

3 Things Every Accountant / CPA Should Know About Business Valuations



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There are going to be many times throughout your career when you run across the opportunity to work with one of your clients or a prospective client regarding the value of their business.

Business valuations can create an opportunity not only to be the consummate advisor to your clients, but also to make a decent income for a limited amount of work.

However, there are a few things you need to know to answer a few basic questions for your clients to ensure that trust needed so the client feels comfortable with your expertise.

Patton & Associates, LLC will be your partner for business valuations, prepare the valuation, deliver it to the client, and you make nearly \$800 to \$1200 for a few hours of work.

Now the three things you should know:

1. Clients Getting a Divorce

Any time a client gets a divorce and owns a business, a valuation usually needs to be prepared to split the marital assets. Often times, the owner of the business takes a salary that is not the equivalent of what the IRS would deem acceptable or what is known as "comparable compensation."

For example, a recent case I was called as an expert witness for a couple getting a divorce. The owner's revenues were \$300,000 in a service business. The owner paid themselves only \$30,000 and the profits were \$80,000. The spouse said the business was worth 4 times the profits = **\$320,000**.

On closer look, the Owner's comparable compensation in national databases should be \$80,000 and profits \$30,000. This means the business at 4 times profits is **\$120,000**. As you can see, the 50/50 split makes a large difference just on the simple concept of comparable compensation.

We use national databases to figure the comparable compensation for your business valuation engagements.



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2. Methods of Valuations

Many people think there is a rule of thumb for business valuations. This means a business is worth maybe three to five times the profits of a business or one times revenues, etc.

There are actually **eight different methods** that are widely accepted to create a business valuation. When speaking with your clients, make sure they do not just think their business is worth some "rule of thumb."



In fact, along with liquidation value, and net worth, there are also, discounted future cash flows, capitalized earnings, market approach of like transactions, as well as many others.

These methods taken together will give an owner a better picture of a business and a defensible position in the court of law.

3. Gifting Of Shares In Estate Planning

The last item you should know in your business regarding valuations has to do with estate planning. An often overlooked tax planning idea is the gifting of shares of an owner's business to his or her heirs.



We often do not approach our clients with this opportunity as we see it as difficult to understand. It is actually quite simple. Taking the above business valuation methods, there are **additional discounts** an Owner can take when gifting part of their company.

If an owner passes away *with* the ownership of a business, the heir does not get any discounts when valuing their interest in the business.

However, if the Owner gives a *minority interest* in the business they own while they are alive, **an additional discount of nearly 20% can be taken** when gifting shares to their heirs.

This can not only *save the estate in probate fees and state inheritance taxes* which may start at a low level of worth, but also estate taxes when the estate becomes larger than the exemption currently allowed.

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Knowing these three basic items can position you as a trusted resource to your clients. Along with this basic knowledge our firm can help you serve your clients in all their valuation needs, whether basic or complex.

Look In Your Inbox For Your Free Quick-Start, 8-Step Business Valuation Training Program

To help you further you will also receive our free **Quick Start 8-Step Business Valuation Training Program** via email over the next 3 weeks. Each step contains a brief Audio Training Program you can listen to online. Just look in your email inbox for it.

Plus you can always visit www.PattonValuations.com to see how we can help you, see what others have said, and actual samples of valuations we have prepared for other CPA's.

We prepare about 8 to 10 valuations per month for firms just like yours as well as valuing firms for a no-load mutual fund for possible investment for the Fund.

We pay you to help us fill out the input sheets.

We will **never solicit your clients** or call them for information without first discussing the question with you.

If you have any questions, please feel free to call us at any time at **800-800-1776**.

Sincerely,

Troy C. Patton, CPA/ABV
Accredited in Business Valuation

Tony Patrick, MBA/AVA
Accredited Valuation Analyst



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