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THE ONE BIG BEAUTIFUL BILL ACT'S EFFECT ON THE VALUE OF S CORPORATIONS AND PASS-THROUGH ENTITIES

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Recent tax legislation, specifically the Tax Cuts and Jobs Act ("TCJA") and the newly enacted One Big Beautiful Bill Act ("OBBBA"), directly affected the valuation of S corporations. Differences in tax treatment between C corporations and S corporations might result in a valuation premium for S corporation interests. The S corporation equity adjustment multiple ("SEAM") method, also known as the Van Vleet model, is one way to quantify that premium. Temporary provisions under the TCJA that required a weighted SEAM method have been replaced by permanent provisions under the OBBBA. So, valuation professionals may have to adjust their methodologies to reflect the enduring premium in S corporation valuations.

Introduction

On July 4, 2025, President Trump signed into law the OBBBA, which included significant implications for tax and valuation professionals to consider. In our October 2025 *Perspectives*, Greg Smith provided an overview of the changes that resulted from the OBBBA. In this article, we look at the implications specific to the SEAM analysis, often applied by valuation professionals to account for the difference in value between C corporations and S corporations, which arises because of the tax pass-through status of S corporations.

Valuation professionals typically use valuation approaches that assume a C corporation tax status, where the company pays a corporate income tax on earnings before distributions are made to owners. When assuming a C corporation status, analysts also assume that equity holders pay personal income taxes on their dividend income. However, when valuing an S corporation, different tax rules apply. Specifically, the S corporation is exempt from paying corporate federal tax directly. Instead, shareholders are taxed on their pro rata share of company earnings at the individual level.

In addition, retained earnings have the potential to generate a capital gain tax liability for C corporation shareholders if the retained earnings lead to growth in the value of the stock, whereas S corporation shareholders are in a position to limit potential capital gains tax liabilities because retained income increases the tax basis of the S corporation stock.

Ultimately, depending on applicable tax rates, these differences in tax application could result in an economic premium on the cash flow that investors receive from S corporation companies relative to C corporation companies and, therefore, a premium in the value an investor might pay for an ownership interest in an S corporation relative to a similar C corporation. We refer to this difference as the net economic benefit to S corporation shareholders.

In cases where a valuation professional estimates the value of an S corporation's equity based on comparison with companies that have a C corporation tax status (such as when applying the guideline publicly traded company method) or based on after-tax cash flow assuming C corporation tax status (such as when applying the discounted cash flow method), the valuation professional may adjust the equity value indications to account for this difference. The SEAM is one method commonly used to adjust for this difference.

Table 1
S Corporation Economic Adjustment Multiple
Tax Law Before the Tax Cuts and Jobs Act

	C Corp.	S Corp.
Net Income:		
Income Before Corporate Income Taxes	100,000	100,000
Corporate Income Taxes	40,000	1,000
Net Income	60,000	99,000
Dividends:		
Distributions to Shareholders	30,000	49,500
Dividend Tax Due by C Corporation Shareholders	8,137	
Income Tax Due by S Corporation Shareholders		46,255
Net Cash Flow Benefit to Shareholders	21,863	3,245
Capital Appreciation:		
Net Income	60,000	99,000
Dividends and Distributions	30,000	49,500
Retained Earnings (i.e., net capital appreciation)	30,000	49,500
Capital Gains Tax Liability	8,137	NM
Net Capital Appreciation Benefit to Shareholders	21,863	49,500
Net Economic Benefit to Shareholders:		
Net Cash Flow Benefit to Shareholders	21,863	3,245
Net Capital Appreciation Benefit to Shareholders	21,863	49,500
Total Net Economic Benefit to Shareholders	43,727	52,745
Premium in Net Economic Benefit		20.6%
SEAM		**1.21**
Tax Rates:		
Combined Federal and State Corporate Tax Rate	40%	1%
Company Rate of Distributions	50%	50%
Combined Federal and State Tax Rate on Dividends and Capital Gains for C Corporation Shareholders	27%	
Income Tax Rate by S Corporation Shareholders		47%

NM = Not meaningful

S Corporation Equity Adjustment Multiple

The SEAM is an analytical approach developed by Daniel Van Vleet in response to *Gross v. Commissioner*[1] and subsequent cases that identified this difference in value.[2] The SEAM walks through the net economic benefit of dividends and capital appreciation under a given tax regime for both a C corporation and an S corporation. The method derives a multiple that accounts for the difference in value between an S corporation interest and a C corporation interest.

The SEAM approach was used successfully in *Cecil v. Commissioner*,[3] where the U.S. Tax Court accepted the use of the SEAM to adjust the value of an S corporation after the use of income and market approach methods by opposing valuation expert witnesses.

Table 1 presents this analysis assuming a pretax income of $100,000, a post-corporate-tax distribution rate of 50 percent,[4] and a set of tax provisions consistent with tax law up to 2017.[5] As presented, the calculation implies an S corporation premium of 21 percent relative to an equivalent C corporation interest in 2016.

The SEAM inherently includes certain assumptions about the subject company:

- The company will continue to operate as an S corporation in perpetuity.

Table 2
S Corporation Economic Adjustment Multiple
Under the Tax Cuts and Jobs Act

	C Corp.		S Corp.			
			Non-Service		Service	
	Temporary Period (2018–2025)	Permanent Period (2026+)	Temporary Period (2018–2025)	Permanent Period (2026+)	Temporary Period (2018–2025)	Permanent Period (2026+)
Net Income:						
Income Before Corporate Income Taxes	100,000	100,000	100,000	100,000	100,000	100,000
Corporate Income Taxes	25,345	25,345	1,000	1,000	1,000	1,000
Net Income	74,655	74,655	99,000	99,000	99,000	99,000
Dividends:						
Distributions to Shareholders	37,328	37,328	49,500	49,500	49,500	49,500
Dividend Tax Due by C Corporation Shareholders	10,937	10,124				
Income Tax Due by S Corporation Shareholders			36,670	46,255	45,837	46,255
Net Cash Flow Benefit to Shareholders	26,391	27,204	12,830	3,245	3,663	3,245
Capital Appreciation:						
Net Income	74,655	74,655	99,000	99,000	99,000	99,000
Dividends and Distributions	37,328	37,328	49,500	49,500	49,500	49,500
Retained Earnings (i.e., net capital appreciation)	37,328	37,328	49,500	49,500	49,500	49,500
Capital Gains Tax Liability	10,937	10,124	NM	NM	NM	NM
Net Capital Appreciation Benefit to Shareholders	26,391	27,204	49,500	49,500	49,500	49,500
Net Economic Benefit to Shareholders:						
Net Cash Flow Benefit to Shareholders	26,391	27,204	12,830	3,245	3,663	3,245
Net Capital Appreciation Benefit to Shareholders	26,391	27,204	49,500	49,500	49,500	49,500
Total Net Economic Benefit to Shareholders	52,781	54,407	62,330	52,745	53,163	52,745
Premium in Net Economic Benefit			18.1%	-3.1%	0.7%	-3.1%
SEAM			**1.18**	**0.97**	**1.01**	**0.97**
Tax Rates:						
Combined Federal and State Corporate Tax Rate	25%	25%	1%	1%	1%	1%
Company Rate of Distributions	50%	50%	50%	50%	50%	50%
Combined Federal and State Tax Rate on Dividends and Capital Gains for C Corporation Shareholders [a]	29%	27%				
Income Tax Rate by S Corporation Shareholders [b]			37%	47%	46%	47%

NM = Not meaningful

[a] The elimination of the state and local tax deduction under the TCJA results in higher state tax rates for high-income taxpayers.

[b] The qualified business income deduction offers more benefits to non-service business owners. In addition, the temporary reduction of the top marginal federal tax rate for individuals under the TCJA to 37.0 percent from 39.6 percent results in a lower income tax rate under the "temporary" period compared to the "permanent" period, despite the loss of the state tax deduction.

- A potential buyer of the S corporation will be a qualified S corporation equity buyer.
- The tax regime basis at the time of the analysis will continue in perpetuity.
- The company will continue to be a profitable enterprise in perpetuity.

In addition, we assume in Table 1 that dividends and capital gains are taxed at the same rate.

It is the responsibility of the valuation professional to estimate the appropriate tax rate relied on in each valuation assignment. Valuation professionals typically assume that buyers of business ownership interests tend to be in the highest income tax bracket and, thus, typically use the highest marginal individual tax rates.

The Tax Cuts and Jobs Act Tax Provisions

The passage of the TCJA in 2017 affected certain tax rates and tax considerations that directly affected the SEAM.[6] These included:

- Lowering the federal corporate tax rate to 21 percent
- Reducing the top marginal federal tax rate for individuals to 37.0 percent from 39.6 percent
- Introducing the qualified business income

("QBI") deduction, where service-type businesses face a deduction cap[7]

- Capping the maximum state and local tax ("SALT") deduction of $10,000

Certain TCJA provisions were set to expire December 31, 2025, after which those provisions would reset to the prior tax law. These temporary provisions included those noted above, except for the decrease to the federal corporate tax rate, which would not expire.

Table 3
S Corporation Economic Adjustment Multiple
Under the One Big Beautiful Bill Act

	C Corp.	S Corp.	
		Non-Service	Service
Net Income:			
Income Before Corporate Income Taxes	100,000	100,000	100,000
Corporate Income Taxes	25,345	1,000	1,000
Net Income	74,655	99,000	99,000
Dividends:			
Distributions to Shareholders	37,328	49,500	49,500
Dividend Tax Due by C Corporation Shareholders	10,937		
Income Tax Due by S Corporation Shareholders		36,670	45,837
Net Cash Flow Benefit to Shareholders	26,391	12,830	3,663
Capital Appreciation:			
Net Income	74,665	99,000	99,000
Dividends and Distributions	37,328	49,500	49,500
Retained Earnings (i.e., net capital appreciation)	37,328	49,500	49,500
Capital Gains Tax Liability	10,937	NM	NM
Net Capital Appreciation Benefit to Shareholders	26,391	49,500	49,500
Net Economic Benefit to Shareholders:			
Net Cash Flow Benefit to Shareholders	26,391	12,830	3,663
Net Capital Appreciation Benefit to Shareholders	26,391	49,500	49,500
Total Net Economic Benefit to Shareholders	52,781	62,330	53,163
Premium in Net Economic Benefit		18.1%	0.7%
SEAM		**1.18**	**1.01**
Tax Rates:			
Combined Federal and State Corporate Tax Rate	25%	1%	1%
Company Rate of Distributions	50%	50%	50%
Combined Federal and State Tax Rate on Dividends and Capital Gains for C Corporation Shareholders [a]	29%		
Income Tax Rate by S Corporation Shareholders		37%	46%

[a] Sourced from Federal Reserve Economic Data.

When preparing valuation analyses for valuation dates from 2018 through July 4, 2025, valuation professionals may apply a weighting method to address the assumed expiration of the TCJA tax components. When using this method, valuation professionals weight (1) a "temporary" SEAM based on the present value of cash flow forecast to be generated before December 31, 2025 (the expiration date of some TCJA tax provisions), and (2) a "permanent" SEAM based on the present value of cash flow forecast to be generated after that date.

For example, let us now assume we are valuing an S corporation non-service business under the TCJA tax regime using a discounted cash flow method that produces an equity value indication based on the assumption of C corporation tax status. Based on the TCJA SEAM premiums presented in Table 2, on the preceding page, we would calculate a SEAM of 1.18 during the "temporary" period and a SEAM of 0.97 after.

Further, assume 50 percent of the present value of cash flow is forecast to be received during the "temporary" period and 50 percent is forecast to be received after. Applying weighting, we would conclude a weighted average SEAM of 1.075 (a premium of 7.5 percent) to apply to our equity value conclusion.[8] During the TCJA period, if the valuation shifted closer to the 2025 expiration date or less cash flow was received during the TCJA period, the SEAM would converge to 0.97 (a discount of 3 percent).

OBBBA Implications

As a result of the OBBBA, now in effect, certain tax considerations for the SEAM changed.[9] These include:

- Permanent extension of the top marginal federal tax rate for individuals at 37 percent
- Permanent extension of the QBI deduction
- Increase of the cap on the maximum SALT deduction to $40,000 through 2029, before decreasing to $10,000 in 2030[10]

The 21 percent corporate income tax rate made permanent under the TCJA remains at 21 percent after the passage of the OBBBA.

Several of the components of the TCJA that had been set to expire on December 31, 2025, were extended permanently. As a result, SEAM calculations for valuation dates after July 4, 2025, no longer require a weighting method to reflect an assumed tax regime expiration.

As presented in Table 2, before passage of the OBBBA, and assuming no change to the tax law on December 31, 2025 (i.e., under the continuation of the TCJA "permanent" tax regime), the equity value adjustment that an investor might consider for an ownership interest in an S corporation relative to a C corporation, calculated by the SEAM, approached the permanent discount of 3 percent.

As presented in Table 3, on the preceding page, once passed, the OBBBA effectively renewed the SEAM adjustment under the TCJA "temporary" scenario. Further, we are no longer in an environment where SEAM premiums drop as an expiration date approaches—the permanent nature of the new tax regime indicates that SEAM premiums for non-service S corporations are here to stay.

In essence, the OBBBA made the TCJA's "temporary" SEAM adjustments "permanent" SEAM adjustments.

Summary and Conclusion

The SEAM analysis typically assumes that tax provisions will not change in perpetuity. However, the TCJA and OBBBA modified multiple tax provisions, potentially resulting in a change to the fair market value of an S corporation. Most notably, before the passage of the OBBBA, the expiration of certain TCJA tax provisions resulted in the elimination of the premium on non-service S corporations after December 31, 2025. However, the passage of the OBBBA resulted in the continuation of the premium for non-service S corporations.

It is reasonable to assume that the Internal Revenue Service will continue to expect valuation professionals to consider value premiums attributable to a company's S corporation status after the passage of the OBBBA, particularly for non-service S corporations. As valuation standards evolve in response to these legislative changes, valuation professionals may consider incorporating the SEAM or similar models to ensure consistency and defensibility when valuing S corporations on the same basis as C corporations.

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References:

1 Gross v. Commissioner, 272 F.3d 333 (6th Circuit, 2001).

2 Daniel R. Van Vleet, ASA, “The S Corporation Economic Adjustment Model,” in *The Handbook of Business Valuation and Intellectual Property Analysis*, ed. Robert F. Reilly and Robert P. Schweihs (McGraw-Hill, 2004).

3 Cecil v. Commissioner, T.C. Memo. 2023-24 (Feb. 28, 2023).

4 Mathematically, the distribution rate does not affect the SEAM result if we assume dividends are taxed at the same rate as capital gains.

5 In addition to federal and state corporate and personal taxes, our analysis includes net investment income tax of 3.8 percent and a state tax on pass-through entities of 1 percent.

6 Daniel R. Van Vleet, ASA, “2018 Tax Cuts and Jobs Act: Impact on Valuations of C corps and Pass-through Entities” February 8, 2018, BVR Webinar, Business Valuation Resources, LLC.

7 Service businesses include accounting firms, law firms, health care companies, and consultancies. Non-service businesses include manufacturers, distributors, construction businesses, and agriculture businesses.

8 Calculated as (0.5 * 1.18) + (0.5 + 0.97) = 1.075.

9 Baker Botts, L.L.P., “‘The One Big Beautiful Bill’ Key Tax Takeaways,” May 27, 2025, bakerbotts.com/thought-leadership/publications/2025/may/the-one-big-beautiful-bill-key-tax-takeaways.

10 Thomson Reuters Tax & Accounting, “How the ‘One Big Beautiful Bill’ reshapes SALT planning,” July 21, 2025, tax.thomsonreuters.com/blog/how-the-one-big-beautiful-bill-reshapes-salt-planning.