BUSINESS INSURANCE

The hidden cost of waiting to value your business

If you are like most business owners, your company is your largest asset. While you spend time running and growing the business, you may have never had time to value it or contemplate reasons for doing so.

Just as mountain climbers prepare for both the climb and the descent, a business owner should consider business succession planning in conjunction with building his or her business. Focusing solely on building the business can lead to excess taxes, the lack of an available buyer, a sale for less than fair market value or even forced liquidation. So, where do you begin?

Ensuring the most accurate value

If you plan to sell your business during your lifetime, you likely want to transfer it for the greatest value. Unless you understand its worth, you might accept far less. Conversely, if the payment made to you exceeds the value of the business interest transferred, the purchaser may owe gift taxes on the excess amount. A realistic business valuation will help justify the price to the purchaser, perhaps expediting the sale.

Determining value is a prerequisite to establishing a stock redemption or cross buy-sell arrangement. You may owe capital gains tax on the excess of funds received over basis, so a proper valuation is important to any tax planning. And when non-related owners of a closely-held business have negotiated the value of the business for these purposes, federal and state tax authorities are more likely to accept the valuation for estate and inheritance tax purposes.

Transferring through lifetime gifts

Even if you plan to transfer your business through lifetime gifts, having a business valuation is still important. If you are interested in using the individual annual gift tax exclusion amount to transfer part of the business to others, having an underlying business value will help account for the percent of the business being transferred. If the transfer is being made to a family member through a gift or sale, proper valuations are especially critical and may be carefully scrutinized by the IRS as potentially disguised gifts (either to or from the buyer and the seller).

Transferring after your death

If you plan to transfer your business at death, having a business valuation is important for other reasons:

- If you wish to equalize the division of your estate between your children or others, but not everyone will receive an interest in the business, the business value is essential to the calculation.
- If the business interest is being purchased from your estate by the business itself, other co-owners or third parties, a valuation is again required.
- If a business valuation has not been completed by the time of the owner's death, the IRS may request one be completed. If done at the time of the owner's death, important documents and information could be outdated or even lost. This could result in a flawed valuation process potentially resulting in greater federal and/or state tax liability.

In short, no matter what stage of life you are in when you transfer your business, and regardless of whether you wish to transfer it through a sale or gift, knowing its value may be critical to maximizing your various personal and business objectives.

Can this wait?

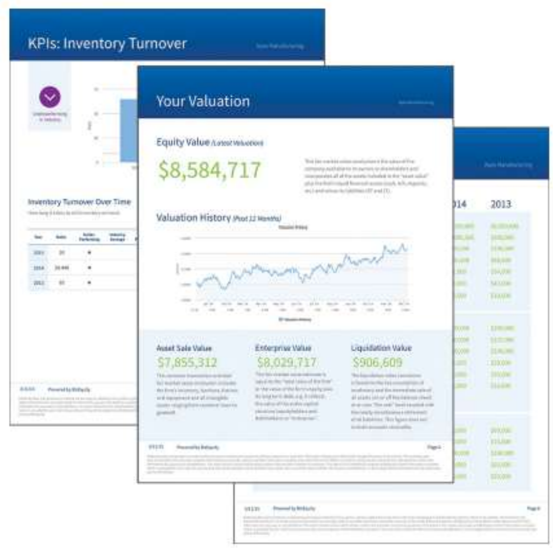
Business owners often juggle many important tasks. The most successful ones resist the temptation to "put out fires" or always deal first with the "urgent" matter at hand. Instead, they understand the importance of prioritizing significant steps or events that are likely to make a big impact on their business objectives. They focus first on what is truly important to achieving their ultimate goals and execute their business plan accordingly.

When prioritizing the importance of obtaining a business valuation now or later, keep in mind the perhaps unforeseen consequences of not having a valuation at a time when:

- important people or documents cannot be located,
- the business may be under time or financial pressure to liquidate, or
- there is no time left to plan for potential IRS scrutiny of any sale or giving plan.

How do I obtain a business valuation?

Appraisers, CPAs, lawyers, and companies specializing in business valuations might offer to estimate the value of your business using any number of valuation methods. These valuations might range in cost from a few hundred dollars to several thousand dollars, depending on the individual or company offering the valuation and the type of product delivered, among other things. Before embarking on that step, you may want to receive a rough approximation of your company's value that uses your business tax returns and balance sheets as the primary tools for valuation. This service is available through your financial professional. If you are unsure whether you need a more comprehensive valuation or whether obtaining one is worth the cost, you might start with this product, since its findings or conclusions may help in your decision-making process.



AuguStar Life Insurance Company
One Financial Way | Cincinnati, Ohio 45242
513.794.6100 | augustarfinancial.com

AuguStar Financial
A universe of possibilities