



Revenue Rulings

RR 59-60

Upon its issuance by the IRS, Revenue Ruling 59-60 (issued in 1959) main purpose was to issue guidance in valuing closely held stock. The ruling is quoted more often than any other ruling. Due to its wide acceptance, it is also used to value partnerships, limited liability companies, and sole proprietorships. It provides guidance on topics such as approaches, methods, and factors that need to be considered for an appraisal. It must be stated at this time, that RR 59-60 applies only to those appraisals whose purpose is to determine the fair market value.

Fair market value is defined in RR 59-60 as the price at which the property would change hands between a willing buyer and a willing seller when the buyer is not under any compulsion to buy and the seller is not under any compulsion to sell, with both parties having reasonable knowledge of the relevant facts. In addition to the definition, court decisions frequently have stated, that the hypothetical buyer and seller are assumed to be able, as well as willing, to trade and to be well informed about the property and the market for the business.

RR 59-60 and fair market value do not need to be used or followed in every appraisal. The **function** of the appraisal will dictate which standard of value will be used. This in turn will determine which, if any, revenue ruling will need to be addressed.

There are eight (8) key factors that should be considered in an appraisal of fair market value. The following factors are not all-inclusive:

- 1.) Nature of the business and the history of the business from its inception.
- 2.) The economic outlook in general, and the condition and outlook of the industry that is specific to the business.
- 3.) The book value of the stock of the business and its financial condition.
- 4.) The earnings capacity of the business (this is not the same as dividend paying capacity).
- 5.) The dividend paying capacity of the business.
- 6.) Whether or not the business has goodwill or other intangible value.
- 7.) Consider any sale of the stock and the size of the block of stock to be valued.
- 8.) The market price of stocks of businesses that are in the same or a similar line of business and have their stock actively traded in a free and open market, either on an exchange or over-the-counter.

RR 59-60 is the foundation that guides business valuations for Fair Market Values, which is the value associated with estates and ESOPs. Future issues will discuss each section or sections of RR 59-60 and the different standards of values.

This is a monthly business appraisal educational piece. The purpose for the educational series is to introduce, educate, and serve as a source of information. The information contained is current with federal laws and regulations at time of printing. Such information is subject to change. This should not be used as evidence or fact in a court of law.