



Estate of Blount v. Commissioner, United States Court of Appeals for the Eleventh Circuit, No. 04-15013, October 31, 2005

The Facts: Mr. Blount owned 83% of Blount Construction Company (the “Company”). The Company and its shareholders had executed a buy-sell agreement in 1981 that was modified in 1996. The Tax Court’s original analysis of the buy-sell agreement found that it was not binding during life nor was it comparable to an arm’s length transaction. Thus, it was determined to be irrelevant for estate tax purposes. The 11th Circuit agreed with the Tax Court that the 1996 modifications were substantial and thus did not fall under the grandfather provisions in the Omnibus Reconciliation Act of 1990.

The more interesting part of the case had to do with the fact that the Company owned \$3.1 million of life insurance on Mr. Blount (the proceeds of which were to be used to retire his stock under the buy-sell agreement).

The Arguments:

The IRS argued that, like in the Estate of Huntsman v. Commissioner (66 T.C. 861 (1976)), life insurance proceeds should be treated like any other operating asset. The Tax Court had decided that the life insurance proceeds receivable should NOT be offset by a stock redemption payable because the buy-sell agreement had been disregarded.

The Estate argued that, like in the Estate of Cartwright v. Commissioner (183 F.3d 1034 (9th Cir. 1999)), life insurance proceeds should not be included in the fair market value of the Company.

The Findings:

The 11th Circuit reversed the Tax Court’s decision and stated “Even when a stock purchase agreement is inoperative for purposes of establishing the value of the company for tax purposes, the agreement remains an enforceable liability against the valued company...To suggest that a reasonably competent business person interested in acquiring the company would ignore a \$3,000,000 liability strains credulity and defies any sensible construct of fair market value.”

Parting Thoughts:

I was glad to see that the 11th Circuit used common sense in sorting this out and reversed the Tax Court’s decision regarding insurance proceeds.