



## Basic Business Appraisal

What is a business appraisal (or valuation, as they are synonymous)? A business appraisal is the process of determining the value of a business, business ownership interest, security, or intangible assets. What a business appraisal is not, is a specific and exact value. It is an opinion that must be supportable through facts, knowledge, and experience.

Professional appraisal organizations, such as the Institute of Business Appraisers (IBA), provide guidance and standards for business appraisals. IBA standards meet or exceed the standards set by Uniform Standards of Professional Appraisal Practice (USPAP).

In addition to appraisal standards, appraisals must meet IRS Revenue Rulings that are specific to the business appraisal that is being performed. Six (6) of the most common revenue rulings that pertain to business appraisals are as follows:

- 1.) RR 59-60 it is considered the main ruling as it contains eight (8) key factors that must be in an appraisal to meet IRS regulations. These eight (8) key factors will be covered in future issues.
- 2.) RR 65-193 it eliminates the wording from RR 59-60 that requires a separate appraisal for tangible and intangible assets.
- 3.) RR 68-609 explains the Excess Earnings Method. The Excess Earnings Method is sometimes called the IRS Method since they apply the method to intangible assets. The Excess Earnings Method is not meant to be applied to tangible assets, only intangible assets. This ruling came about in 1968 as a restatement of ARM 34.
- 4.) RR 77-287 provides guidance as to how restricted stock should be valued and determining the discount for lack of marketability.
- 5.) RR 83-120 refers to the valuation of preferred stocks.
- 6.) RR 93-12 refers to family partnerships, specifically the family ownership interests separately.

Every business appraisal is independent of the appraiser and prior appraisals performed. Depending on the appraisal, a business can have many different values or standards of values (purpose) at a specific period of time. The standard of value (purpose) that is determined is based in part on what function the appraisal will serve. Such examples of function include but are not limited to estate settlements, divorce settlements, and ESOPs.

This is the basics of business appraisal. Future issues will address standards of value, functions of appraisals, and specific subjects such as capitalization rates, ESOPs, discount rates, etc.

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