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Consider Stock Transactions When Performing Business Valuations

[BUSINESS ADVISORS](#), [BUSINESS VALUATION](#)

BY [DAN RISKE](#)

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Business valuations performed for gift or estate tax purposes utilize the fair market value (“FMV”) standard of value. That is, the value of the business that “would change hands between a willing buyer and willing seller, neither being under any compulsion to buy or to sell and each having reasonable knowledge of all relevant facts” must be determined. A pending or recent transaction of the stock of a business would normally provide a relevant indication of the FMV relative to an estate/gift tax valuation of the business.

However, it is important to be careful when considering these transactions in a fair market value analysis. For example, the transaction could be between related parties at a steep discount or premium (for numerous reasons), the transaction may exclude subsidiaries that are subject to the valuation (or include subsidiaries that are not subject to the valuation), or it could be unlikely that a pending transaction will eventually close. It is important to discuss the terms of any potential or recent transactions with the company’s owners. Letters of intent, purchase agreements and/or buy-sell agreements for the company should be reviewed. If multiple similar purchase offers were received, it is more likely that the purchase price could indicate FMV. On the other hand, if only one buyer/offer was entertained without any additional interest from the market, it is possible that FMV could vary from the transaction price.

It is always important to inquire with management about any pending or recent transactions in the company’s ownership when performing a valuation. Depending on various factors, these transactions can often provide a very important data point in determining the FMV of a company for gift and estate tax valuations.

Schneider Downs has extensive experience performing business valuation engagements for a wide range of purposes. For more information about [Schneider Downs’ business valuation](#) and other business advisory services, please contact Joel Rosenthal at 412.697.5387 or jrosenthal@sdcpa.com or Steve Thimons at 412.697.5281 or sthimons@sdcpa.com.

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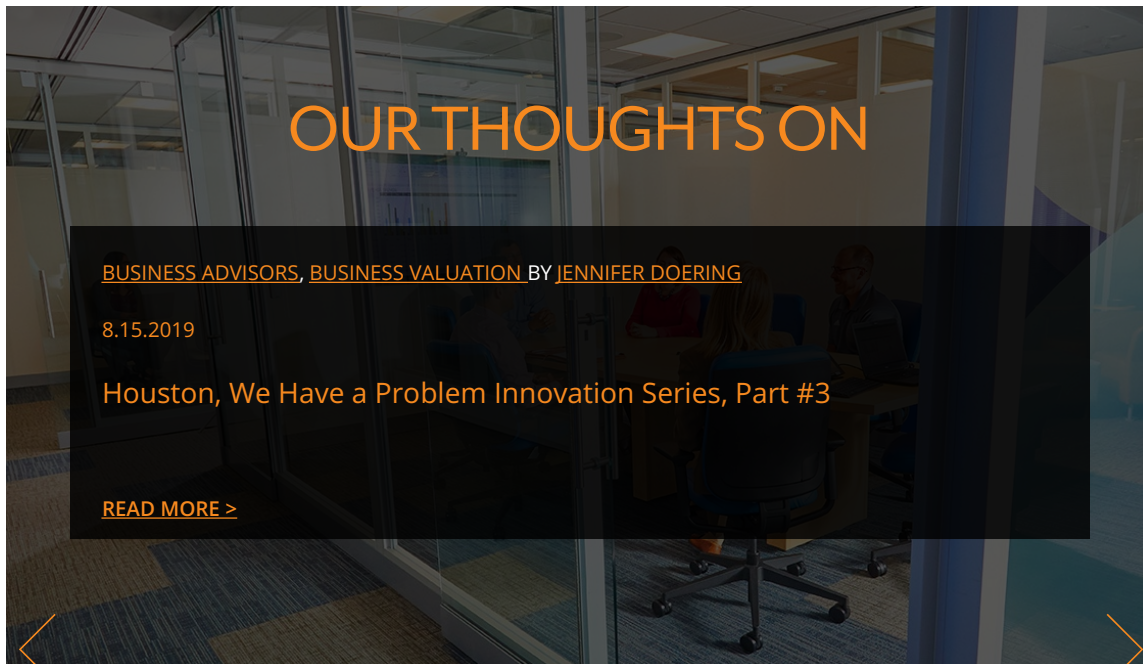


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PITTSBURGH

One PPG Place, Suite 1700
Pittsburgh, PA 15222

contactsd@schneiderdowns.com
p:412.261.3644 f:412.261.4876



COLUMBUS

65 East State Street, Suite 2000
Columbus, OH 43215

contactsd@schneiderdowns.com
p:614.621.4060 f:614.621.4062



WASHINGTON, D.C.

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