YOUR REVENUE AUTHORITY

United States: what the authority has published, and what CoVal does about it

Authority: Internal Revenue Service (IRS). Federal tax only; state taxes are not covered.
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> This page compares CoVal's default recommendations with what the IRS has published. The IRS has not reviewed or approved CoVal, and nothing here is tax advice. The valuer chooses the inputs, signs the valuation and remains responsible for it.

In short

The IRS publishes more than most authorities: a foundational ruling from 1959, guidelines for its own appraisers, and a job aid on marketability discounts. None of it prescribes a discount rate, but recent Tax Court decisions show which components the court accepts. The IRS does not ordinarily rule on fair market value. For equity compensation, a valuation by a qualified independent appraiser carries a presumption of reasonableness under section 409A; that protection belongs to the appraiser's work, not to any software.

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Valuer to confirm	4
Not covered	1

How CoVal compares

TOPIC	WHAT THE IRS HAS PUBLISHED, OR THE TAX COURT HAS HELD	WHAT COVAL RECOMMENDS	HOW THEY COMPARE
Combining methods	No useful purpose is served by averaging several factors and basing the value on the result. All three approaches are considered and judgement selects. [1] [2]	One primary method gives the value. A second is shown as a cross-check and is never averaged in.	Matches published guidance
Control	The appraiser considers separately the ability of the interest to control the business. A minority block is valued without regard to family ties among shareholders. [2] [3]	A scored control premium above 50%, or a minority discount at 50% or below.	Matches published guidance
Order of adjustments	Levels of value are applied consistently with the standard of value. [2]	Control at enterprise value, then marketability at equity value.	Matches published guidance
Market multiples	The market price of comparable listed companies is a required factor. [1]	Multiples from a screened peer set.	Matches published guidance
Net asset value	The asset approach is one of three, with most weight on assets for holding companies. [1] [2]	Net assets restated to fair value, each adjustment with a reason.	Matches published guidance

Risk-free rate, equity risk premium, size premium	Accepted by the Tax Court as components of the cost of equity. [4]	A 10-year government bond yield less default risk; a published equity risk premium; a scored size premium.	**Consistent with practice** (3 items).
Risk specific to the company	Accepted where explained and quantified, and where it does not repeat a risk already counted. A 5% premium was rejected for lack of explanation. [4]	A scored premium, limited to risks not already in beta or size.	**Consistent with practice**
Beta and the cost of capital	The Tax Court often works from the build-up method and has voiced reservations about a weighted cost of capital for small private companies. It accepted one where both experts used it. [4]	A cost of equity built on a sector beta, inside a weighted cost of capital.	**Valuer to confirm** (2 items). Show the build-up equivalent and say why the method suits the company.
Forecasts and tax on earnings	Statements are adjusted to fit the method. A forecast used without independent checking was rejected. For pass-through entities, taxing the earnings has been allowed where supported and refused where not. [2] [4]	Checks on forecast growth and margins; the company's tax rate applied.	**Valuer to confirm** Show how the forecast was tested, and support the tax treatment of a pass-through entity.
Marketability	Considered separately, including the effect of restrictions. The IRS job aid tells reviewers to probe discounts taken from averages of restricted stock studies. Restrictions in family agreements are disregarded unless three statutory tests are met. [2] [5] [6]	A discount of 15% to 30%, scored on three factors.	**Valuer to confirm** Tie the discount to the facts of the company.
Long-term growth and terminal value	Nothing specific. The IRS guidelines ask that rates fit the benefit stream and reflect the risk and stability of the business. [2]	Growth from IMF forecasts, capped at the risk-free rate; a terminal value that can be switched off.	**No published position** (2 items).
Share classes	Preferred and common stock are valued under their own ruling. [7]	One class of share.	**Not covered**

Where the authority will look to you

CoVal's default is consistent with the authority's position on the points marked **Valuer to confirm** . The authority expects the valuer to address them, and CoVal will prompt for each and record the answer in the report.

References

1. Revenue Ruling 59-60, 1959-1 C.B. 237, sections 2, 4, 5 and 7.
2. IRS, Internal Revenue Manual 4.48.4, Business Valuation Guidelines, revised 22 September 2020.
3. Revenue Ruling 93-12, 1993-1 C.B. 202.
4. Pierce v. Commissioner, United States Tax Court, 7 April 2025, and the cases it cites.
5. IRS, Discount for Lack of Marketability Job Aid, 2009. Not an official IRS position.
6. Internal Revenue Code, section 2703 and section 2704.
7. Revenue Ruling 83-120, 1983-2 C.B. 170.

How to read the marks.Matches published guidance: the authority has published a position on this input and CoVal's default follows it. **Consistent with practice**: no published rule for share valuations, but the authority applies the approach elsewhere or its tax court has accepted it. **No published position**: the authority has said nothing; CoVal's default is sourced and shown in the report. **Valuer to confirm**: CoVal's default is consistent with the authority's position, but the authority expects the valuer to address this point; CoVal will prompt for it and record the answer in the report. **Country setting**: the authority applies its own rule or figure; for tax work there CoVal's default is that rule. **Not covered**: CoVal does not do this; the valuer handles it outside the platform. No mark means "approved".

Prepared by Covaluation (Pty) Ltd. This page compares; it does not certify. It is not tax advice and creates no assurance that a valuation will be accepted by any authority. Sources are listed above; where a summary rather than the source itself was read, the reference says so. covalapp.com