Tax Court Case Summary Estate of John F. Koons III vs. Commissioner

On April 8, 2013, the United States Tax Court issued Tax Court Memorandum 2013-94, Estate of John F. Koons III vs. Commissioner of Internal Revenue ("Koons").

The estate's expert, Dr. Mukesh Bajaj determined that a 31.7% discount was appropriate for a 47% voting interest in the cash-rich holding company. However, there were questions as to if the 47% voting interest in a limited liability company would be deemed a controlling interest. After reviewing the facts, the Tax Court deemed that the interest ultimately increased to more than 70% after certain redemptions were agreed to by members of the limited liability company, before date of death, but ultimately completed after the date of death.

In the end, the Tax Court determined that a controlling interest in a cash -rich holding entity should be valued using a discount for lack of marketability of 7.5%, as opposed to the 31.7% put forth by petitioner's valuation expert.

Given the facts as summarized by the Tax Court, and its determination that the Estate's interest was a controlling interest, the selected discount for lack of marketability is not surprising.

It should be noted that the decision will also be remembered for disallowing the deduction of interest on a Graegin loan, as the estate's controlling interest would have made pro-rata distributions to members an easy solution to pay estate taxes.

Nothing in the Court's conclusion in Koons will affect how MPI determines valuation discounts.

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