

What Is Your Business Really Worth?

You may be completely in the dark about the true value of your business. After all, if you aren't planning to sell the company in the near future, fixing an exact dollar value probably isn't a top priority. Practical suggestions: Make it your business to know what your business is worth. There are several compelling reasons to do so.

- You may need to secure adequate insurance coverage against natural disasters. Look no further than all the businesses that were destroyed by hurricanes, floods and fires this past year to know why.
- Frequently, co-owners or partners enter into a buy-sell agreement. By setting a value beforehand, you can avoid a dispute at a time when emotions are likely to be running high. Similarly, a sale could be triggered by the disability of one of the owners.
- The valuation can have an impact on estate planning. For instance, after an evaluation is made, it may be advantageous to make gifts of fractional interests in the business to your children and grandchildren.
- You may want to eventually transfer your business interest to one of your children who is already active in the business. Valuing your business gives you an idea of the cash and other assets you might give to any other children who won't be participating in the business operation.
- If your marriage is on shaky ground, the value of your business is an important factor for both you and your spouse. Under the divorce laws of most states, business interest are subject to the rules for property settlements.
- Finally, there are several estate tax breaks for owners of closely-held businesses. By establishing a current value, you can put your estate in a position to qualify for favorable treatment.

There are several different methods that may be used for a valuation. **General rule:** the standard for arriving at the value for tax purposes is the price a willing buyer would pay a willing seller. The following seven factors are traditionally used to value the stock of a closely-held company.

- (1)The nature and history of the enterprise.
- (2)The condition and the future economic outlook of the industry.
- (3)The financial condition and book value of the business.
- (4)The company's earning and dividend-paying capacity.
- (5)The company's goodwill.
- (6)Prior sales of the stock.
- (7)The price of similar stock.

With the proper guidance, you can set a value for your business interest that will protect you and your family in the future.