Valuing a Family Business After a Loved One’s Death: What Every Heir Should Know

When a parent, grandparent, or other family member dies owning a closely held business, one of the most important—and often overlooked—steps in settling the estate is determining the actual value of that business interest on the date of death.

Valuation specialists work with families and estates, and often see heirs assume that the value is simply the company's book value, the amount the business earned last year, or what someone thinks the company could get in a liquidation sale. None of those necessarily represents the business's fair market value (FMV) for estate purposes.

Why the valuation matters

The value assigned to a business can directly affect the estate's federal and state tax liability and the amount ultimately attributed to each beneficiary. The IRS requires includible assets to be valued at their fair market value, rather than simply their original cost or book value. Business interests are specifically among the assets that may be included in the gross estate.

For deaths in 2026, the federal estate-tax filing threshold is $15 million; for deaths in 2025, it was $13.99 million. Even when an estate is below the threshold, a Form 706 may be useful when portability of a deceased spouse's unused exemption is being elected.

A minority interest may not be worth its percentage of the company. Suppose a family business is worth $10 million and the deceased owned 40%. It may be tempting to conclude that the estate owns an interest worth $4 million.

That may not be the correct answer.

The 40% interest may lack control over the company and may be difficult to sell. Depending on the facts, a valuation may therefore consider a discount for lack of control (DLOC) and a discount for lack of marketability (DLOM).

The IRS's current Form 706 instructions specifically recognize valuation discounts for interests in closely held corporations, LLCs, partnerships, and other closely held businesses. This will reduce the value and reduce the potential tax impact. The appropriate valuation approach depends on the particular business. An operating company may be analyzed using an income approach and market approach, while an asset-intensive business may require significant consideration of its underlying assets.

An estate may have substantial wealth tied up in a business but relatively little cash available to pay estate expenses and taxes. For qualifying closely held businesses, IRC

§6166 may allow an estate to pay the portion of federal estate tax attributable to the business in installments, subject to specific requirements. The current Form 706 instructions generally require the closely held business interest to exceed 35% of the adjusted gross estate for this election.

The valuation is more than a number

For heirs, a professionally prepared valuation provides more than a figure for the tax return. It creates a documented basis for understanding what the family actually inherited, helps the executor fulfill fiduciary responsibilities, and can provide an objective starting point when family members are deciding whether to continue, sell, or divide the business.

If your family has inherited a closely held business, don't wait until the estate tax return is due to think about valuation. A well-supported valuation performed as close to the date of death as possible can protect the estate, the executor, and the beneficiaries.