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The Ownership Percentage in Tax Valuations of Private Company Interests: Why It Is Most Often Wrong and How Confirming It First Protects Gift, Estate, Donation and Roth Conversion Filings

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Educational material, not an appraisal.

Summary of the ownership-percentage problem in tax valuations of private company interests

This white paper is published by AppraiseItNow Inc. in 2026. Its subject is a single fact that sits underneath every valuation of a closely held business interest prepared for a tax filing: the ownership percentage. The argument is that this fact deserves more attention than any other input, because it is the one most frequently stated incorrectly, and because an error in it is difficult to detect once the appraisal is underway.

AppraiseItNow is a tech-enabled appraisal company headquartered in New York City that prepares USPAP-compliant appraisals of personal property, fine art, machinery and equipment, vehicles, boats, inventory and closely held businesses for clients in all 50 states, remotely and in person. AppraiseItNow does not appraise real estate. AppraiseItNow's website is www.appraiseitnow.com.

The intake requirement for this type of work is short. For a business valuation, AppraiseItNow needs what is valued (the company, the interest or percentage) and the valuation date, financial statements or tax returns up to that date, and the company agreement; past appraisals or offers help. The ownership percentage is the fact most often wrong.

The paper makes four points:

- A percentage is a ratio. It has a numerator (the units or shares in question) and a denominator (the units or shares outstanding). Most errors arise because one of those two numbers is wrong, out of date, or drawn from a different class of ownership than the one being valued.
- Each of the four tax uses covered here (a gift reported on Form 709, an estate reported on Form 706, a donation reported on Form 8283 and a Roth IRA conversion reported by the custodian) fixes value at a specific date. The percentage that matters is the percentage on that date, not the percentage on the day the client fills out an intake form.
- The value of a private company interest does not always move in proportion to the percentage. Crossing a control threshold, moving between voting and nonvoting classes, or confusing a share of the company with a share of the owner's holding can change the value by far more than the arithmetic difference suggests.
- The remedy is procedural: reconcile the percentage against the governing documents and the ownership ledger before the appraiser begins, and record the reconciliation in writing.

Defined terms used in this paper

- **Interest**: the specific ownership position being valued, such as a block of LLC units, partnership interest or shares of stock.
- **Numerator**: the number of units or shares in the interest being valued.

- **Denominator**: the total number of units or shares of the relevant class outstanding on the valuation date.
- **Class**: a category of ownership with its own rights, such as voting and nonvoting units, or common and preferred shares.
- **Holder of record**: the person or account shown in the company's records as the owner, such as an individual, a trust or an IRA held for the benefit of the owner.
- **Valuation date**: the date the value applies to, called the effective date in appraisal practice.

Why the ownership percentage decides the value of a private company interest

The percentage is the bridge between the company and the interest

An appraisal of a private company interest usually proceeds in two stages. The appraiser first develops a view of the company as a whole, using financial statements, tax returns and the company agreement. The appraiser then translates that view into a value for the specific interest. The ownership percentage is the bridge between the two stages. If the bridge is placed in the wrong spot, every careful step in the first stage still produces the wrong answer in the second.

This is why the percentage matters more than other inputs that receive more discussion. An appraiser who receives incomplete financial statements will usually notice: the balance sheet does not tie to the income statement, or a year is missing. An appraiser who receives a wrong percentage often has no internal signal that anything is amiss. A figure such as "25%" is plausible on its face. Nothing in the financial statements contradicts it, because financial statements describe the company, not the owner's slice of it.

Why the percentage goes wrong so often

The ownership percentage is often wrong not because clients are careless but because private companies record ownership in several places, and those places drift apart over time. The common sources of drift are set out below.

Source of the percentage	What it typically shows	How it drifts from the valuation date
Company agreement and its ownership schedule	Units or percentages at signing or last amendment	Schedules are often not updated after transfers, redemptions or new issuances
Ownership ledger or cap table	Units by holder and class	May be current, or may be maintained informally and lag events
Company tax return and owner-level schedules	Percentages of profit, loss and capital for the tax year	Reflects the year as a whole, or year-end, not a specific date
Prior appraisals or offers	The interest valued at an earlier date	Describes a past position that may since have changed
The owner's own recollection	A rounded figure, often from formation	Frequently omits dilution, classes or later gifts

Several recurring patterns produce the wrong figure:

- **Profits, capital and votes diverge.** In many LLCs and partnerships, an owner's share of profits differs from the owner's share of capital, and both may differ from voting power. The client reports one percentage; the interest being valued is defined by another.
- **Classes are merged.** An owner may hold both voting and nonvoting units. A single combined percentage obscures the fact that the interest being transferred is entirely nonvoting, or entirely voting.
- **Earlier transfers are forgotten.** A family that made a gift of units two years ago may still describe the donor's holding as it stood before that gift.
- **The denominator changed.** New investors, an employee issuance, a redemption of a departing owner, or the conversion of a note into equity changes the total outstanding units. The owner's units are unchanged, so the owner assumes the percentage is unchanged.
- **The holder of record is not the person.** Units may be held by a revocable trust, an entity, or an IRA account held for the benefit of the owner. The percentage reported may be the individual's total across all holding vehicles rather than the position held by the vehicle that is making the transfer.
- **Tiered ownership is flattened.** An owner of a holding company that in turn owns part of an operating company may describe the "look-through" percentage of the operating company, when the interest actually being transferred is a percentage of the holding company.
- **Rounding hides fractions.** One-third becomes "33%", and 333 units out of 1,000 becomes "a third". Small rounding can matter when the interest sits near a threshold the company agreement uses for voting or consent.

Why the value does not move in proportion to the percentage

A reader might conclude that a small error in the percentage produces a small error in value. That is not reliably true. In the valuation of private company interests, a non-controlling block is commonly analyzed differently from a controlling one, because a minority holder cannot direct distributions, set compensation, or force a sale, and because there is usually no ready market for the interest. Whether and how such factors apply is a matter for the appraiser's analysis in each engagement, but their existence means the relationship between percentage and value can be uneven.

Three situations illustrate the point:

- An interest reported as 51% that is actually 49% may move from a block that can direct the company to one that cannot, depending on the voting provisions in the company agreement.
- An interest reported as "10% of the company" that is actually 10% of the owner's 40% holding (that is, 4% of the company) is overstated by a factor of two and a half before any other consideration.
- An interest reported in combined voting and nonvoting terms, when only nonvoting units are transferring, describes rights the transferred units do not carry.

AppraiseItNow's engagement mix

Of the 1,226 appraisals AppraiseItNow opened between November 8, 2025 and November 8, 2026, 521 were for charitable donations, 175 for insurance (102 claims and 73 coverage), 144 for estates (61 probate, 46 estate tax and 37 estate settlement), 50 for divorce and 15 for Roth IRA conversions. By asset class, the same 1,226 appraisals included 377 vehicles, 323 general personal property, 174 machinery and equipment, 54 boats, 45 business inventory, 40 fine art and 39 business valuations.

Business valuations were 39 of the 1,226 appraisals. AppraiseItNow delivered more than 1,100 appraisals in the 12 months to November 2026. Each of the four tax uses in this paper depends on a value tied to a fixed date, and in a business valuation that value depends on the ownership percentage.

What the gift, estate, donation and Roth conversion rules say about the interest and its valuation date

The rules summarized here are limited to the points that bear on identifying the interest and its date. Readers should consult the cited sources and their own tax advisers for the full requirements of each filing.

The valuation date in appraisal standards

Appraisal standards treat the date as part of the definition of the assignment. An appraisal's effective date is the date the value applies to. It can be current, past (a date of death or donation) or future, and the report states both the effective date and the report date (USPAP, 2024 edition).

AppraiseItNow applies this by purpose. AppraiseItNow sets the effective date by purpose: for insurance coverage and personal use, the report date; for estate and probate, the date of death; for a donation, the contribution date, or the report date for a future gift signed no more than 60 days before it; for a gift, the date of the gift; for an insurance claim, the date of loss; for a divorce, the date counsel sets; for an IRA conversion, the conversion date.

Gifts reported on Form 709

The gift tax regulation sets the valuation standard (Treas. Reg. § 25.2512-1). A gift is valued at its fair market value on the date of the gift.

The disclosure regulation connects the appraisal to the period during which the value can be questioned (Treas. Reg. § 301.6501(c)-1(f)). The IRS's three years to challenge a gift's value only start if the return adequately discloses the gift. For hard-to-value property such as a business interest, an appraisal that meets the regulation covers the valuation part of that disclosure; the rest of the disclosure is still needed.

The same regulation lists what that appraisal contains (Treas. Reg. § 301.6501(c)-1(f)). That appraisal gives the transfer date, the date of appraisal and its purpose; describes the property and the process; states its assumptions and limiting conditions; lists the information considered (for a business interest, all the financial data, in enough detail to replicate the value); and explains the method, why it was chosen, and the basis for the value.

Two elements of that list depend directly on the ownership percentage: the description of the property, and the information considered in enough detail to replicate the value. An appraisal that describes 1,000 units when 400 units were transferred describes different property, and a reader trying to replicate the value from the stated inputs would reproduce the value of the wrong interest.

The regulation also addresses who may prepare the appraisal (Treas. Reg. § 301.6501(c)-1(f)). The appraiser can't be the donor, a donee, a member of either's family, or someone they employ, and must hold themselves out as an appraiser or perform appraisals regularly.

That independence has a practical consequence for the percentage. The appraiser relies on the documents and statements supplied, which is why the supplied percentage must be right.

Estates reported on Form 706

The estate tax regulation fixes the default date (Treas. Reg. § 20.2031-1). Estate assets are valued at fair market value on the date of death.

The alternate valuation regulation provides a second possible date (Treas. Reg. § 20.2032-1). The executor may instead elect the date six months after death, only if that lowers both the gross estate and the estate and generation-skipping transfer tax. The election covers every asset, and anything sold or distributed in those six months is valued on the day it was sold or distributed.

For a private company interest, this rule can require the percentage to be established on more than one date. If the company redeems part of the decedent's interest, or the executor distributes units to beneficiaries, during the six months after death, the interest held on the date of death, the interest sold or distributed on a later date, and the interest remaining on the six-month date may each be different. Whether the election is made is the executor's decision with the estate's advisers; the appraiser needs to know which dates and which interests are in scope before work begins.

Donations reported on Form 8283

The substantiation regulation sets the threshold (Treas. Reg. § 1.170A-16). A deduction of more than $5,000 for one item, or for a group of similar items, generally needs a qualified appraisal and Form 8283 Section B. Similar items count together even when they went to different charities.

The Form 8283 instructions address private company interests specifically (Instructions for Form 8283 (Rev. December 2025)). Privately held stock, LLC interests and partnership interests follow the same rule as other property: a deduction over $5,000 needs a qualified appraisal and Section B. The old $10,000 rule for nonpublicly traded stock ended for gifts after July 30, 2018.

The qualified appraisal regulation sets the timing (Treas. Reg. § 1.170A-17). The appraiser must sign and date the appraisal no earlier than 60 days before the donation and no later than the due date, with extensions, of the return that first claims the deduction. The donor must have it by that due date too.

The same regulation ties the valuation date to the signing date (Treas. Reg. § 1.170A-17). If the appraisal is dated before the donation, its valuation date must fall within the 60 days before the donation. If it is dated on or after the donation, the valuation date is the donation date.

The regulation also defines the appraiser (Treas. Reg. § 1.170A-17). A qualified appraiser has an appraisal designation for that type of property from a recognized organization, or relevant coursework and at least 2 years' experience valuing it, and regularly does paid appraisals. The donor, the charity, whoever sold or gave the donor the property, and anyone related to or employed by them can't be the appraiser.

When a donor contributes units of the same company to more than one charity, the "similar items" sentence above becomes relevant. Whether particular contributions are similar items is a determination for the donor's tax adviser, not for the appraiser and not for this paper. What the appraiser needs is an accurate account of every block contributed, its units, its class, its recipient and its date, so that the adviser has the facts needed to make that determination.

Roth IRA conversions reported by the custodian

The Roth conversion regulation sets the measure (Treas. Reg. § 1.408A-4). A Roth conversion is taxed on the fair market value of the converted assets on the conversion date, less any after-tax basis. The custodian reports it on Form 1099-R.

The custodian reporting instructions address assets that do not trade (Instructions for Forms 1099-R and 5498 (2026)). For assets without a readily available market value, the custodian must still report a value, and each custodian sets what it needs to support that value (its own form, often an independent valuation).

The same instructions describe a recurring report (Instructions for Forms 1099-R and 5498 (2026)). Separately, the custodian reports the account's December 31 value each year on Form 5498 (boxes 15a and 15b for hard-to-value assets).

AppraiseItNow's intake for this use reflects the custodian's role. For a Roth IRA conversion, AppraiseItNow needs the custodian's FBO name and account, the custodian's form, the conversion date and the units converting.

The phrase "the units converting" is the Roth version of the ownership percentage. In a conversion, the holder of record is the IRA, the interest is the specific units moving from the traditional account to the Roth account, and the denominator is the company's total outstanding units of that class on the conversion date. An owner who converts part of the IRA's holding must distinguish the units converting from the units the IRA continues to hold.

Extraordinary assumptions when the percentage cannot be confirmed

Appraisal standards permit an appraiser to proceed on an uncertain fact only within limits. An appraiser may assume an uncertain fact is true (an extraordinary assumption) only when it's needed for credible results, there's a reasonable basis for it and the analysis stays credible, and the report must say so clearly (USPAP, 2024 edition).

An extraordinary assumption about the ownership percentage is sometimes unavoidable, for example when an estate is still locating the decedent's records. It is not a substitute for confirmation. A report that must state clearly that the interest itself is assumed places the most important fact in the assumptions section, where any reader of the filing will see it.

Practical consequences of an ownership percentage that is wrong

The consequences of an incorrect percentage fall into three groups: errors in value, errors in description, and errors in timing. The hypothetical examples below use invented figures for illustration only. They do not represent any client, and they do not reach any conclusion about tax liability, deductibility or the adequacy of any return.

Hypothetical example 1: a gift described as "10%"

Hypothetical facts: An owner holds 4,000 of 10,000 outstanding units of an operating LLC, all of a single voting class. The owner signs a gift document transferring "a 10% interest" to an adult child. The intake form states "10%".

The ambiguity is in the denominator. "10%" may mean 1,000 units (10% of the company) or 400 units (10% of the owner's 4,000-unit holding). Assume, for illustration only, that the appraiser's analysis would place a value of $50 on each unit in a block of this size. The two readings produce values of $50,000 and $20,000. The difference is not a matter of valuation judgment; it is a matter of which property was transferred.

The gift document itself controls what was transferred, and interpreting it is a matter for the owner's counsel. The appraiser's role is to value the interest actually transferred on the date of the gift. Confirming the number of units, in writing, before the appraisal starts removes the ambiguity from the valuation entirely.

Hypothetical example 2: an estate with a holding company

Hypothetical facts: A decedent owned 60% of a holding LLC. The holding LLC owned 50% of an operating company. The family tells the estate's adviser that "the decedent owned 60% of the business." The adviser's working papers record "60% of the operating company."

The interest in the estate is 60% of the holding LLC, not 60% of the operating company. On a look-through basis, the decedent's economic share of the operating company is 30% (60% of 50%), held indirectly through an entity that the decedent controlled. An appraisal built on "60% of the operating company" would value a direct controlling position in an entity the decedent did not directly own, at twice the look-through economic share, and would ignore the holding LLC's own assets, liabilities and agreement.

Correcting this before work begins requires two company agreements (holding and operating), the ownership records of both entities on the date of death, and financial statements for both. If the executor is considering the alternate valuation date, the appraiser also needs to know whether any of the holding LLC's units were sold or distributed in the six months after death.

Hypothetical example 3: a Roth conversion of nonvoting units

Hypothetical facts: A traditional IRA held for the benefit of its owner holds 2,500 Class B nonvoting units of an LLC that has 7,500 Class A voting units and 2,500 Class B nonvoting units outstanding. The IRA owner intends to convert 1,000 Class B units. The custodian's form, completed by the owner, shows "25%".

The "25%" is ambiguous in three ways. It may describe the IRA's Class B units as a share of all 10,000 units (25%), the IRA's share of the Class B class (100%), or the converting units as a share of all units (10%). The interest actually converting is 1,000 Class B nonvoting units, which is 40% of the Class B class and 10% of all units, carrying no vote.

The custodian reports the conversion value on Form 1099-R and later reports the account's year-end value on Form 5498. If the units are misdescribed at conversion, the same misdescription may be carried into the year-end figures for the 1,500 units that remain in the traditional account. Confirming the units converting, by class, against the LLC's ledger as of the conversion date addresses both reports at once.

Hypothetical example 4: units contributed to two charities

Hypothetical facts: An owner contributes 300 units of a closely held company to one charity in March and 200 units of the same company to a second charity in September of the same year. The owner's records list "about 5%" for each contribution.

Two points follow. First, each contribution is a distinct block with its own date, and the appraisal for each must meet the signing and valuation-date windows tied to its own donation date. Second, because similar items count together even when they went to different charities, the donor's tax adviser will need to determine whether these contributions are similar items. That determination is the adviser's to make. The appraiser's contribution is an accurate description of each block, by units, class and date, against an accurate count of outstanding units on each date. "About 5%" serves neither purpose.

Errors in description

The appraisal describes the property. When the percentage is wrong, the description is wrong, and the discrepancy is visible to anyone who compares the appraisal with the transfer documents, the return, or the company's records. For gifts, the appraisal is expected to list the information considered in enough detail to replicate the value; an incorrect unit count is replicated along with everything else. Whether a particular discrepancy affects any filing position is a question for the taxpayer's adviser.

Errors in timing

Tax valuations sit inside fixed calendars. A donation appraisal has a signing window tied to the donation date and the return's due date. A Roth conversion value is needed for the custodian's reporting. An estate return is prepared around the date of death and, where elected, the six-month date. A wrong percentage discovered late places a correction against those calendars. Confirming the percentage at the start avoids that.

Errors that compound across years and transfers

Ownership errors tend to propagate. A family that makes annual gifts of units carries each year's remaining holding into the next year's gift. An IRA that converts part of its holding carries the remainder into each subsequent year-end report. An estate whose interest was misstated passes that misstatement to beneficiaries who later give, sell or donate the units. An error confirmed away at the first appraisal does not recur in the second.

Recommendations for confirming the ownership percentage before the appraisal starts

The recommendations below are written for the three readers this paper addresses: the business owner, the CPA or tax adviser, and the IRA owner. They are practical steps, not legal requirements. AppraiseItNow collects what the appraiser needs before the appraisal starts, and asks only for what the appraiser needs. The ownership percentage is the item within that collection that most repays early care.

State the interest as units and class, then as a percentage

A percentage alone is insufficient. The interest should be stated in four parts:

1. The exact legal name of the entity whose interest is being valued.
2. The class of units or shares.
3. The number of units or shares in the interest (the numerator).
4. The total number of units or shares of that class, and of all classes, outstanding on the valuation date (the denominator).

The percentage is then derived from those figures, not supplied independently. If the derived percentage does not match the figure the owner expected, the difference should be resolved before any work begins.

Reconcile at least two independent records

The percentage should be confirmed against at least two of the following, and any disagreement explained in writing:

- The company agreement, including every amendment and ownership schedule.
- The ownership ledger or cap table.
- The company's most recent tax return and owner-level schedules.
- Transfer documents for every gift, sale, redemption, issuance or conversion since the last agreement amendment.

Where the records disagree, the explanation (for example, "schedule not updated after the redemption of a departing member's units") is as useful to the appraiser as the corrected figure, because it confirms that the discrepancy was identified rather than overlooked.

Measure on the valuation date, and on each date in scope

The percentage should be confirmed as of the effective date for the purpose: the date of the gift, the date of death, the contribution date or the conversion date. Where the purpose involves more than one date, such as an estate considering the alternate valuation date or a donor contributing in more than one block, the interest should be confirmed on each date. A schedule listing each date, each block and the outstanding units on that date is a simple way to present this.

Identify the holder of record

The intake should identify who holds the interest in the company's records: the individual, a trust, an entity, or an IRA account by the custodian's FBO name and account number. For a Roth conversion, the custodian's form, the conversion date and the units converting should accompany that identification. For a tiered structure, each tier should be documented separately.

Separate the transferred interest from the remaining holding

For partial transfers, the intake should state three figures: the holding before the transfer, the interest transferred, and the holding after. The three should reconcile arithmetically. This step alone resolves the "10% of what" ambiguity in hypothetical example 1.

Flag control and consent thresholds in the company agreement

The adviser or owner should identify any provision of the company agreement that turns on a percentage, such as voting thresholds, consent rights, transfer restrictions or buy-sell triggers, and note where the interest sits relative to each. The appraiser will read the agreement, but early identification of any threshold near the interest's percentage directs attention to the provisions that matter most.

Use an extraordinary assumption only as a documented last resort

Where the percentage genuinely cannot be confirmed before the valuation is needed, the adviser and the appraiser should agree in advance on what is assumed, the basis for it, and how the report will disclose it. The goal is that any assumption about the interest is deliberate, supported

and clearly stated, rather than an unexamined figure carried in from an intake form.

Review questions for owners and advisers

Before an appraisal of a private company interest begins, the following questions should each have a documented answer:

- What is the exact legal name of the entity, and is the interest in that entity or in an entity above or below it?
- How many units of which class are being valued?
- How many units of that class, and of all classes, were outstanding on the valuation date?
- Has any gift, sale, redemption, issuance or conversion occurred since the company agreement's ownership schedule was last updated?
- Who is the holder of record on the valuation date?
- For a partial transfer, do the holding before, the interest transferred and the holding after reconcile?
- Does any provision of the company agreement turn on a percentage near the interest's percentage?
- Are there additional dates in scope, such as the six-month date for an estate or a second contribution date for a donor?

How AppraiseItNow's practice relates to these steps

AppraiseItNow prepares every appraisal in accordance with USPAP, the Uniform Standards of Professional Appraisal Practice. Most AppraiseItNow appraisals are completed remotely from photographs and documents; when an inspection is needed, an appraiser visits the asset in person. For a business valuation, the intake requirements are those stated in the summary: what is valued (the company, the interest or percentage) and the valuation date, financial statements or tax returns up to that date, and the company agreement, with past appraisals or offers as helpful additions. AppraiseItNow's appraisers specialize by asset class rather than by geography. Between them, AppraiseItNow's appraisers hold ASA, ISA, AAA, CAGA, NACVA, NEBB Institute, ABV and CFA credentials.

The consistent conclusion of this paper is that the ownership percentage should be the first fact confirmed, not the last fact assumed. Each tax use covered here fixes value at a date and depends on a correct description of the property. The percentage is the point at which the company's value becomes the interest's value, and it is the point at which the filing is most exposed to an error that no amount of later analysis will catch.

References for business valuation of private company interests for tax filings

- 26 U.S.C. § 170(f)(11) and (f)(16)
- Treas. Reg. § 1.170A-16
- Treas. Reg. § 1.170A-17
- Instructions for Form 8283 (Rev. December 2025)
- IRS Publication 526 (2025)
- 26 U.S.C. §§ 2031 and 2032
- Treas. Reg. § 20.2031-1
- Treas. Reg. § 20.2032-1
- Instructions for Form 706 (Rev. July 2026)
- Treas. Reg. § 25.2512-1
- Treas. Reg. § 301.6501(c)-1(f)
- Instructions for Form 709 (2025)
- Treas. Reg. § 1.408A-4
- Instructions for Forms 1099-R and 5498 (2026)
- IRS Publication 590-A
- USPAP, 2024 edition
- www.appraiseitnow.com