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From the Desk of...

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BCC
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 Your True Strength.

The end of the year is fast approaching and many business owners begin thinking about year-end planning and possibly long-term planning. Unfortunately, much uncertainty exists in federal estate and gift tax laws as well as federal tax laws affecting income and capital gains tax rates. The uncertainty and potential tax law changes make planning even more important but more complicated. Decisions made during the next couple months can have lasting effects (good or bad) on businesses and the ultimate "value" the owners may receive for their life's work or pass along to their heirs, hard-working employees or favorite charitable organizations. Not knowing the current business "value" nor fully understanding the concepts and definitions associated with the term "value" can render much of the planning ineffective.

Most people feel that they have a general understanding of the term "value." At first glance, it seems like an easy concept to understand and define. However, as "value" is understood in the business valuation context, the purpose of the valuation and the standard of value applied may lead to great differences in estimating exactly what that "value" is. Hundreds of thousands or even millions of dollars can be lost by a business owner who does not understand or misapplies valuation concepts.

Concepts such as "standard of value", "level of value", and "premise of value" are generally foreign to most of us. When a business owner decides to sell their company and maximize the profit for all the stakeholders, they typically are pursuing a buyer willing to pay a strategic or synergistic "value" for the company. A "synergistic value" may differ greatly from "fair market value" when you consider the premium a specific buyer may be willing to pay to obtain or take advantage of available synergies. Likewise, "level of value" can have a significant effect when you consider that the sale or gift of a small, minority-level interest in a business can be worth much less than a controlling-level interest in the same business. The "premise of value" considers whether a business is "valued" on a going-concern basis or a liquidation basis. Often, a business run like a well-oiled machine with a highly skilled management team and trained workers may generate substantially more "value" than the sum of its individual parts.

Many misconceptions regarding the "value" of a business are generated by the arbitrary use of a "rule of thumb" that may have been picked up at a trade show or even from braggart chitchat of a competitor. Reliance on these misconceptions when making important decisions can have lasting effects on one's business and ultimately on the wealth passed along to heirs. Fortunately, there are many trained and credentialed appraisers, accountants, lawyers and financial advisers that fully understand "value" and can assist in making the best decisions for your business now and in the future.

What is "Value"?

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Welcome to Iowa ABI



Iowa Association of Business and Industry, "The Voice of Iowa Business since 1903" is the largest business network in the state (serving as Iowa's State Chamber) with long legacy of advocating for a competitive business climate in Iowa. Offering its members opportunities to network, learn best practices in Lean Processes, Workforce, Workers' Compensation, Controlling Health Care Costs, Employee Drug Testing, Environmental Issues and Leadership ABI works, "To foster a favorable business, economic, governmental and social climate within the State of Iowa so that our citizens have the opportunity to enjoy the highest possible quality of life."

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