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CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

Case Study

Professional Independence and Business Valuations

Topics discussed in this paper include

Restructure

CGT

Independence

A discussion with the ATO helped one Accountant elect to engage an independent business valuer. The Accountant was in the process of restructuring a clients business and determined the business held no goodwill. While his assessment was correct, an independent valuation was sought to allay any possible future issues with the ATO.

Background

John Blue, a Chartered Accountant, was undertaking a transfer of a client's business enterprise from a partnership to a trust structure. The business was a civil construction company which had been operating for three years. It was run by two business partners and their respective wives. The business did not have any employees although it did engage several sub-contractors from time-to-time.

John was aware the restructure would trigger a CGT event and had discussed this with his clients; however he assured them that it would have a minimal impact as the business value lay entirely in the value of the plant & equipment. As it was a small business with no employees and was heavily reliant on the partners, he did not believe the business held any goodwill. He composed a file note to this effect.

Situation Analysis

During the registration of the new trust for GST, the ATO called John to clarify a point. During the conversation, John mentioned that the business enterprise was already established and was simply restructuring to a trust. He advised the ATO the business had no goodwill and explained how he came to this determination.

The ATO officer advised John that his valuation of the firm's goodwill would not be acceptable. Whilst his approach and methodology applied to achieve a valuation may well be correct, it would not be considered independent in the instance of an ATO investigation.

John realised an independently compiled valuation report would be helpful in safeguarding his client's interests.

Outcome

Although commissioning a separate valuation report seemed an unnecessary expense at the time, both John and his client realised the real value was in the independent opinion the report provided. For a small investment they had secured peace of mind.

**An independent business valuation compiled by a professional can help.
Contact **BIZVAL** to learn more and order your expert
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