

Index

Page numbers with *c* and *t* indicate chart and table, respectively.

- Accumulated earnings tax, 18–19, 28, 33
- Act of 1862, 11–12
- American Institute of Certified Public Accountants (AICPA), 160–161
- Appraisal Standards Board, 159–160
- Asset (cost) approach to value, 5–6, 6*t*

- Balance sheet approach to value, 6
- Bank financing, and PTEs, 78–79
- Bernier v. Bernier*, 92–94, 156
- Black-Scholes-Merton (BSM) model, 189, 192, 194
- Break points, in option-pricing method, 189, 190–192, 191*t*
- Built-in gains tax (“BIG” tax), 74
- Business life cycle, 72–75

- Capitalization of earnings method, 6, 6*t*
- Case study, 207–229
- C corporations
 - after-tax cash flows of, versus PTE, 8, 8*t*
 - after-tax cash flow variability of, 37–38
 - change to partnership or LLC by, 82
 - change to S corporation by, 82
 - disadvantages of, 23, 25–26
 - double taxation on sale of assets and, 73
 - excess compensation adjustment and, 28
 - financial statements of, 76–78
 - General Utilities Doctrine and, 28–29, 30
 - limited liability protection of, 17, 26
 - operating phase and, 73
 - partnership or LLC change to, 83
 - PHC tax and, 19, 33
 - PTEs compared with, 75–76, 77*t*
 - S corporation change to, 83–84
 - second level of taxation on, 17–18, 23, 26
 - shareholder compensation deductibility for, 28
 - start-up phase and, 72–73
 - tax benefit of purchaser’s goodwill and, 74–75
 - tax-exempt dividends of, 17, 22
 - tax on built-in gains (“BIG” tax) and, 74
- C corporation statutory income tax rate
 - with \$10,000 of income, 49–50, 50*c*
 - with \$100,000 of income, 57, 58*c*

- C corporation statutory income tax rate (*Continued*)
 with \$1 million of income, 60–66, 67c
 wide range of, for 1913–2013, 33, 33c
 for years 1909–1938, 17, 17t
 for years 1939–1953, 21–22, 21t
 for years 1954–1985, 23, 25t
 for years 1986–2013, 29–30, 31t
- C corporation statutory income tax rate comparisons
 businesses with \$100,000 of income, 57, 59c
 individuals with income of \$10,000, 17, 18c, 22, 22c, 23, 25c, 29, 31t, 33–34, 34c
 PTEs with \$10,000 of income, 50, 51c
 PTEs with \$1 million of income, 66–67, 67c
- Checklist for valuing PTEs, 199, 200t–213t
- Commissioner of Internal Revenue, 12
- Controlling interests, 2–3, 6t
- Cost approach to value, 5–6, 6t
- Delaware Open MRI* case, 87–92, 88t, 91t, 93–94, 156
- Discounted future returns method, 6, 6t
- Dividend income tax rates
 C corporations and, 8, 17, 22, 23, 26, 28, 30, 34, 49–50, 50c
 individuals and, 18, 29–30, 34–37, 35t–37t
 Modified Delaware MRI model and, 111–112, 113t, 114t, 115t, 116t–117t, 118t
 PHC tax and, 19
- Employee ownership of PTE, 188
- Entity form changes
 C corporation to partnership or LLC, 82
 C corporation to S corporation, 82
 partnership or LLC to C corporation, 83
 partnership to LLC, 83
 possible types of, 81
 S corporation to C corporation, 83–84
 S corporation to partnership or LLC, 82–83
- Entity form choice, and business life cycle, 71–75
- Estate of Adams v. Commissioner*, 149–150, 155t
- Estate of Heck v. Commissioner*, 145–146, 155t
- Excess profits tax, 27
- Fair market value (FMV)
 as balance point, 132, 132c
 characteristics of, 131–132
 court decisions on, 139–156, 155t
 definition of, 131
 determining, 134
 fact patterns challenged for, 140–141
 failing to consider floor and ceiling value in, 135–137
 hypothetical buyer and, 133
 hypothetical seller and, 132
 income approach and, 131–137
 IRC Revenue Ruling 59–60 on, 7
- Family limited partnerships, 187–188
- Financial statements, 76–78

- Gallagher v. Commissioner*,
153–154, 155*t*
- General Utilities Doctrine, 28–29,
30, 34
- Going-concern premise of
value, 4–5
- Goodwill
investor's recoupment percentage
and, 128, 128*t*
tax benefit of, 74–75, 127–129,
127*t*
- Gross v. Commissioner*, 141–142,
142*t*, 154, 155*t*
- Guideline public company
method, 161
fair market value and, 169–171
investment value and, 168–169,
169*t*, 170*t*
IRC Revenue Ruling 59–60
on, 158–159
valuation process using, 161–163
value to holder and, 163–167,
165*t*, 166*t*, 167*t*
- Guideline transactions method, 161,
172–173
- Income approach to value, 85–99
Bernier v. Bernier on, 92–94
Delaware Open MRI case
and, 87–92, 88*t*, 91*t*, 93–94
description of, 5, 6, 6*t*, 8
fair market value and, 131–137
investment value and, 123–130
IRC Revenue Ruling 59–60
on, 85–86
jurisdictional issues in, 87
Modified Delaware MRI model
on, 94–99, 95*t*, 97*t*
value to holder versus value to
buyer in, 86–87
- Income Tax Assessment Act of
1936, 17–18
- Income tax returns
number and type filed (2012)
of, 13, 13*t*
sources of revenue (2012) on, 13,
14*t*
- Individual federal income tax rates
Act of 1862 authorizing,
11–12
C corporations tax rate
comparisons for, 17, 18*c*, 22,
22*c*, 23, 25*c*, 29, 31*t*, 33–34,
34*c*
dividends and, 18, 29–30, 34–37,
35*t*–37*t*
individuals with \$10,000 of
income and, 43–49, 44*t*–48*t*,
49*c*
individuals with \$1 million of
income and, 57–60, 61*t*–65*t*,
66*c*
PTE with \$100,000 of income
and, 51, 52*t*–56*t*, 57*c*
wide range of, for 1913–2013,
32–33, 32*c*
- Wilson-Gorman Tariff Act on, 12
in 1913, 14–15, 15*t*
for years 1913–1938, 14–16, 16*t*
for years 1939–1953, 19–22, 20*t*
for years 1954–1985, 23, 24*t*
for years 1986–2013, 29, 30*t*
- Individual state income
taxes, 175–179
discrepancies in, 176–179,
177*t*–178*t*, 178*t*
goodwill deduction and, 128
Modified Delaware MRI model
and, 107–108, 109–110,
111–112
summary (2013) of, 175, 176*t*
- Internal Revenue Code (IRC)
Act of 1862 as forerunner of, 11
cycle of evolution of, 38*c*, 39

- Internal Revenue Code (IRC)
 (Continued)
 equity ownership interest in an
 LLC or partnership
 under, 129
 federal tax rate on C corporation
 dividends under, 29, 66
 General Utilities Doctrine
 provisions in, 29
 net investment income tax
 under, 111
 1954 overhaul and expansion
 of, 22–23
 origins of, 13–14
 reasonable compensation
 under, 27
 Revenue Ruling 59–60 of, 7, 85,
 157–159, 162
 subchapter S of, 26
 tax on built-in gains (“BIG” tax)
 under, 74
 for years 1913–1938, 15–19, 15*t*,
 16*t*, 17*t*, 18*c*
 for years 1939–1953, 19–22, 20*t*,
 21*t*, 22*c*
 for years 1954–1985, 22–23, 24*t*,
 25*t*, 25*c*
- Investment value, 3
 deal structure and, 126–130
 definition of, 123–124
 goodwill deduction
 and, 127–129, 127*t*, 128*t*
 income approach and, 123–130
 measuring, 124–126
 tax benefit of PTE status with, 9
- Joint venture ownership, 193–196,
 195*t*
- Limited liability companies (LLCs)
 C corporation change to, 82
 change to C corporation by, 83
 partnership change to, 83
 partnerships compared
 with, 30–32
 pass-through earnings of. *See*
 Pass-through entities (PTEs)
 preferred member units
 for, 190–192, 193*t*, 194*t*
 Restricted, 183–185
 S corporation change to, 82–83
 single-member, 32
 start-up phase and, 73
 state statutes creating, 32
 tax benefit of purchaser’s
 goodwill and, 74–75
- Limited partnerships
 family, 187–198
 Restricted, 183–185
- Liquidation, 4, 28–29, 73
- Market approach to value, 157–73
 AICPA SSVS 1 on, 160–161
 description of, 5, 6*t*, 8, 157
 guideline public company method
 for, 158–159
 guideline transactions method
 for, 172–173
 IRC Revenue Ruling 59–60
 on, 157–159
- Uniform Standards of
 Professional Appraisal
 Practice on, 159–160
- Mergers of PTEs, 188
- Modified Delaware MRI model
 (MDMM)
 description of, 94–96, 95*t*, 97*t*
 dividend tax rates and, 111–112,
 113*t*, 114*t*, 115*t*, 116*t*–117*t*,
 118*t*
 effective federal and state income
 tax rates and, 107–108
 entity-level taxes and, 103
 flexibility of, 98–99

- income retained in business
 - and, 104–106, 105*t*, 106*t*, 107*t*
- individual state income taxes
 - and, 107–108, 109–110, 111–112
- inputs to, 101–121
- normalized pretax income
 - in, 101–103
- overall effective income tax rates
 - and, 108–111
- Net investment income tax (NIIT), 111
- Nevada Senate Bill 350, 183–185
- New ventures, and PTE ownership, 188
- Noncontrolling interests, 2–3, 6*t*
- Oil and gas limited partnerships, 188
- Option-pricing method, 188–190, 192, 193*t*, 195*t*
- Partnerships
 - C corporation change to, 82
 - change to C corporation by, 83
 - change to LLC by, 83
 - disadvantages of, 23, 25–26
 - LLCs compared with, 30–32
 - pass-through earnings of. *See* Pass-through entities (PTEs)
 - S corporation change to, 82–83
 - start-up phase and, 73
 - tax benefit of purchaser's goodwill and, 74–75
- Pass-through entities (PTEs)
 - after-tax future cash flows of, 8, 8*t*
 - agreements for, 181–183
 - bank financing and, 78–79
 - benefits and limitations of C corporations compared with, 75–76, 77*t*
 - checklist for valuing, 199, 200*t*–213*t*
 - conundrum involving, 9
 - definition of, 8
 - double taxation on sale of assets and, 73
 - entrepreneurs starting businesses as, 23, 25–26, 30
 - excess compensation adjustment and, 28
 - financial statements of, 76–78
 - income approach and market approach for valuing, 8–9
 - joint ventures and, 193–196, 195*t*
 - mergers of, 188
 - operating phase and, 73
 - option-pricing method for, 188–190
 - preferred member units for, 190–192, 193*t*, 194*t*
 - prevalence of, 79–81, 79*t*, 80*t*
 - purchasing equity of, 129
 - Restricted, 183–185
 - start-up phase and, 72
 - state law on rights of, 183–185
 - tax benefit of purchaser's goodwill and, 74–75
 - value of ownership interest in, 187–197
- Pass-through entities (PTEs) income tax rate comparisons
 - businesses with \$100,000 of income, 51–52, 52*t*–56*t*, 57*c*, 58*c*, 59*c*
 - C corporations with \$10,000 of income, 50, 51*c*
 - C corporations with \$1 million of income, 66–67, 67*c*

- Pass-through entities (PTEs) income
 tax rate comparisons
 (*Continued*)
 complex capital structures
 in, 187–188
 individuals with \$10,000 of
 income, 43–49, 44*t*–48*t*, 49*c*
- Personal holding company
 (PHC), 19, 33
- Preferred member units, 190–192,
 193*t*, 194*t*
- PTE conundrum, 9
- Purpose of valuation, 3–4
- Real estate limited partnerships, 188
- Reasonable compensation
 clause, 27–28, 34
- Restricted limited liability
 companies (Restricted
 LLCs), 183–185
- Restricted limited partnerships
 (Restricted LPs), 175–177
- Revenue Acts
 of 1916, 27
 of 1918, 27, 28
 of 1921, 18, 19, 28
 of 1924, 28
 of 1926, 28
 of 1934, 18, 19
- Robert Dallas v. Commissioner*,
 151–153, 155*t*
- S corporations
 C corporation change to, 82
 change to C corporation
 by, 83–84
 change to partnership or LLC
 by, 82–83
 creation of, 26
 excess compensation adjustment
 and, 28
 limitations of, 26
 number of income tax returns
 as, 27
 pass-through earnings of. *See*
 Pass-through entities (PTEs)
 start-up phase and, 73
 tax benefit of purchaser's
 goodwill and, 74–75
 tax on built-in gains (“BIG” tax)
 and, 74
 unreasonable officer/stockholder
 compensation in, 196–197
- Sixteenth Amendment, 12, 15
- Sole proprietorship
 disadvantages of, 23, 25–26
 pass-through earnings of. *See*
 Pass-through entities (PTEs)
 single-member LLCs as, 32
 start-up phase and, 73
- Statement on Standards for
 Valuation Services No. 1
 (SSVS 1), AICPA, 160–161
- Strategic investor of PTE, 188
- Tariff Act of 1913, 18
- Tax Reform Act of 1986, 29,
 74, 79
- Uniform Standards of Professional
 Appraisal Practice, 159–160
- Unreasonable compensation
 in S corporation, 196–197
 tax on, 28–29
- U.S. Supreme Court, 12,
 28, 143
- Valuation
 approaches to, 5–7
 case study for, 207–229
 checklist for, 198, 200*t*–213*t*
 potential calculations in, 6, 6*t*
 PTE conundrum and, 7–9
 purpose of, 3–4

- Value
- approaches to, 5–7
 - asset (cost) approach to, 5–6, 6*t*
 - controlling versus noncontrolling interests and, 2–3, 6*t*
 - definition of, 2
 - as a going concern, 4–5
 - income approach to, 5, 6, 6*t*, 8
 - IRC Revenue Ruling 59–60 on, 7
 - liquidation and, 4
 - market approach to, 5, 6*t*, 8
 - perspective's impact on, 2
 - standards of, 3–4
- Voting rights of PTE owners, 181–182
- Wall v. Commissioner*, 146–149, 155–156, 155*t*
- Wilson-Gorman Tariff Act, 12

<http://www.pbookshop.com>

<http://www.pbookshop.com>

<http://www.pbookshop.com>

<http://www.pbookshop.com>

<http://www.pbookshop.com>

<http://www.pbookshop.com>