



## Standards of Value

### Fair Market Value

Fair market value! What is it and what is it good for?

Fair market value is the value that the IRS requires when the issue of taxes, such as estate, gift, income taxes, and ESOP comes into play. You may recall from an earlier piece that RR 59-60 provides guidance on what measures should be taken to determine fair market value. Before our discussion continues, we must define fair market value.

Definition of Fair market value according to RR 59-60;

The price at which the business would change hands between a willing buyer and a willing seller when the buyer is not under compulsion to purchase and the seller is not under compulsion to sell, both parties having reasonable knowledge of the facts. In addition to this definition, courts have frequently stated that the hypothetical buyer and seller are assumed to be able to, as well as willing, to trade and to be well informed about the business and the market for such business.

Definition according to the International Glossary of Business Valuation Terms;

The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.

I have included the definition from the International Glossary of Business Valuation Terms because even though the definition from RR 59-60 does not state “expressed in terms of cash equivalents” and “open and unrestricted market”, it is implied in RR 59-60. Either definition is acceptable. The main components of these definitions are:

- 1.) Cash or equivalent
- 2.) For sale on an open market
- 3.) Both buyer and seller must be willing
- 4.) Neither party is under compulsion to act
- 5.) Be well informed of the business and market

I leave you with this thought. A business can have many different values at any given point in time. Even though we estimate the fair market value, the business also has market value, fair value, investment value, intrinsic value, etc.

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