

**Valuation of Promissory Notes for Transfer Tax Purposes**

	Date the note was entered in to	Face amount of the note	Duration of the note	Interest rate on the note	Decedent's date of death	How long the note had to run following death of decedent	Applicable federal rate on date of death	Whether or not the note was secured	Financial strength of the lender	Discount rate applied
(1) Estate of Berkman v. Commissioner	5 notes: 1 in '68 1 in '69 2 in '70 1 in '72	\$275,000	20 years	6%	1974 (2-6 years after issuance of notes - depending on the note)	Unknown	9.75%	No	Unknown	50% or more for each note (longer term notes got greater discounts)
(2) B. Smith v. U.S.	1977	\$10,312,000	20 years	6%	1988	Unknown	7.57%	Unknown	Unknown	Discount applied – specific percentage amount not given. (Lack of marketability, lack of protective covenants, lack of formal acknowledgement of the debt by the lender, unusual payment schedule, market interest rate increase.)
(3) Estate of Hoffman v. Commissioner	1992	2 notes: \$278,147; \$173,083	20	7.61%	1994	Until maturity	7.58%	No	Strong	Discount applied – specific percentage amount not given.
(4) Estate of Harper v. Commissioner	1991	\$450,000	1 year	10.75%	1995	Note was renewed each year until decedent's death	7.19%	Yes	Unknown	12% (no assurance that the note would be paid in full at the next maturity date and issues affecting the property the note was secured by.)
(5) Example Appraisal One	2012	Unknown	9 years	0.95%	Unknown	Unknown	3.40%	Unknown	Unknown	12.85% (lack of collection rights and lack of marketability)
(6) Example Appraisal Two	2012	Unknown	9 years	1.07%	Unknown	Unknown	Not provided	Yes	Weak	21.6% (no protective covenants, size of the note, lack of marketability, weak financial strength of issuer.)
(7) Valuation Scenario 1	Unknown	\$1,000,000	9 years	3%	Unknown	Unknown	3%	Unknown	Unknown	Subject to discounts because note likely would not have a fair market value equal to its face value. No specific discount percentage given.
(8) Valuation Scenario 2	Unknown	\$1,000,000	20 years	4%	Exactly one year after issuance of note	Unknown	4%	Unknown	Unknown	Subject to discounts because, when compared, other similar long-terms loans are meaningfully discounted. No specific discount percentage given.