

Davis & Company, CPA's, CVA's

Intangible Value

Intangible value is the value of the business above and beyond the value of the tangible assets. Tangible assets are the assets such as cash, accounts receivable, inventory and equipment that are physically present in the business. Intangible assets then represent the assets that are unseen.

When the fair market value of the business exceeds the value of the tangible assets, the difference is often incorrectly termed goodwill instead of intangible value. Historically, has been understandable since most buyers and sellers in actual transactions were usually not that concerned with the identifying the value of the separate intangible components since current tax laws provide that all intangible assets be amortized over fifteen years. However, the introduction of two recent accounting pronouncements has made identifying the components of intangible value more critical. Furthermore, several Ohio court cases suggest identifying the amount of professional goodwill could modify the outcome of the court's decision.

Intangible assets can take several forms. Intangible assets can be separate and identifiable such as patents, trademarks, and copyrights and other types of arrangements or contracts that can directly relate to value. Intangible assets can also exist in the form of going concern value and goodwill value. In some cases, goodwill can then be further sub categorized as professional goodwill or entity goodwill.

Going concern value is the value of a business enterprise that is expected to continue to operate in the future. The intangible elements of going concern value result from facets such as having a trained work force, an operational plant, and the necessary licenses, systems and procedures in place.

Goodwill value is the value attributed to that intangible asset as a result of name, reputation, customer loyalty, location, products, and similar factors not separately identified.

In many litigation cases, identifying the components of intangible value can be critical. In domestic relations matters, the amount of "goodwill" is often challenged on the premise that certain types of goodwill are not subject to marital division. So essentially, the purpose of the valuation engagement may dictate the scope of analysis necessary to identify the components of intangible value.