

Untangling a knot of assets for valuations

By: Andrew Olander, Senior Manager

Valuations for estate and gift tax reporting purposes often encompass a wide variety of business interests and financial assets. Wealthy individuals and family offices are generally supported by a team of trusted advisors working cooperatively to achieve common goals, typically comprised of attorneys, tax accountants, bankers, asset custodians, and valuation professionals. Similar to the financial recognition process employed in preparation of financial statements, valuation professionals are often tasked with the assessment, organization, and mapping of financial assets held by wealthy individuals and family offices. For practical purposes, valuations of complex holding companies and multi-layered structures must capture and clearly present the composition and lineage of the assets' economics. This effectively assists advisors in the application of wealth management actions subject to estate/gift tax reporting, family dynamics, succession, governance, and philanthropy.

Processes and Approaches

Much like untangling a rope until the end gradually emerges, assessing a portfolio of financial assets begins with a general overview followed by due diligence that often uncovers additional assets and economic relationships which must be addressed for estate administration and gift tax reporting. It is common for closely-held financial assets to be acquired over periods of time spanning decades, with multiple rounds of financing and/or follow-on investments that further impede the ability to ascertain the rights, attributes, and economic benefit of asset holders.

The following are some common practices employed to assist in the valuation of closely-held assets:

- With respect to the valuation of complex, multi-level real estate holding companies, it is often necessary to develop a “project dashboard” presenting detailed views of various entities, their respective ownership structures, underlying assets, and cash flows according to the entities' governing documents. Whether completed during the preliminary planning or upon completion of a transaction, this process serves as a prerequisite to properly defining and quoting an engagement. Thereafter, the project dashboard can be used as a tool to track the collection of data as well as status of the valuation project as it advances through the process. The result is clear, continuous communication between the valuation professional and the client/team of trusted advisors.





- Regarding the valuation of investment holding companies containing a myriad of assets, it is first necessary to confirm that the balance sheet or list of assets provided is all-inclusive. Next, the source of reporting and level of value represented by such must be determined. Assets are then organized by classification, and often grouped by relative liquidity, taking into consideration whether or not the asset's fair market value is readily observable or needs to be estimated through risk-adjusted valuation methodologies. Finally, the relative materiality of the asset or interest is considered, and specialized analyses are performed on assets deemed material in

the scope of the project. Similar assets determined to be relatively immaterial are frequently bucketed together, and may be subject to generic valuation approaches and adjustments.

- When tasked with valuing various cash flow streams associated with a multitude of income-generating assets, it is crucial to first determine which cash flows are recurring in nature versus those that are not. These cash flow streams are generally segregated by source and then thoroughly reviewed to identify trends. A common example is the valuation of royalty income derived from intellectual property. In such instances, the valuation professional works with a team of trusted advisors to compile and present the historical streams of income associated with an artist's works. Then, trends are identified within the recurring income streams and an income base is established taking into consideration future expectations. Market data exhibited by (reasonably) similar assets is then reviewed and compared to the (then) projected royalty income. Prior to moving forward with the valuation, the results are generally reviewed with the client (the artist or their estate) and their advisors to ensure all relevant factors have been considered.

Proper organization enables effective wealth management, which includes the valuation of closely-held assets and the processes employed in determining their economic value. While it is best practice to conduct planning during one's lifetime maintaining a high level of organization and oversight, often this is not the case. Regardless, valuation professionals work with the team of advisors to inventory and ascertain what assets/interests require valuation, and then determine how to most effectively implement strategies that align with estate planning goals or estate administration-related reporting. In addition to solid defensible conclusions of value in business interests, the utility provided by valuation professionals extends to clients and their advisors. Clear, concise reports serve as a tool for the preparation of related legal documents and tax filings. Thoughtful reporting of otherwise ambiguous assets provides a significant advantage to those responsible for administering wealth management, typically resulting in reduced audit exposure as well as cost savings to clients over the life of the project. Expending effort on the front-end of each project ensures the proper representation of the ownership/capital structure and economic benefits. Asset itemization also substantially reduces the potential for inaccuracies and costly iterations to complete the project.

Empire's Estate and Gift Tax Group

Empire Valuation Consultants has grown into one of the nation's leading and most respected independent valuation consulting firms over its 30-year history. Estate and gift tax reporting encompasses a wide variety of business interests and financial assets. Empire's clients extend from principals and interest holders in small businesses to multi-billion dollar privately-held companies. Empire Valuation Consultants has established a track record as a trusted advisor, helping individuals, family offices, and their advisors navigate complex wealth management and estate planning strategies. If you advise clients in this space, our team of experts is here to help simplify complexities in the valuation of closely-held business interests by delivering defensible conclusions that preserve wealth and create value.



Andrew is a Senior Manager at Empire Valuation Consultants, where he has worked since 2006.

Andrew has been involved in the valuation of a variety of equity interests in corporations, partnerships, and limited liability companies, operating in a broad range of industries. He has worked with numerous private equity firms, hedge funds, publicly traded companies, and closely held companies, including early stage development businesses. These valuations have been performed for various purposes including gift tax, estate tax, employee stock ownership plans (ESOPs), potential sale/buyout transactions, and general corporate planning purposes.

Andrew's expertise includes the valuation of limited partnership interests in private equity and hedge funds, as well as the valuation of carried interests in private equity and venture capital funds. He has completed over 500 engagements for private and public companies, high-net-worth individuals, and family offices.

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