

TODAY'S VALUATION TEAM PRESENTERS:



Melissa Bizyak CPA/ABV/CFF, CVA 412-338-9313 BIZYAK@GYF.COM



Brad Matthews CPA/ABV, CVA 412-338-2227 BMATTHEWS@GYF.COM



Jake Lubic CPA, CVA, CMA 412-203-5877 JLUBIC@GYF.COM



Kristen Hussey CVA, MBA 412-763-1156 HUSSEY@GYF.COM

ESTATE PLANNING IN THE CURRENT ENVIRONMENT

Introduction

- Flexibility and diligence in estate planning is critical
- 2024 Presidential election will have implications
- Current environment bodes well for estate planning
- Valuators are part of the estate planning team

GROSSMAN YANAK & FORD LLP Certified Public Accountants and Consultants

ESTATE PLANNING IN THE CURRENT ENVIRONMENT

Introduction

- Topics covered today:
 - Gift and estate tax exclusion amounts
 - Relevant guidance
 - Current valuation considerations
 - IRS enforcement

©2024 Grossman Yanak & Ford LLP

GROSSMAN YANAK & FORD LLP

ESTATE PLANNING IN THE CURRENT ENVIRONMENT

Gift and Estate Tax Lifetime Exclusion	Year	Exclusion	Maximum Tax Rate
Where have we been?	2002	1,000,000	50%
	2006	2,000,000	46%
Where are we now?	2009	3,500,000	45%
	2010	5,000,000	35%
Where might we be heading?	2018	11,180,000	40%
	2019	11,400,000	40%
	2020	11,580,000	40%
	2021	11,700,000	40%
	2022	12,060,000	40%
	2023	12,920,000	40%
	2024	13,610,000	40%

©2024 Grossman Yanak & Ford LLP

©2024 Grossman Yanak & Ford LLP

GROSSMAN YANAK & FORD LLP Certified Public Accountants and Consultants

ESTATE PLANNING IN THE CURRENT ENVIRONMENT

Gift and Estate Tax Lifetime Exclusion – Past, Present & Future

- With the exception of 2004 through 2010, federal gift tax lifetime exclusion amounts were the same as the estate tax exclusion amounts
 - Federal gift tax exclusion amount was limited to \$1,000,000
- Federal estate tax in 2010 was optional

©2024 Grossman Yanak & Ford LLP

©2024 Grossman Yanak & Ford LLP

GROSSMAN YANAK & FORD LLP Certified Public Accountants and Consultants

ESTATE PLANNING IN THE CURRENT ENVIRONMENT

Gift and Estate Tax Lifetime Exclusion – Past, Present & Future

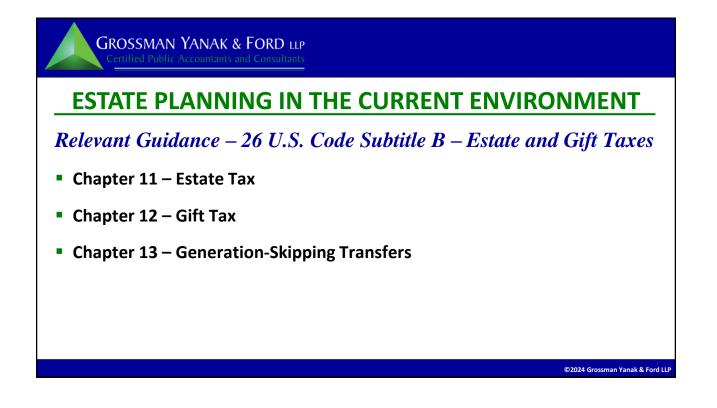
- Anti-clawback rule was codified in 2019 no tax is imposed on completed gifts that were tax free and made before 2026
- Absent new legislation, increased exemption amounts expire on January 1, 2026
- Exemption amount reduced to \$5 million, plus inflation adjustments

GROSSMAN YANAK & FORD LLP Certified Public Accountants and Consultants

ESTATE PLANNING IN THE CURRENT ENVIRONMENT

Gift and Estate Tax Lifetime Exclusion – Past, Present & Future

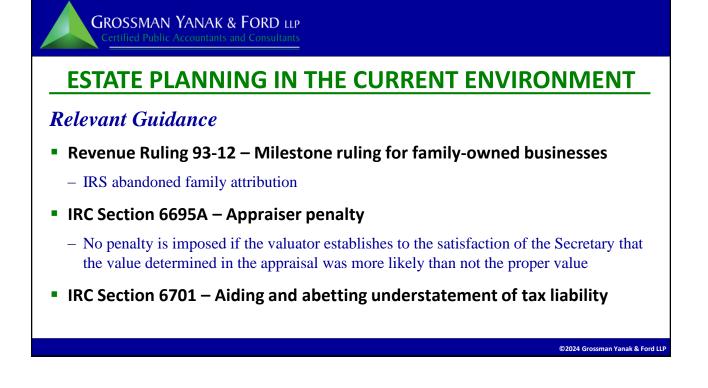
- Uncertainty as to whether any tax-related legislation will come out of Congress in 2024 and 2025
- This window of time is important for sizable estates



ESTATE PLANNING IN THE CURRENT ENVIRONMENT

Relevant Guidance – 26 U.S. Code Subtitle B – Estate and Gift Taxes

- Chapter 14 Special Valuation Rules
 - Section 2701 Transfers of certain interests in corporations or partnerships
 - Section 2702 Special valuation rules in case of transfers of interests in trusts
 - Section 2703 Certain rights and restrictions disregarded
 - Section 2704 Treatment of certain lapsing rights and restrictions



ESTATE PLANNING IN THE CURRENT ENVIRONMENT

Current Valuation Considerations

Fundamental Valuation Equation

Value = Economic Benefit of Ownership ÷ Required Rate of Return

alternatively illustrated as

Value = Earnings Stream x Market Based Multiple

ESTATE PLANNING IN THE CURRENT ENVIRONMENT

Current Valuation Considerations

- Numerator of the Value Equation: Economic Benefit of Ownership
 - Future expected revenue generated by the business
 - Associated operating expenses required to generate the future revenue
 - Necessary investments in the form of capital expenditures and incremental working capital requirements

GROSSMAN YANAK & FORD LLP Certified Public Accountants and Consultants

ESTATE PLANNING IN THE CURRENT ENVIRONMENT

Current Valuation Considerations

- Historic valuation inputs, specifically past performance, may not be a proxy for future performance
- There are several other considerations for valuation experts and business owners to weigh
- Leads to forecasting risk

ESTATE PLANNING IN THE CURRENT ENVIRONMENT

Current Valuation Considerations

Inflation

- Cost of materials
- Cost of labor (wages as well as the cost of recruiting and hiring)

Supply Chain

- Increased cost of goods (direct materials, freight, etc.)
- Delayed lead times (especially internationally)
- Slower revenue generation and recognition
- Scarcity of resources (equipment, inventory, materials)

GROSSMAN YANAK & FORD LLP Certified Public Accountants and Consultants

ESTATE PLANNING IN THE CURRENT ENVIRONMENT

Current Valuation Considerations

Required Rate of Return

- Buyer-specific risk analysis
- Inverse relationship to value

- Influenced by

- Perceived risk inherent within investment opportunity
- Rates of return on investment alternatives
- Resultant risk/reward dynamics and pricing

©2024 Grossman Yanak & Ford LLP

ESTATE PLANNING IN THE CURRENT ENVIRONMENT

Current Valuation Considerations

Required Rate of Return

- Changes in interest rates will impact the potential return on investment alternatives
 - As rates rise, investment alternatives become more attractive
 - The threshold for required return on an equity investment increases as rates of return for alternatives increases

Lending environment

- Financing acquisitions has become more costly
- Shift in deal structure in recognition of impact on valuation

GROSSMAN YANAK & FORD LLP

Certified Public Accountants and Consultan

ESTATE PLANNING IN THE CURRENT ENVIRONMENT

Current Valuation Considerations

Impact on Valuations

- Pressure on profitability, higher spend on capital investment, and need for additional working capital contribute to lower economic benefits
- Higher interest rates and elevated risk, both forecasting and specific-company, contribute to a higher required rate of return
- Lower economic benefits, combined with higher rates of return, result in lower equity values

ESTATE PLANNING IN THE CURRENT ENVIRONMENT

Current Valuation Considerations

Adjustments to Value – Valuation Discounts

- Discounts associated with fractional interests in a privately held business must be warranted, properly quantified, and applied
- Risks or circumstances considered elsewhere in the valuation should not be double counted when determining the level of discounts
- IRS continues to challenge valuation discounts associated with gifts and estates
 - Estate of Cecil v. Commissioner (T.C. Memo 2023-24)

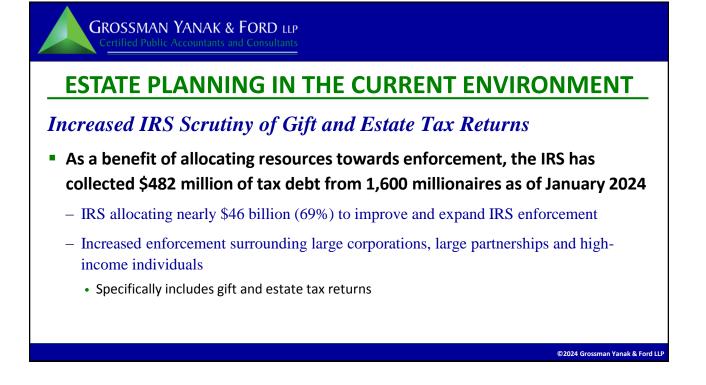
©2024 Grossman Yanak & Ford LLP

GROSSMAN YANAK & FORD LLP Certified Public Accountants and Consultants

ESTATE PLANNING IN THE CURRENT ENVIRONMENT

Increased IRS Scrutiny of Gift and Estate Tax Returns

- Inflation Reduction Act
 - Additional \$80 billion of funding over the next 10 years
- Increased hiring levels
 - The IRS offered positions to more than 560 accountants in November and December of 2023 to support additional enforcement
 - Offering additional in-person and online resources to taxpayers
 - Increased hiring nationwide, including six new engineers in the Pittsburgh region



ESTATE PLANNING IN THE CURRENT ENVIRONMENT

Final Thoughts

- IRS ramp up of personnel and enforcement results are real and impactful
- Engaging a qualified appraiser early in the planning process assists with avoiding potential tax issues and reduces exposure to IRS penalties
- Qualified valuators leverage gifts through application of sound valuation methods and proper quantification of valuation discounts