

# The importance of valuing and re-valuing your business

As a business owner, you probably know everything about how your company works. But maybe not what it's worth. If so, that might create problems in the eventual sale or transfer of your business, especially if the sale or transfer is sudden.

Proper valuation of your business helps you better protect your interests and the welfare of your family and heirs; it also eases the transition. By taking the guess work out of the valuation process you can avoid disagreements between the different parties.

Subsequently, valuation may help you in planning and saving taxes. Since valuation helps the IRS determine estate taxes and the tax basis for any future sale, with proper planning you may be able to put financial strategies in place that may save you money in the long run.

Now, even if a sale or retirement is years away, understanding what your company is worth today can have multiple pay-offs; it's information that can help you secure financing or make decisions on whether to expand or stay the course. Valuation serves as an important management tool that can give you insights on how to reposition your business to enhance its marketability.

So how do you determine the value of your business? There are generally three approaches used to calculate a business valuation. The asset-based approach is balance sheet-focused using the difference between a company's assets and liabilities to determine its value. The second is the market approach which values the business, based on pricing multiples derived from the sale of comparable companies. And finally there's the income approach, which establishes a figure from capitalizing or discounting the company's projected economic benefit stream.

Remember that as your business changes so might your valuation, so be sure to keep it up-to-date. The best way to do that is to make it a standard part of your annual financial review. For instance, you can make it a habit to have your valuation reviewed by a specialist each year right before you meet with your agent to review your insurance policy. That will also help you ensure that you maintain just the right amount of insurance coverage for your business.

Valuation is a simple idea but one that's complex to execute. Certified financial experts who specialize in valuations are uniquely qualified to determine which valuation methods will deliver an accurate assessment for a given industry. They take the emotion out of the calculation but instill peace of mind.

Business owners have many complicated issues that they need to navigate day in and day out. The sooner you address the needs of your business, the better off you'll be.

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