



Standards of Value

Purpose and Function

You can not discuss standards of value without discussing “Purpose” and “Function”. Purpose and function are defined as follows:

Purpose – type of value, also considered the standard of value.

Function – reason for the appraisal, how will it be used.

I have provided a couple of examples to help illustrate purpose and function.

Kermit Frog passed away, leaving a large privately owned lily pad manufacturing company. We have been contacted to do an appraisal so the estate can be closed (function). Federal estate appraisals require a fair market value (purpose).

Ms. Piggy is considering the purchase of Troughs Unlimited, a C corporation. She has contracted us to perform an appraisal to determine the value based on her investment criteria (function). This will determine the investment value (purpose) of the business.

Ms. Piggy and Madam Butterfly each own 50% of Pigs Eye Delicatessen. They would like to form a buy/sell agreement, using life insurance as the funding vehicle (function). They need to determine the insurable value (purpose) of Pigs Eye Delicatessen.

I think you get the picture. Without stating the use (function) of the appraisal, the standard of value (purpose) can not be determined.

I have listed some of the most common uses (function) and standards of values (purpose).

<u>Function (Use)</u>	<u>Purpose (Standard of Value)</u>
Federal estate and gift taxes and ESOPs	Fair Market Value (RR 59-60)
Sale of an interest to support a merger	Market Value (highest value in open market)
Dissenting & oppressed stockholders	Fair Value (varies state to state, case law)
Purchase of a business for investment	Investment Value (specific to an individual)
Purchase a business for its synergies	Intrinsic or Fundamental Value
Marital dissolutions (divorce)	No standard, refer to case law

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