



# TaxNewsFlash

United States



No. 2023-198  
June 5, 2023

## Eighth Circuit: Value of stock held by estate included life insurance proceeds intended for redemption of such stock

The U.S. Court of Appeals for the Eighth Circuit affirmed a decision of the district court holding that the fair market value of stock in a closely-held corporation, for purposes of valuing the stock interest in the corporation held by the estate of a deceased shareholder, included life insurance proceeds intended for the redemption of the deceased shareholder's stock interest.

The case is: *Connelly v. United States*, No. 21-3683 (8<sup>th</sup> Cir. June 2, 2023). Read the Eighth Circuit's [decision](#) [PDF 86 KB]

### Summary

A corporation obtained life insurance on each of the corporation's two sole shareholders so that if one of the shareholders died, the corporation could use the proceeds to redeem that shareholder's shares. One of the shareholders subsequently died, and the IRS assessed taxes on his estate, which included his stock interest in the corporation. In valuing the estate, and the stock interest in the corporation held by the estate, the IRS took the position that the fair market value of the corporation included the life insurance proceeds intended for the stock redemption. As a result, the IRS sent a notice of deficiency to the estate for \$1 million in additional tax liability. The estate paid the deficiency and sued for a refund.

The district court granted summary judgment to the IRS and the taxpayer appealed to the 8<sup>th</sup> Circuit Court of Appeals. The 8<sup>th</sup> Circuit affirmed the lower court's decision, concluding (1) that the stock-purchase agreement requiring the redemption of a deceased shareholder's shares did not affect the value of the shares for estate tax purposes under section 2703 because it did not provide for a fixed price or a formula for arriving at one, and (2) that a proper valuation of the corporation in accordance with sections 2042 and 2031 must include the life insurance proceeds without treating the obligation to redeem shares as an offsetting liability. In doing so, the Circuit court declined to follow *Estate of Blount v. Commissioner*, 428 F.3d 1338 (11<sup>th</sup> Cir. 2005), setting up a potential split in the Circuits.

The estate appealed, and the Eighth Circuit affirmed the district court.

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