

What's Your Business Worth?

By Dominic Garcia

As an advisor, it is increasingly important to be able to understand the value of a client's business. This sets the foundation for retirement planning, insurance planning, funding opportunities, and succession planning. For many successful entrepreneurs, their business is their most valuable and prized asset. If you leave it out of the planning process or utilize an inaccurate estimate, such omission begins to affect many of the recommended strategies leading up to retirement. It will also help to ensure that the business, its employees, and your family are protected during its years of operation.

Understanding the value of your business and the expected growth of your net worth will allow your advisor to incorporate proper tax, estate, and financial planning techniques today, as opposed to waiting for the inevitable and missing out on years of optimizing your plan. For example, let's say you are not currently concerned about the estate tax exemption since your net worth is below \$12.92 million (2023 limit). Perhaps you have \$3 million between investments and real estate, and your business is worth \$5 million; you are sitting at \$8 million in net worth. If we assume average growth over the next 10 years, a conservative estimate may eventually put your net worth near \$14-18 million. It is also important to remember that the estate tax exemption will be cut in half in 2026. These factors could leave you with over \$10 million that may be taxed at 40% upon your passing.

In addition, a detailed valuation can help you better determine the business' potential as it compares your position among industry peers. Business valuation software could provide the basis to increase your sale price or even analyze the right amount to pay if you are looking to purchase another company. BizEquity noted that 82% of all business owners who knew their business value at least 18 months prior to its sale, increased the sale price by at least 14%. The worst time to find out the valuation is at the negotiation table.

We have found that many owners of privately held businesses struggle to understand how much their business is worth. In fact, a recent study by IBIS World found that 98% of small business owners don't know the value of their business. By offering a complimentary business valuation service, our goal is to help answer the questions of how much insurance you should carry, when is the best time to sell, and what are the best strategies to plan for retirement. Please reach out to learn more: 248-434-6550.



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