# Is There More Than One Value to a Business?



The term “value” has many different meanings in the valuation field. The value of the business depends on the standard of value. ‘Standards of value’ are also called ‘Definitions of value’. The ‘Standard of Value’ applicable to a given appraisal will either be implied by the requirements of law or regulation, or by the preferences of the client and agreement of the appraiser. The most widely-known and agreed-upon definition is the Fair Market Value (FMV).

The term ‘fair market value’ is defined as *the price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts*.[1]

The fair market value is used for estate & gift taxes and is almost always used for income tax purposes. Most of the states apply the FMV for marital dissolution purposes. It usually includes a lack of control discount and marketability discount.

The main assumption behind the definition of **Fair Market Value** is that it assumes the value of the business interest is a function of its worth to its **hypothetical willing buyer and seller**. Under willing buyer standards, many adjustments are often appropriate. For example, they may include discounts for minority interests and lack of marketability, increases to value for control interests, adjustments for reasonable compensation of owner-employees, etc.

However, other states use different standards of value for divorce purposes. For example, the Virginia Court of Appeals identified the value for equitable distribution purposes as measuring its actual worth to the **marital community**.[2] It is called the “**Intrinsic Value**”, which is the value to the current owner of the business, recognizing that the owner will not be selling. Thus, there is no hypothetical buyer. Therefore, any discounts applicable to third party valuations are **disregarded** under this standard of value, which is why the Intrinsic Value generally leads to a **higher** value than FMV.

This is a fundamental difference between Fair Market Value and Intrinsic Value. A business or professional practice may have value under the Intrinsic Value definition even though the Fair Market Value might be zero (in the extreme case) if the business is not sellable.

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[1] International Glossary of Business Valuation Terms. IRS Treasury Regulations, Estate Tax Regulations 20.2031-1 and Gift Tax Regulations 25.2512-1 define the term similarly.

[2] See Owens v. Owens, 589 S.E.2d 488 (Va. App. 2003), Howell v. Howell, 523 S.E.2d 514 (Va. App. 2000), Bosserman v. Bosserman, 384 S.E.2d 104 (Va. App. 1989). )