

IGNORANCE ISN'T BLISS: PROFESSIONAL BUSINESS VALUATIONS

Consider this scenario: A traveler wakes up in a foreign place with three items—the clothes on their back, a map in a language they can't interpret, and 10 coins. As they begin walking down what they think is a path, a person approaches and says, "I can help you read this map and find where you're going in exchange for one coin."

The traveler laughs, saying, "You want how much? That's preposterous," and continues down the path. As hunger and thirst set in, the path ends at an impassable ocean. The only option the traveler has is to turn back, but the traveler isn't sure they have the strength to turn back and start over.

This scenario is similar to a common scenario business owners face when they balk at the cost of getting an accurate and professional valuation of their businesses.

What Determining Business Value Costs

Generally, a professional business valuation can cost between a few thousand dollars and \$20,000 or more. While that may seem like a lot of money, in the grand scheme of

things, it's more likely to be a small investment toward future success.

Determining business value isn't a gut feeling. It requires understanding many variable elements about your business, the context your business exists in, and whether the business can function without you.

A professional valuation can clarify these elements by showing you why your business has the value it has. It will consider things like the strength of management, profitability, the clarity of processes, and the scalability of operations, among other internal elements. It will examine external elements, such as where the business is located, the state of the industry the business operates in, and whether buyers are interested in the kind of company you run at all.

And yet, many business owners predict that they can tell you what their businesses are worth without considering these elements.

What You Get for the Money

A professional valuation goes beyond simply providing a number. It often tells you why your business is worth what it's worth, which can set you down a clearer path for future success.

The process that professional valuers use to determine value can provide clues about where your business' strengths lie and how to leverage them, and where your business' weaknesses are and how to strengthen them. Like a clear map, once you know where you are, it becomes much easier to determine where you need to go.

Professional valuations are much more objective and evidence based than guesses, gut feelings, and wishful thinking. This can help you avoid straying toward a path that may look attractive but is actually a dead end.

What Inaccurate Valuations Could Cost

The problem with business owners trying to determine business value on their own is multifaceted. But the biggest obstacle that self-valuation produces is that it can set you off course so early in the process that it's hard to get back on track once you go too far.

For example, it may be tempting to say, "My business has produced \$3 million of profit over the past several years, so it's probably worth around \$3 million dollars." So, you begin creating a plan around that assumption.

However, profitability may be a direct function of you running the

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business. In that case, if you leave the business, it could have a negative effect on its profitability, which will then affect business value. If the plan you followed didn't consider this element (and experience shows that this is a common blind spot for owners), it could send you so far off course that you need to start all the way over.

In addition to the functional challenges of determining business value on your own, there's also the factor of bias.

You likely have an emotional investment in your business, which can cloud your judgment. It's not uncommon for business owners to overvalue their businesses simply because it's their business, which can set them down a path that diverges from their goals.

A business valuation can also require change, which can be difficult for business owners to accept if their business has been seemingly humming along well for years. Fortunately, professional valuations tend to be more descriptive than prescriptive. This means there may be several different ways to use the information to reach your goal. The key is having the right kind of information to pursue a path, rather than simply pursuing a path because it's there.

Cost vs. Value

The upfront cost of a professional valuation may seem high. In our opening scenario, the cost of a clear path for the traveler was 10% of everything they had.

But the long-term value of a professional valuation could lead you down a clearer path toward exiting

your business on your terms. As a successful business owner, the cost of a valuation may likely be noticeably less than 10% of everything you have (especially because not all businesses need the most expensive kinds of valuations). And the accurate information it can provide could position you to strengthen the business you've built for years while preparing for an eventual exit on your terms.

We strive to help business owners identify and prioritize their objectives with respect to their businesses, their employees, and their families. If you have questions on this topic, we can help with more information or a referral to another experienced professional.

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KEY FINANCIAL DATA 2024

2024 Tax Rate Schedule				
Taxable income (\$)	Base amount of tax (\$)	Plus	Marginal tax rate	Of the amount over (\$)
Single				
0 to 11,600		+	10.0	
11,601 to 47,150	1,160.00	+	12.0	11,600.00
47,151 to 100,525	5,426.00	+	22.0	47,150.00
100,526 to 191,950	17,168.50	+	24.0	100,525.00
191,951 to 243,725	39,110.50	+	32.0	191,950.00
243,726 to 609,350	55,678.50	+	35.0	243,725.00
Over 609,350	183,647.25	+	37.0	609,350.00
Married filing jointly and surviving spouses				
0 to 23,200		+	10.0	
23,201 to 94,300	2,320.00	+	12.0	23,200.00
94,301 to 201,050	10,852.00	+	22.0	94,300.00
201,051 to 383,900	34,337.00	+	24.0	201,050.00
383,901 to 487,450	78,221.00	+	32.0	383,900.00
487,451 to 731,200	111,357.00	+	35.0	487,450.00
Over 731,200	196,669.50	+	37.0	731,200.00
Head of household				
0 to 16,550		+	10.0	
16,551 to 63,100	1,655.00	+	12.0	16,550.00
63,101 to 100,500	7,241.00	+	22.0	63,100.00
100,501 to 191,950	15,469.00	+	24.0	100,500.00
191,951 to 243,700	37,417.00	+	32.0	191,950.00
243,701 to 609,350	53,977.00	+	35.0	243,700.00
Over 609,350	181,954.50	+	37.0	609,350.00
Married filing separately				
0 to 11,600		+	10.0	
11,601 to 47,150	1,160.00	+	12.0	11,600.00
47,151 to 100,525	5,426.00	+	22.0	47,150.00
100,526 to 191,950	17,168.50	+	24.0	100,525.00
191,951 to 243,725	39,110.50	+	32.0	191,950.00
243,726 to 365,600	55,678.50	+	35.0	243,725.00
Over 365,600	98,334.75	+	37.0	365,600.00
Estates and trusts				
0 to 3,100		+	10.0	
3,101 to 11,150	310.00	+	24.0	3,100.00
11,151 to 15,200	2,242.00	+	35.0	11,150.00
Over 15,200	3,659.50	+	37.0	15,200.00

Standard Deductions & Child Tax Credit	
Filing Status	Standard deduction
Married, filing jointly and qualifying widow(er)s	\$29,200
Single or married, filing separately	\$14,600
Head of household	\$21,900
Dependent filing own tax return	\$1,300*
Additional deductions for non-itemizers	
Blind or over 65	Add \$1,550
Blind or over 65, unmarried & not a surviving spouse	Add \$1,950
Child Tax Credit	
Credit per child under 17	\$2,000 (\$1,700 refundable)
Income phaseouts begin at AGI of:	\$400,000 joint, \$200,000 all other
Tax Rates on Long-Term Capital Gains and Qualified Dividends	
If taxable income falls below \$47,025 (single/married-filing separately), \$94,050 (joint), \$63,000 (head of household), \$3,150 (estates)	0%
If taxable income falls at or above \$47,025 (single/married-filing separately), \$94,050 (joint), \$63,000 (head of household), \$3,150 (estates)	15%
If income falls at or above \$518,900 (single), \$291,850 (married-filing separately), \$583,750 (joint), \$551,350 (head of household), \$15,450 (estates)	20%
3.8% Tax on Lesser of Net Investment Income or Excess of MAGI Over	
Married, filing jointly	\$250,000
Single	\$200,000
Married, filing separately	\$125,000
Exemption Amounts for Alternative Minimum Tax**	
Married, filing jointly or surviving spouses	\$133,300
Single	\$85,700
Married, filing separately	\$66,650
Estates and trusts	\$29,900
28% tax rate applies to income over:	
Married, filing separately	\$116,300
All others	\$232,600
Exemption amounts phase out at:	
Married, filing jointly or surviving spouses	\$1,218,700
Single and married, filing separately	\$609,350
Estates and trusts	\$99,700

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Gift and Estate Tax Exclusions and Credits	
Maximum estate, gift & GST rates	40%
Estate, gift & GST exclusions	\$13,610,000
Gift tax annual exclusion	\$18,000
Exclusion on gifts to non-citizen spouse	\$185,000

Education Credits, Deductions, and Distributions		
Credit/Deduction/Account	Maximum credit/deduction/distribution	Income phaseouts begin at AGI of:
American Opportunity Tax Credit/Hope	\$2,500 credit	\$160,000 joint \$80,000 all others
Lifetime learning credit	\$2,000 credit	\$160,000 joint \$80,000 all others
Savings bond interest tax-free if used for education	Deduction limited to amount of qualified expenses	\$145,200 joint \$96,800 all others
Coverdell	\$2,000 maximum; not deductible	\$190,000 joint \$95,000 all others
529 plan (K-12)	\$10,000 distribution	None
529 plan (Higher Ed.) †	Distribution limited to amount of qualified expenses	None

Tax Deadlines
January 16 – 4th installment of the previous year's estimated taxes due
April 15 – Tax filing deadline, or request extension to Oct. 15. 1st installment of 2024 taxes due. Last day to file amended return for 2020. Last day to contribute to: Roth or traditional IRA for 2023; HSA for 2023; Keogh or SEP for 2023 (unless tax filing deadline has been extended).
June 17 – 2nd installment of estimated taxes due
September 16 – 3rd installment of estimated taxes due
October 15 – Tax returns due for those who requested an extension. Last day to contribute to SEP or Keogh for 2023 if extension was filed.
December 31 – Last day to: 1) pay expenses for itemized deductions; 2) complete transactions for capital gains or losses; 3) establish a Keogh plan for 2024; 4) establish and fund a solo 401(k) for 2023; 5) complete 2024 contributions to employer-sponsored 401(k) plans; 6) correct excess contributions to IRAs and qualified plans to avoid penalty.

* Greater of \$1,300 or \$450 plus the individual's earned income.
 ** Indexed for inflation and scheduled to sunset at the end of 2025.
 † \$10,000 lifetime 529 distribution can be applied to student loan debt.

Retirement Plan Contribution Limits	
Annual compensation used to determine contribution for most plans	\$345,000
Defined-contribution plans, basic limit	\$69,000
Defined-benefit plans, basic limit	\$275,000
401(k), 403(b), 457(b), Roth 401(k) plans elective deferrals	\$23,000
Catch-up provision for individuals 50 and over, 401(k), 403(b), 457(b), Roth 401(k) plans	\$7,500
SIMPLE plans, elective deferral limit	\$16,000
SIMPLE plans, catch-up contribution for individuals 50 and over	\$3,500

Individual Retirement Accounts			
IRA type	Contribution limit	Catch-up at 50+	Income limits
Traditional non-deductible	\$7,000	\$1,000	None
Traditional deductible	\$7,000	\$1,000	If covered by a plan: \$123,000 - \$143,000 joint \$77,000 - \$87,000 single, HOH 0 - \$10,000 married filing separately If one spouse is covered by a plan: \$230,000 - \$240,000 joint
Roth	\$7,000	\$1,000	\$230,000 - \$240,000 joint \$146,000 - \$161,000 single & HOH 0 - \$10,000 married filing separately
Roth conversion			No income limit

Health Savings Accounts			
Annual limit	Maximum deductible contribution	Expense limits (deductibles and co-pays)	Minimum annual deductible
Individuals	\$4,150	\$8,050	\$1,600
Families	\$8,300	\$16,100	\$3,200
Catch-up for 55 and older	\$1,000		

Deductibility of Long-Term Care Premiums on Qualified Policies	
Attained age before close of tax year	Amount of LTC premiums that qualify as medical expenses in 2024
40 or less	\$470
41 to 50	\$880
51 to 60	\$1,760
61 to 70	\$4,710

Medicare Deductibles	
Part B deductible	\$240.00
Part A (inpatient services) deductible for first 60 days of hospitalization	\$1,632.00
Part A deductible for days 61-90 of hospitalization	\$408.00/day
Part A deductible for more than 90 days of hospitalization	\$816.00/day

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Social Security		
Benefits		
Estimated maximum monthly benefit if turning full retirement age (66) in 2024	\$3,822	
Retirement earnings exempt amounts	\$22,320 under FRA \$59,520 during year reach FRA No limit after FRA	
Tax on Social Security benefits: income brackets		
Filing status	Provisional income*	Amount of Social Security subject to tax
Married filing jointly	Under \$32,000 \$32,000-\$44,000 Over \$44,000	0 up to 50% up to 85%
Single, head of household, qualifying widow(er), married filing separately and living apart from spouse	Under \$25,000 \$25,000-\$34,000 Over \$34,000	0 up to 50% up to 85%
Married filing separately and living with spouse	Over 0	up to 85%
Tax (FICA)		
SS tax paid on income up to \$168,600	% withheld	Maximum tax payable
Employer pays	6.2%	\$10,453.20
Employee pays	6.2%	\$10,453.20
Self-employed pays	12.4%	\$20,906.40
Medicare tax		
Employer pays	1.45%	varies per income
Employee pays	1.45% plus 0.9% on income over \$200,000 (single) or \$250,000 (joint)	varies per income
Self-employed pays	2.90% plus 0.9% on income over \$200,000 (single) or \$250,000 (joint)	varies per income

*Provisional income = adjusted gross income (not incl. Social Security) + tax-exempt interest + 50% of Social Security benefit

Medicare Premiums			
2022 MAGI single	2022 MAGI joint	Part B Premium	Part D income adjustment
\$103,000 or less	\$206,000 or less	\$174.70	\$0
103,001-129,000	206,001-258,000	\$244.60	\$12.90
129,001-161,000	258,001-322,000	\$349.40	\$33.30
161,001-193,000	322,001-386,000	\$454.20	\$53.80
193,001-500,000	386,001-750,000	\$559.00	\$74.20
Above 500,000	Above 750,000	\$594.00	\$81.00

Uniform Lifetime Table (partial)			
Age of IRA owner or plan participant	Life expectancy (in years)	Age of IRA owner or plan participant	Life expectancy (in years)
73	26.5	89	12.9
74	25.5	90	12.2
75	24.6	91	11.5
76	23.7	92	10.8
77	22.9	93	10.1
78	22.0	94	9.5
79	21.1	95	8.9
80	20.2	96	8.4
81	19.4	97	7.8
82	18.5	98	7.3
83	17.7	99	6.8
84	16.8	100	6.4
85	16.0	101	6.0
86	15.2	102	5.6
87	14.4	103	5.2
88	13.7	104	4.9

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Sources:

Sources: IRS, Affordable Care Act, Social Security Administration, Centers for Medicare & Medicaid Services, Misc IRS documents.