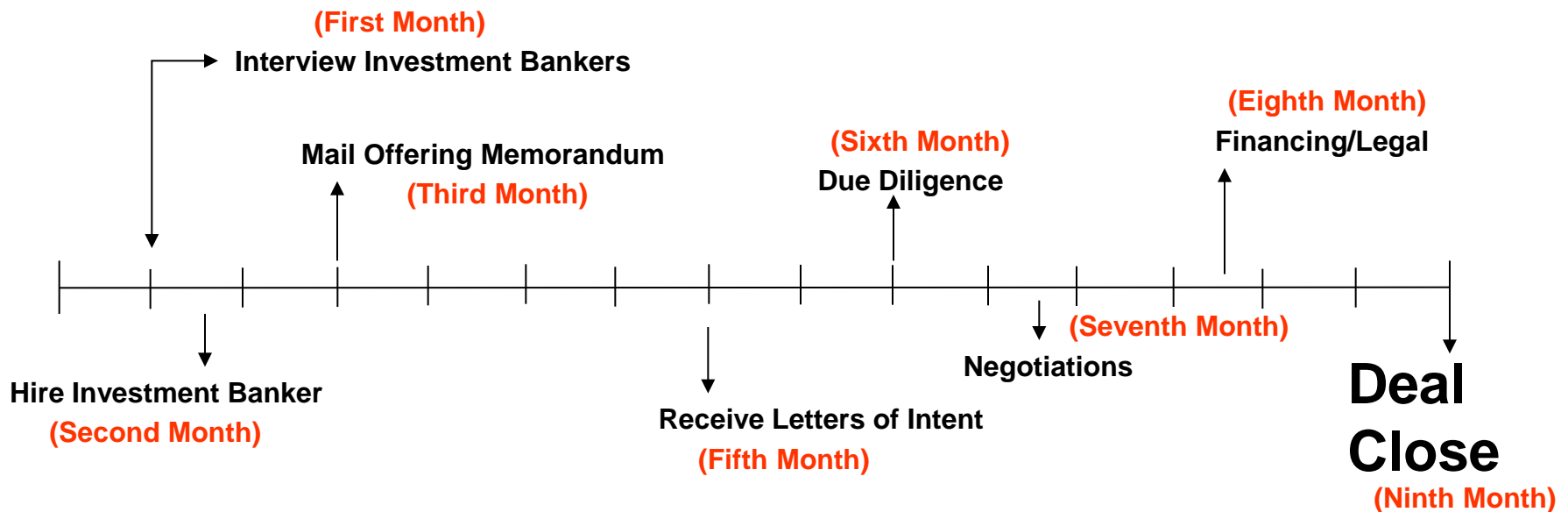
# The Pre-Deal Discount

- Gifting Interests in a To-Be-Sold Company
  - Stages:



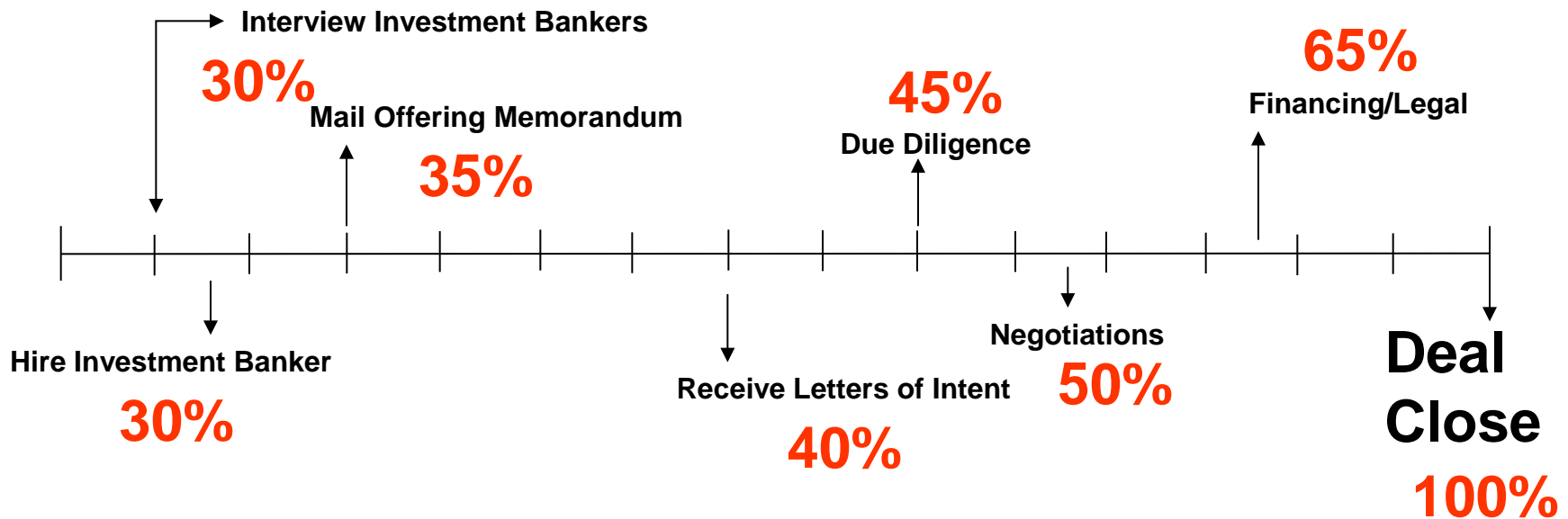
# The Pre-Deal Discount

- Gifting Interests in a To-Be-Sold Company
  - Time Frame:



# The Pre-Deal Discount

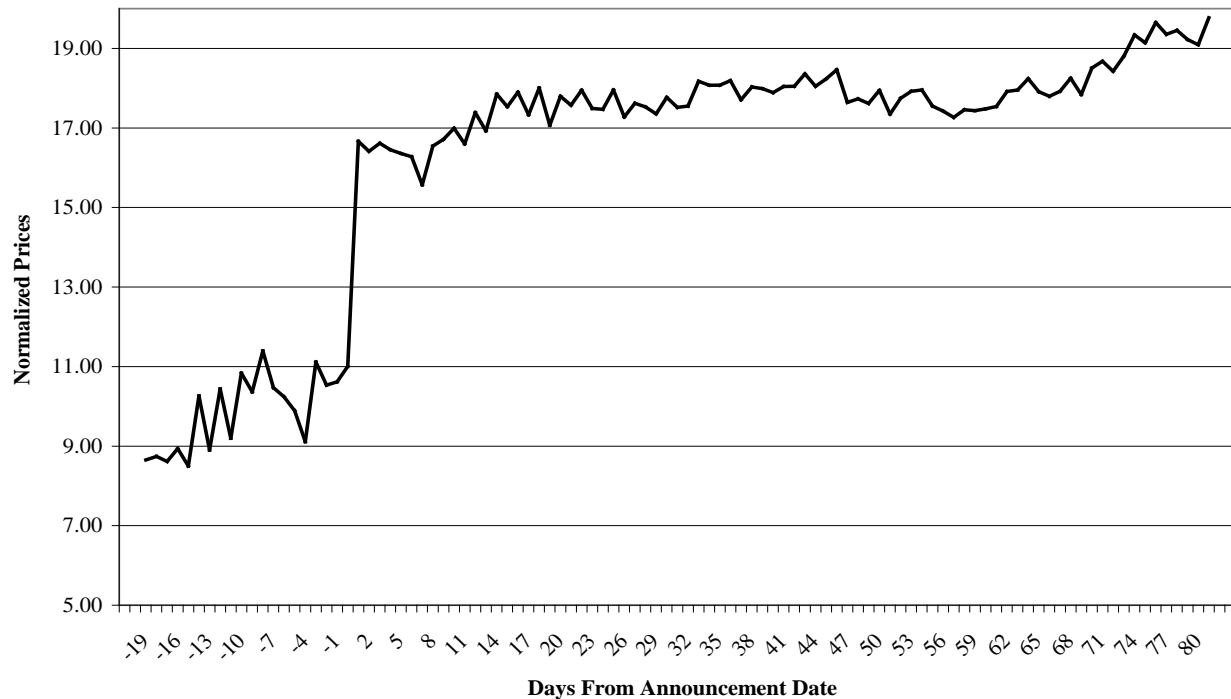
- Gifting Interests in a To-Be-Sold Company
  - Deal Completion Chances (Private Company):



# The Pre-Deal Discount

- How Are Sale/No Sale Weights Determined?

Stock Price Changes Before/After Announcement



# The Pre-Deal Discount

- How Are Sale/No Sale Weights Determined?

<b>Quartile</b>	<b>Days From Announcement to Close</b>	<b>Market Value</b>	<b>Control Premium</b>	<b>Target Net Margin</b>	<b>Announcement Percentile</b>
First Quartile	42	\$167.1	32.9%	3.3%	89.9%
Second Quartile	91	\$216.1	33.1%	5.3%	72.3%
Third Quartile	136	\$153.5	32.0%	8.6%	69.2%
Fourth Quartile	205	\$145.0	33.3%	8.8%	60.3%





# The Pre-Deal Discount

- Why Not Ignore the Potential Sale When Transferring?
  - “Where, as here, the valuation of closely-held stock is at issue, this generally must be accomplished ‘without reference to events which occur after the date of the donation.’ An exception to this rule may be made where nothing that significantly affected the value occurred between the date of the gift and the subsequent event.” (*Estate of Saltzman* - Nos. 217, 910, U.S.C.A. 2nd Cir. - December 11, 1997)



# The Pre-Deal Discount

- Why Not Ignore the Potential Sale?
  - “[The Expert’s] failure to take any account of a public offering, which actually occurred within 8 months of decedent’s death, and the possibility of which was discussed before his death, seems to us unwarranted.” (*Estate of Freeman* - T.C. Memo. 1996-372 - August 13, 1996)



# The Pre-Deal Discount

- Can Discounts be Taken So Close to the Sale Date?
  - Regarding a same day transfer of minority interests collectively constituting 100% of a Company, the Court stated “...by following a prearranged agreement to transfer [100% of] the shares simultaneously ... ‘their position was no different than that of a single majority shareholder.’ ... In this case, we hold a 10-percent discount is applicable.” (*Koblick v. Commissioner* - T.C. Memo. 2006-63 - April 3, 2006)



# The Blockage Discount





# The Blockage Discount

- *Estate of Foote* – T.C. Memo. 1999-137 (February 5, 1999)
  - “... where a block of stock could not have been sold on the valuation date (or within a reasonable time period thereafter) without affecting the market price, a ‘blockage’ discount is appropriate.”



# The Market Absorption Discount





# The Market Absorption Discount

- *Estate of Auker* – T.C. Memo. 1998-185 (May 19, 1998)
  - “We use the term ‘market absorption’ when we refer to blockage as applied to assets other than stock.”



# The Market Absorption Discount

- *Estate of Auker* – T.C. Memo. 1998-185 (May 19, 1998)
  - “The law of supply and demand supports our application of the concept of blockage to these assets in that a sale of an exceptionally large block of one type of property may generate less proceeds than if the seller were to sell each piece of that block separately at the market price.”





# The Market Absorption Discount

- *Estate of Auker* – T.C. Memo. 1998-185 (May 19, 1998)
  - “To the extent that the market cannot absorb all parcels of one type of property, the value for a single parcel as set by the market without competition from similar parcels will usually be driven down.”



# The Volume Discount





# The Volume Discount

- *Epping v. Commissioner* – T.C. Memo. 1992-279 (May 14, 1992)
  - “The volume discount represents the difficulty involved in selling the complete collection in one transaction or, alternatively, the increased costs in selling the items individually.”



# The Volume Discount

- ***Rimmer v. Commissioner*** – T.C. Memo. 1995-215 (May 18, 1995)
  - “We conclude that the addition of 85,000 pieces of sheet music on the public market either would depress the market for each title or, perhaps more likely, would result in many copies being unsaleable for a considerable period of time. To reflect those possibilities, we believe that a discount to reflect blockage, is appropriate.”



# The Environmental Discount





# The Environmental Discount

- *Estate of Desmond* – T.C. Memo. 1999-76 (March 10, 1999)
  - “... we will apply a [10 percent] discount to the unadjusted value under the income method for the potential environmental liabilities.”





# Speaker Biography

## Lance S. Hall *President*

**Lance S. Hall, ASA** is Co-Founder and President of FMV Opinions, Inc. Mr. Hall also supervises the firm's New York office. A prolific author and expert witness, Mr. Hall is a highly sought after speaker known for his exciting, dynamic and informative presentations.

Mr. Hall is an Accredited Senior Appraiser of the American Society of Appraisers, and he earned his MBA from Brigham Young University. He also sits on the Editorial Advisory Board of Business Valuation Update, and writes a regular column for *Valuation Strategies* magazine. His media interviews and appearances include: Fox Business Live, Los Angeles Times, Forbes, The Wall Street Journal, Business Week, CNBC "Squawk on the Street," and Bloomberg BusinessWeek (online).







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