



NAEPC  
**Journal**  
of Estate & Tax Planning

---

COLLABORATE + EDUCATE + CULTIVATE

[Click here to view Issue 36](#)



**Leimberg Information Services**

**FAST, FRANK, INCISIVE ANALYSIS**

CLICK TABS BELOW FOR NEWSLETTER ARCHIVES

SPECIAL SERVICES

**Tell A Friend** 

Search the complete LISI®, ActualText, and LawThreads® archives.

Search archives for:

Find it

Newsletters ▼

[Click for Search Tips](#)

[Click for Most Recent Newsletters](#)



**Steve Leimberg's Estate Planning Email Newsletter - Archive Message #2838**

**Date:** 17-Nov-20  
**From:** Steve Leimberg's Estate Planning Newsletter  
**Subject:** Evan Levine & Nainesh Shah on Estate of Aaron U. Jones: Key Business Valuation Issues Addressed by Tax Court

□ Business valuation rules and norms frequently evolve as a consequence of IRS and Tax Court rulings. Every few years, a case comes along in which the judgment has an immense influence on the valuation field, and the Estate of Aaron U. Jones is one of those cases. In its ruling, the tax court clarified its views on the treatment of business cross-ownership, the tax-effect of s-corporations, the right valuation approach for an asset-heavy business, the validity of revising financial, and other valuation-related issues. □

**Evan Levine** and **Nainesh Shah** provide members with their analysis of [Estate of Aaron U. Jones](#).

**Evan Levine** is a Chartered Financial Consultant with over 30 years of experience. He has given dozens of educational seminars on retirement and estate planning. His articles have appeared in the CPA Journal, The National Public Accountant, and Advisor Today.

**Nainesh Shah** is a Chartered Financial Analyst with over 25 years of experience. He is a member of the CFA Institute and has presented to over 100 audiences of financial advisors and non-profits on macroeconomic conditions, capital markets, portfolio construction and risk management.

Here is their commentary:

**EXECUTIVE SUMMARY:**

Business valuation rules and norms frequently evolve as a consequence of IRS and Tax Court rulings. Every few years, a case comes along in which the judgment has an immense influence on the valuation field, and the [Estate of Aaron U. Jones](#) is one of those cases. In its ruling, the tax court clarified its views on the treatment of business cross-ownership, the tax-effect of s-corporations, the right valuation approach for an asset-heavy business, the validity of revising financial, and other valuation-related issues.

**FACTS:**

Let us begin with some background. The IRS filed a multi-issue case in the United States Tax Court against Aaron U. Jones about the taxes paid on gifts to his three daughters. These gifts came from his ownership in his two S-corporations, Seneca Sawmill Company (SSC) and Seneca Jones Timber Company (SJTC). The IRS disputed that the business appraisal was too low, the difference between the IRS estimate and Aaron Jones' estimate being about \$89 million. As a result, the IRS demanded taxes of about \$45 million.

Aaron Jones owned SSC, a sawmill company, and SJTC, a timber wood company. One issue of this case was that these companies were functionally one business, as SSC owned 10% of SJTC. Both companies shared a headquarters, key employees and executives, as well as co-signed loans. Additionally, SJTC only sold timber to SSC. In fact, SJTC could not have operated independently of SSC, and Aaron Jones had no intention of selling the SJTC business. These facts proved that the companies were cross-owned and that the cross-ownership was not only legal but also functional. Still, the IRS wanted to value them separately.

The court, yet, sided in favor of the private valuator, who appraised the companies as one interrelated entity. Using the most current financial data, the analyst valued the gifted part of Jones' estate at \$21 million, instead of the \$120 million the IRS had estimated.

Another key issue in this case, was about the pass-through entity and how it is tax affected. Tax-affecting is not a new issue; there has been an ongoing debate about tax-affecting in the valuation field for many years. While a real-world practitioner knows that the buyer always thinks about the tax effect, the court had not spoken on

this issue for over twenty years. In Jones's case, the Tax Court sided with the expert, saying the tax-affecting makes the most sense. Do these lead us to the right approach to value a sawmill & timber company, which are an asset-heavy business?

There are three main approaches that IRS revenue ruling 59-60 suggests the valuator should use: income, market, and asset. Usually, however, one approach makes the most sense for a particular business or industry. In the case of SSC and SJTC, the IRS applied an asset approach, which is how timber usually gets valued. Contrarily, the private valuator used an income approach because the sawmill and timber company were so inter-linked, a decision with which the court sided. Not only did the use of these different approaches lead to a lower estimate, but the economic recession also had a notable impact on it.

Due to the recession, the estate re-did the financial forecasting, which had been done three months prior. The IRS, however, chose to use the old forecast. The private valuator argued against this choice as re-forecasting was necessary due to changing economic circumstances, and the court sided with him. This court ruling is particularly relevant in the climate of the COVID-19 pandemic, where many industries have seen grave aftermath. If you are appraising a business, it is prudent to have the most recent income forecast to reflect market reality.

The court also decided on the marketability discount (DLOM), which can also impact the valuation. In this case, there was a considerable difference between the IRS and experts' DLOM, being 35% and 30% respectively. Siding with the appraiser's estimate indicated that the court viewed the valuator's documents as better justification for their DLOM number. The analyst must adequately document and support reports to have their value accepted in the court.

### COMMENT:

From a practitioner's perspective, Estate of Jones is a critical case as it validated the valuator's approach and method of valuation. The valuator's correct representation of the company's structure and its impact on the value was crucial in the court's judgment. This case clearly demonstrates that analysts must make sure their valuation report and supporting documents support the conclusion. In the end, the court's judgment favored a more practical approach supported by more current data over the IRS's theoretical approach that used older forecasts and failed to account for changing economic conditions.

**HOPE THIS HELPS YOU HELP OTHERS MAKE A *POSITIVE* DIFFERENCE!**

*Evan Levine*  
*Nainesh Shah*

### CITE AS:

LISI Estate Planning Newsletter #2838 (November 17, 2020) at <http://www.leimbergservices.com> Copyright 2020 Leimberg Information Services, Inc. (LISI). Reproduction in Any Form or Forwarding to Any Person Prohibited Without Express Permission. This newsletter is designed to provide accurate and authoritative information in regard to the subject matter covered. It is provided with the understanding that LISI is not engaged in rendering legal, accounting, or other professional advice or services. If such advice is required, the services of a competent professional should be sought. Statements of fact or opinion are the responsibility of the authors and do not represent an opinion on the part of the officers or staff of LISI.

0 Comments Posted re. *Evan Levine & Nainesh Shah on Estate of Aaron U. Jones: Key Business Valuation Issues Addressed by Tax Court*

---

Post a comment on this newsletter:

Submit comment by



