



Perspectives October 2023



CONSIDERATIONS FOR VALUING THE STADIUM SEAT LICENSES OF SPORTS TEAMS FOR ESTATE TAX PURPOSES

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In the preparation of Internal Revenue Service Form 706 (estate tax return), professional and collegiate stadium seat licenses, commonly known as private seat licenses, for certain season tickets often are overlooked. Many estate professionals mistakenly consider them to be of deficient value; however, active public markets exist for the same or similar licenses, and seat licenses can be transferred with the blessing of the respective team. Thus, the seat license should be considered when preparing an estate tax return.

Introduction

As professional and collegiate football games continue this fall, trust and estate tax professionals may be asked to contend with unique assets held by many wealthy families, such as seat licenses of sports teams. Seat license assets represent a right to purchase specific seats annually at certain sports stadiums for a specific team. These licenses are luxury goods that can take years to obtain. Many prospective holders generally join a waiting list with a professional franchise or university to acquire seat licenses as they become available.

Similar to art, jewelry, and other tangible assets held directly by an estate, seat licenses do not have easily determinable value, as cash and cash equivalents or publicly traded stocks do. Unlike art and jewelry, however, literature on the valuation of seat licenses is limited. A valuation professional should be consulted by

a trust and estate tax professional to estimate the value of a seat license if necessary.

Seat licenses of professional and collegiate sports teams have several defining characteristics. Typical seat licenses allow the holder of the license to purchase specific seats at the specific team's events without those seats being made available to the general public. A license holder typically is required to pay the entire cost of all seats for a given year up front and then is required to purchase tickets for games that were not previously scheduled for that year, such as playoff games, on an ad hoc basis. That is, these licenses require the repeated purchase of specific tickets at major sporting events at the stadium.

Seat licenses often are offered to fans when a stadium is being constructed, leading to some licenses being referred to as "stadium builder licenses." The seat



licenses provide regular income and up-front capital for teams and allow fans to have consistency in their seating location and a feeling of ownership in the team and stadium.

Valuation Considerations

When discussing seat license assets with clients, estate planners may discuss their client's seat licenses as having *de minimis* value or no value because the client cannot generate positive income from holding the investment asset and may further be restricted from selling it on the open market. It is true that sports teams normally set seat license prices at a level that prevents the holder from profiting off the selling of seat license tickets on the secondary market. This usually is borne out when a valuation analyst considers an income approach for a seat license, particularly when the transaction fees charged by secondary marketplaces are considered.

The applicability of a market approach often is overlooked for a presumed lack of data. However, this is incorrect. Several public marketplaces exist that offer sales of seat licenses directly between holders. These marketplaces are operated with the permission of the respective team as a way to ensure as few seats as possible go unsold for any given home game. While not every professional sports team allows its seat licenses to be sold on these marketplaces, such sales currently are allowed by approximately half of the teams in the National Football League, as well as Major League Baseball and National Basketball Association teams, among others. Table 1, right, lists the professional sports teams and entities that allow the resale of licenses on one marketplace, STR Marketplace.

Resale marketplaces frequently report transaction data, including the sale price for individual seat licenses, seat location, amenities, and other items. These individual data can be used to screen for comparable transactions to a specific privately held seat license.

A valuation professional should consider the financial metrics of the underlying team, such as revenue, attendance, and location, as well as the individual characteristics of the seats themselves. Fans typically pay significantly more to acquire seats that have more preferable viewing angles and access to

Table 1
Professional Seat License Sales
Allowed on the STR Marketplace

National Football League

Atlanta Falcons
Baltimore Ravens
Carolina Panthers
Chicago Bears
Cincinnati Bengals
Cleveland Browns
Dallas Cowboys
Houston Texans
Las Vegas Raiders
Los Angeles Rams
Minnesota Vikings
New York Giants
Philadelphia Eagles
Pittsburgh Steelers
San Francisco 49ers
Seattle Seahawks
Tennessee Titans

Major League Baseball

San Francisco Giants
St. Louis Cardinals

National Basketball Association

Golden State Warriors

Major League Soccer

Charlotte Football Club

Other Sports Entities and Events

Kansas Speedway
Texas Motor Speedway
The Kentucky Derby

superior amenities, such as club level access. Like any entertainment venue, seat licenses for stadiums built recently can have dramatically higher levels of food quality, comfort systems, and included access than those that were constructed decades prior. Further, the duration of the seat license being valued should be considered. That is because many licenses are not indefinite but, rather, lapse when a new stadium is built for the underlying team.

Another factor that a valuation professional should consider is the number of seat licenses held. Sales transactions available on public marketplaces are primarily those of single seats or of small groups of seats, so they often do not capture the additional value of having licenses for a larger group of seats in the same area. For example, if a business wanted to buy a large number of seats in the same area to entertain a large group, it would have to pay a significant premium on the open market for those tickets because it would have to purchase across multiple sellers.

Once a comparable group of transactions is identified, an analyst can use sales price indications as a starting point to estimate a value for the personal seat license in question. When estimating this value, the analyst must be careful to account for any significant outliers, such



as sales for a major rivalry game or for a game where a team's starting players are expected to sit. Such occurrences are common in professional and collegiate sports but are not obvious when evaluating sales data.

A valuation professional also should consider other factors when examining these unique assets, such as qualitative differences and a lack of marketability. A discount for lack of marketability ("DLOM") is typically appropriate as professional seat licenses are subject to restrictions imposed by the teams themselves. Many seat licenses that the analyst may try to value, such as collegiate football licenses, may have significantly more limitations on their transfer and lead to an increased DLOM. Many seat licenses also have restrictions on fan behavior and allow for the team to revoke a seat license at any time if the institution determines a fan's behavior to be inappropriate. These factors should be considered when selecting a DLOM for transfer tax purposes.

Conclusion

Professional and collegiate seat licenses are often overlooked in estate planning, but they can be a meaningful item to consider, particularly if a client is close to using the entirety of his or her lifetime gift



Seat licenses for sports teams can be a valuable asset.

exemption. While seat licenses often are dismissed as impossible (or difficult) to value, the existence of actively traded marketplaces can allow a valuation professional to arrive at a reliable estimate of value that an estate professional can rely on. Nevertheless, these actively traded marketplaces can report a wide variety of indications that require diligent evaluation to sift through properly. Estate professionals should consider whether their clients have overlooked these unique assets in their estate plan and whether a valuation professional is needed to simplify what can be a deceptively complicated valuation process.

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