## Is My Company Worth More Because It Is an S Corporation?

When small businesses are initially formed, the owners often choose that the company be taxed as a "passthrough" entity. Examples of a pass-through entity would be an S Corporation or Partnership. Although this usually results in a tax benefit to the owners, there are circumstances where there is a cost associated with operating as a pass-through entity. Such circumstances could arise where the distributions paid out by the company to its owners is not sufficient to cover the shareholder level tax on company earnings. This may occur because the company is retaining cash in order to build up working capital, pay off debt, or for other business reasons.

Since the 1999 case of Walter L. Gross, Jr., et ux, et al. v. Commissioner, several valuation models have been developed to measure the increase (or decrease) in value due to this pass-through status. The analysis focuses on two issues. The first is the amount by which future distributions are expected to differ from the tax obligation, and the second addresses the build up in basis of the ownership interests due to this cash flow differential.

There is no typical or standard answer to the question posed above. Instead, we apply an analysis of the specific facts and circumstances to each case in order to develop a well-supported opinion of the value of each company we appraise.

*If you would like additional information, please contact a Gettry Marcus Advisor at info@gettrymarcus.com.*

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