



INSIGHTS



BUSINESS PLANNING

Times to Know the Value of Your Business

THE BIG PICTURE

There are a lot of significant moments in the life of your business – from that initial idea or inspiration, to your first big client or contract. From the day you open the doors, to the day you decide to transfer or sell the business, many of the decisions you make regarding the direction of the company may hinge on the worth of the business.

Because of constant change in the economic, competitive and regulatory landscape in which your business exists, it's a good idea to review the value of your business on a regular basis. Doing this will allow you to have a firm grasp on the business's current value and track its growth over an extended period of time. With this knowledge, you could consider adjusting your business plans to focus more on the drivers of value, or simply be in a better position to take advantage of opportunities.

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So, When Is It Most Important to Know the Value of Your Business?

Well, there are several key times when it's important to talk to your financial professional about getting a valuation performed and how to get it done, perhaps using a CPA or a certified business valuation firm. Let's examine a few of those instances:

Changes to Your Business

The need for a business valuation may be indicated when there are noteworthy events in your business, like a dramatic change in revenue (e.g., up or down 25 percent or more), the addition of a new partner, or gaining a substantial client. All these changes can influence the value of the business, and knowing the value of your business is critical to planning your next steps.

Changes in Your Personal Life

You should know the value your business when significant personal life events take place, such as marriage or divorce. In the event of a divorce, you may be required to perform a certified business valuation to determine marital assets. If a valuation existed previously as part of a pre-nuptial agreement, the marital assets might be the difference between the two. Your attorney can advise you in this area.

Funding a Buy-Sell Agreement

Understanding the value of your business is an integral part of properly funding a buy-sell agreement. A buy-sell agreement is a comprehensive legal document that outlines what happens to the business in the event of certain triggering events; for example, death, disability, divorce, or retirement.

Life insurance is often used to fund the buy-sell agreement with respect to a death. You'll need to know the value of the business so you can determine the proper amount of insurance coverage. This will help you and your partners ensure there will be enough cash available (from the proceeds of the life insurance policy) to buy-out a deceased partner's share of the business.

Selling Your Business

This is the most obvious time to know the value of your business before you sell it. By having a firm grasp of the business value before you put it up for sale, you can confidently set your asking price and, based on that, target (or eliminate) potential buyers. Additionally, a valuation prepared by a neutral, independent expert that substantiates your asking price is key to making the deal work.

Planning for Your Retirement

How large will your retirement nest-egg be? Well, that may depend on the value of the business — often the business is an owner's largest asset. Once you know how much money you can expect to receive from the business, through either sale or transfer, you'll have a better idea of how much income you'll need from other sources to fund the retirement lifestyle you deserve.

Planning for Your Estate

Knowing the value of your business is also critical for estate tax purposes. When the owner of a business dies, the family or estate may have to pay taxes based on the value of the business being passed down. And if there isn't already a certified business valuation, the IRS may look to determine the value itself.

Many businesses are illiquid, meaning there isn't enough easily accessible cash available to pay any estate taxes due. By knowing the value of the business, you may be able to put an estate plan in place that will provide the estate with enough funds, usually through life insurance, to enable the business to stay in one piece.



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