ASHWORTH & ASSOCIATES, P.C.

Newsletter

How can I determine what my business is worth for estate and gift tax purposes?

Answer:

Determining the value of your business is something you should not attempt to do on your own, especially because the IRS could challenge your valuation. Even the IRS acknowledges that no one true fair market value (FMV) exists for a closely held business. There are appraisers who specialize in determining the value of businesses. Your CPA may be one of these specialists or know someone who is.

FMV is defined by the federal estate and gift tax regulations as "the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts." It is the sale price that a hypothetical buyer and seller would reach, not necessarily the price that the actual owner would agree to or the price that an actual buyer might be willing to pay.

You may have had your business appraised in the past for another purpose. As tempting as it might be, don't use an old appraisal for a new transaction. The purpose of the appraisal can affect the valuation assigned, and time can change the factors that go into the appraisal calculation.

Numerous factors might affect the value of a business. However, the IRS has identified a number of relevant considerations:

- Nature of the business and history of the company
- Outlook for the economy in general and an industry in particular
- Book value and financial condition of the company
- Earnings capacity
- Dividend-paying capacity
- Goodwill/intangible value
- Sales of stock and the size of block to be valued
- Market value of stock in comparable businesses

A number of different methods exist for determining the FMV for a closely held business. Generally, only an appraiser will know how to analyze these factors to reach a conclusion as to the FMV of your business.