

PREMIUM FOR CONTROLLING INTEREST

The concept of applying a Premium for a controlling interest is the theoretical inverse of a discount for a minority interest. As previously indicated a controlling interest carries with it the benefits of control. Those benefits are delineated above in the preceding section. Accordingly, if the interest being valued is a controlling interest, then it is appropriate to apply a premium to that interest. Whereas, a discount for minority interest or a discount for lack of marketability is a subtraction from the value of the interest, a premium for a controlling interest is an addition to the value. Thus, as an example, for an individual who owns 90% of an entity worth \$2 million dollars, the value of their controlling interest before application of any premium for controlling interest would be \$1.8 million dollars (\$2 million times 90%). However, if a 10% premium for controlling interest is applied, then the value of their 90% interest becomes \$1,980,000 (\$1.8 million times 1.10). That would then be the value used for equitable distribution of the valuation if for matrimonial purposes, or for the Estate value if the valuation is for Estate tax purposes.