

# KTS, INC.

# VALUATION ISSUES™

KLARIS, THOMSON & SCHROEDER, INC.

2025-2

## *Featured Article*

### **REVIEW OF ALBERT STRANGI AND DIANNE TANENBLATT COURT CASES**

*Prepared by:*  
**MR. JOHN A. THOMSON, ASA, MAI**  
*VP AND MANAGING DIRECTOR OF THE LA KTS OFFICE*



In this newsletter, Klaris, Thomson & Schroeder, Inc. ("KTS") reviews and makes our comments on two (2) prior Tax Court cases in which KTS testified. The two Court cases we discuss in this Issue are the Estate of Albert Strangi and the Estate of Dianne Tanenblatt.

#### **The first case is 115 T.C. No. 35, Estate of Albert Strangi.**

The case involved a Family Limited Partnership. The decedent, Mr. Albert Strangi, died October 14, 1994 and, as of the date of death, he owned a 99% limited partnership interest in the Strangi Family Limited Partnership (SFLP) and a 47.0% interest in the common stock

of the corporation known as Stranco, Inc. Stranco, Inc. was the Managing General Partner of the SFLP with a 1% general partnership interest. The partnership was formed on August 12, 1994. As of the date of formation, the Net Asset Value (NAV) of the partnership assets was \$9,933,262. The assets consisted of marketable securities, commercial and residential real property, general and limited partnership interests, promissory notes, life insurance and annuities and cash. Marketable securities represented approximately 72% or 75% of the Net Asset Value, depending on date of formation or date of death. The NAV, as of the decedent's death (sixty-three days later), October 14, 1994, had risen to \$11,057,922.

The 99.0% limited partnership interest held by the decedent was larger than the 65% limited partnership interest required to vote (required vote) on certain major events. Therefore, although still a

minority interest (albeit large), size was a factor. The decedent also owned a 47.0% shareholder interest in the managing general partner (Stranco, Inc.). The managing general partner only owned 1% of the partnership, but was in control, by agreement of the partnership. There were only 4 other shareholders of Stranco, Inc. as of the date of formation, each holding 13.25%. As of the date of death, there were 5 shareholders in addition to Mr. Strangi beside the decedent (4 holding 13.0% and 1 with 1.0%). Therefore, Mr. Strangi's (the decedent) block of stock was by far the largest block of stock of the managing general partner.

However, he did not have actual control, which in this case - subject to all the corporate and partnership restrictions - would have required 100% of the corporate managing partner. We believed the two interests should have been considered together as they are

*(continued on page 2)*

functionally related. A willing seller would want to sell both interests together, to maximize his economic benefit, and a willing buyer would want to buy both interests to maximize his influence on the partnership. This was a factor we considered.

In determining our overall discount, we looked both at the degree of lack of control (minority discount) and the degree of illiquidity (lack of marketability) of both interests.

In determining our minority discount or discount for lack of control (degree of control) we used as our basic data, closed-end equity funds. In determining our marketability discount component of our overall discount we looked both at certain restricted stock studies and certain initial public offerings (IPO studies).

Our overall discount for the partnership as of August 14, 1994 was 29.0% and as of October 14, 1994, the date of death, our overall discount was 31.0%. The difference was caused by a change in the underlying minority discount data (closed-end funds). In other words a change in the market data from August 12 to October 14.

The August 12, 1994 date became irrelevant when the Court ruled there was no gift on formation. The Court made this ruling based on their belief that the decedent had effective control of the partnership and therefore, didn't give up anything at formation. We said the decedent had effective control in our separate 2703 report when the

excessive corporate restrictions were disregarded. In that report our discount on the two interests were 19.0% (for the 99% limited partnership interest) and 0% or no discount for the 47.0% corporate general partner interest.

We did state that under the fair market value standard, subject to all the restrictions, that the decedent still had significant influence over the partnership, and we considered this in our 31.0% overall discount the Court referred to in their decision. This was our discount for the 99% limited partner interest. Our discount for the decedent's 47.0% corporate general partner interest was 19.0%.

We were pleased that the Court accepted our Fair Market Value report in its entirety, saying, we were, "well documented and persuasive."

The Court also said about our opinion, "We believe that the result of respondent's expert's discounts may still be over generous to petitioner, but that result is the one that we must reach under the evidence and under the applicable statutes." We finally point out that the taxpayer's report was disregarded for not being well documented nor persuasive. Relative to the tax payer's expert, the following comment in the decision follows:

"Petitioner's expert applied a 25% minority interest discount and a 25% marketability discount, resulting in an effective total discount of 43.75% to the partnership. He did not value

petitioner's interest in Stranco, Inc. because he believed that the relationship was irrelevant. In our view, his result is unreasonable and must be rejected."

Here is a good example that the courts do not always split the difference between the valuation experts.

In retrospect, the Tax Court case was appealed by the Taxpayer and the Appeals Court agreed with the Tax Courts. However, the Appeals Court left open the door for the IRS to appeal on the 2036 Issue. The IRS was successful on the 2036 Issue which essentially voided all discounts.

The Second Case is the Estate of Dianne Tanenblatt.

### **Estate of Dianne Tanenblatt (Docket NO. 26176-10)**

The case involves an appraisal of a 16.667% interest in a New York Limited Liability Company ("LLC"). The LLC held real estate located at 37-41 East 18th Street in New York City. The real property was appraised at \$19,900,000, with current assets at \$851,337 and liabilities at \$183,116. Therefore, the Net Asset Value ("NAV") used by all the accepted and qualified appraisers was \$20,628,221.

The values derived in the case were as follows:

IRS: \$2,475,882 with discounts for Lack of Marketability and Lack of Control of 10% and 20%, respectively.

(continued on page 3)

MPI: \$1,788,000 with discounts for Lack of Marketability and Lack of Control of 20% and 35%, respectively.

Dr. Tindall: \$1,037,796 with her overall discount being 50%.

KTS: \$2,303,000 with discounts for Lack of Marketability and Lack of Control of 26% and 10%, respectively.

Court: \$2,303,000 with discounts for Lack of Marketability and Lack of Control of 26% and 10%, respectively.

As the real property appraisal and the current assets and liabilities were accepted by all, the primary question was the magnitude of the discounts for Lack of Control (LOC) and Lack of Marketability (LOM).

After the IRS assessed an estate tax deficiency (based on the MPI

appraisal) of \$309,547, the taxpayer (petitioner) hired another appraiser by the name of Dr. Laura Tindall.

However, because she refused to testify, her opinion and report were excluded. We understand she had a disagreement with the taxpayer based on her fee.

The reason given pursuant to Rule 143(9)(1): The expert witness must prepare a written report which is marked as an exhibit and, after having been identified by the witness and adopted by him, received into evidence as his direct testimony unless the court determines the witness is not qualified as an expert. The rule further provides that not less than 30 days before the call of the trial calendar on which a case appears, a party calling an expert witness shall serve on each other party and

submit to the court a copy of the expert's report.

Finally, the rule also provides that, generally, we will exclude an expert's testimony altogether for failure to comply with the rule.

Therefore, her (Dr. Laura Tindall) appraisal, and thus her potential testimony, were excluded.

Conclusion: The court agreed with KTS and concluded the value of \$2,303,000 based on a discount of 10% for Lack of Control and 26% for Lack of Marketability.

Recommendations: Appraisers should prepare a written agreement with their client on their fee if testimony is required prior to performing your appraisal. Refusing to show up for Tax Court is not generally a good idea for an appraiser.

## ❀ In Memory ❀



It is with great sadness and heavy hearts that Klaris, Thomson & Schroeder, Inc. ("KTS") announces the passing of Marie Schroeder, Chief Operations Manager with Klaris, Thomson & Schroeder, Inc. Marie was a valued member of the KTS Team since the start in 1993. She will be greatly missed.

In 1993 Marie & Gary, along with Ray Klaris and John Thomson started Klaris Thomson & Schroeder, Inc. ("KTS") a national valuation company with offices in six cities throughout the U.S. with Waterloo being the headquarters. Marie was the operations manager/controller and paid the bills and deposited the checks for the whole company and kept all of the books.

*Please keep Marie and Gary and their family in your prayers!  
RIP Marie you will be deeply missed but not forgotten.*

Look whose been answering the Phones  
at KTS-LA over the Summer -  
Summer Interns Jax and Zuri!



Thank you both for helping  
the TEAM at KTS!

## KLARIS, THOMSON & SCHROEDER, INC. SPOTLIGHT

*Prepared by: Anita Thomson Graham*



*KTS is pleased to announce the addition of  
Ryan C. Waller to its St. Louis, Missouri staff.*

Mr. Waller was formerly a Valuation Associate at Grant Thornton where he was involved in the valuation of closely-held companies and valuations for physician compensation, physician practices, ambulatory surgery centers (ASCs), and professional service arrangements. Mr. Waller also was involved in valuations needed for financial reporting. At KTS, Mr. Waller will be responsible for assisting in the project management of business valuation assignments in the St. Louis area.



**KLARIS,  
THOMSON &  
SCHROEDER, INC.**

is a national full service valuation and consulting company specializing in business valuations, intangible asset valuations, financial consulting, expert testimony and litigation support. In addition, we also perform real estate valuations, machinery and equipment valuations, and international transfer pricing analyses.



### **Valuation & Consulting Professionals**

Los Angeles  
Tampa

St. Louis  
Washington, D.C.

Philadelphia  
Chicago

*"Some people want it to happen, some wish it would happen, others make it happen"*  
Michael Jordan

**Follow Us On:**



**SHOULD YOU REQUEST MORE INFORMATION OR NEED AN APPRAISAL,  
PLEASE CONTACT OUR OFFICE AT 562-437-6000 OR VISIT OUR WEBPAGE  
AT [KTSVALUATION.COM](http://KTSVALUATION.COM)**