

Business Valuations:

What are they and when are they needed?

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What is a Business Valuation?

- A calculation of the “Fair Market Value” of an ownership interest in a company or an asset on a specified date.
- “Fair Market Value”
 - The price at which property would change hands between a willing buyer and willing seller when neither has a compulsion to buy or sell and both parties have reasonable knowledge of relevant facts
- Revenue Ruling 59-60, issued in 1959, provides the guidance of how to calculate Fair Market Value and the factors to consider.

Fair Market Value

- The Value of a business is equal to the present worth of the future benefits of ownership.
 - For example, the buyer is purchasing a future benefit stream or cash flow not what they achieved in the past.

What is the purpose of a Business Valuation

- To determine the fair market value of a business or ownership interest as of a specific date for a variety of reason including:
 - Estate, Gift and Income tax reporting & compliance
 - Mergers & Acquisitions
 - Employee Stock Ownership Plans
 - Divorce Litigation
 - Damages Litigation
 - Charitable Contributions

What are the Levels of Valuation Reports?

- Business Valuations come in all shapes and sizes depending on their uses. The normal valuations performed by HWLLP are included below:
 - Detailed Report (Full Valuation)
 - Summary Report (Full Valuation)
 - Calculation Report
 - Oral Report

When is a “Full” Valuation Report Required?

- Anytime discounts are included in the calculation of the value of a business or ownership interest included in a gift or decedent’s estate, a Full valuation report must be included with the respective return.
- Litigation engagements normally require full valuation reports.

Discounts in Valuations

- The two discounts that are generally utilized in the calculation of the fair market value of a business interest are:
 - Discount for Lack of Control (DLOC)
 - When valuing an interest that has no control to dictate decisions of the operations or makeup of the company. Generally anything less than 51%
 - Discount for Lack of Marketability (DLOM)
 - Used to compensate for the difficulty of selling interests in closely held companies that are not traded on an open stock exchange.
- Application of the discounts in valuations is very subjective. No 2 valuation analysts will come up with the exact same value.
- “Its an Art, Not a Science”

Words that indicate the potential need for a valuation

- Value
- Gift
- Succession Plan
- Selling
- Estate
- Divorce Damages
- Lawsuit



Risks associated with Valuations

- When a valuation including discounts accompanies an Estate return, an examination is more likely
- If under the lifetime exclusion, the valuation establishes the value for the decedent estate and beneficiaries.
- Filing a gift tax return without a valuation can result in an audit, penalties or paying extra tax due to excess gift amount

Valuation Services HW Provides

- Exit and Estate Planning
 - Value Acceleration
- Consulting
- Expert Witness

HW Valuation Analysts

- Chris Brubaker, CPA/ABV - Partner
 - Mark Wheeler, CPA/ABV/CFF - Manager
 - Scott Bundy, CPA/ABV - Manager
 - Will Dagli, CPA - Staff Accountant
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- As of 2018, there are approximately 3,800 ABV credential holders in the United States.

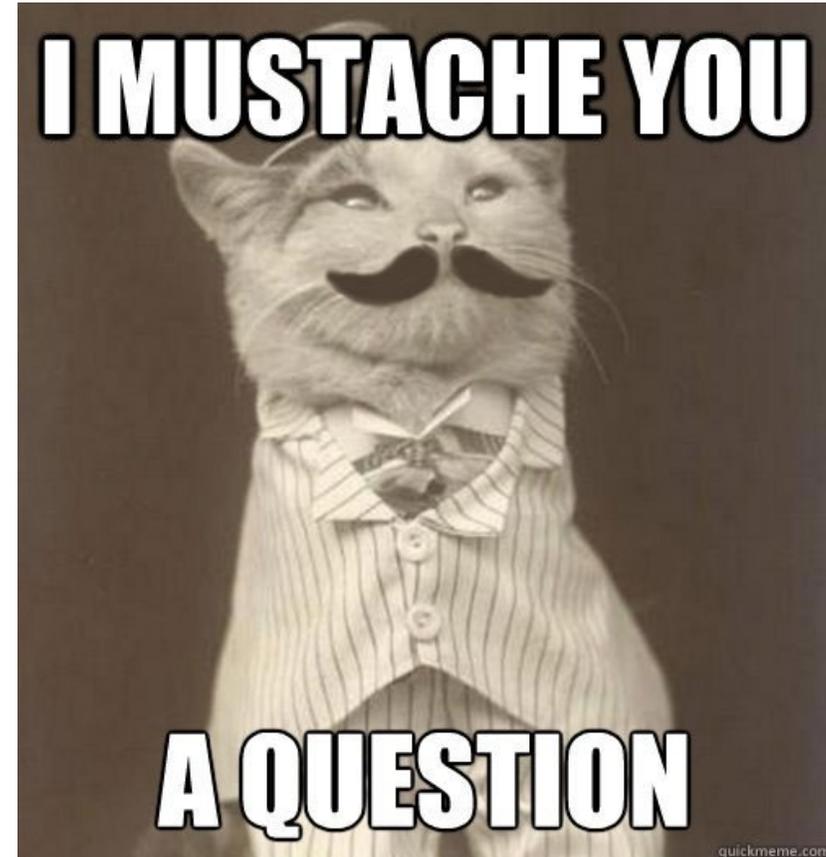
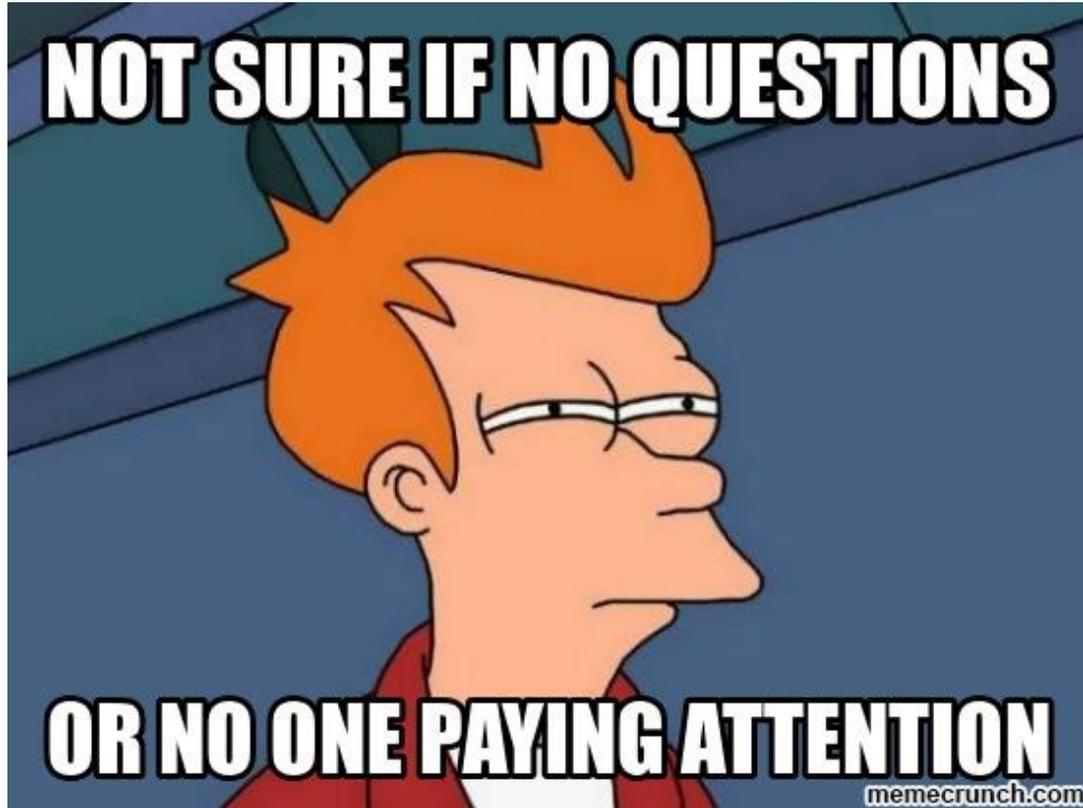
Normal Fee Ranges for Each Valuation Type

- Valuation - \$10-15k
- Calculation - \$5-7k
- Oral Report - \$2-4k

Engagement Length for Valuations

- Normally, after all the requested information has been received along with the signed engagement letter, we can generate a report in approximately 60 days.

Questions?



Thank You

