

Understanding Personal Goodwill Valuations

The Internal Revenue Service defines goodwill as “the value of a trade or business based on expected continued customer patronage due to its name, reputation, or any other factor”¹. Court decisions have recognized a distinction between the goodwill of a business itself and the goodwill attributable to the owners or professionals of a business, also known as personal goodwill.

Personal goodwill is the intangible value that arises from the efforts or reputation of an individual associated with a business, and is owned by the individual, not the business itself. An individual’s personal goodwill is derived from the professional reputation, personal relationships with customers and suppliers, or other distinctly personal abilities that provide economic benefits to a business. Personal goodwill derives value by preventing revenue and profit margin diminution that could result from customer loss, reduced supplier negotiating ability, and increased competition in the marketplace.

When a C-Corporation’s assets are sold, shareholders must recognize gain, which is taxed at the corporate level and, when proceeds are distributed to shareholders, again at the individual level, resulting in double taxation. However, proceeds that can be allocated to the sale of a personal asset, such as personal goodwill, will only be taxed at the individual/shareholder level, and avoid double taxation.

Houlihan Capital is here to assist should you have any personal goodwill valuation needs. As an independent valuation firm, we pride ourselves in providing senior level, superior quality client service, while being competitively priced at the same time. We have extensive experience in providing objective, independent and defensible opinions of value that meet accounting and regulatory requirements. Houlihan Capital is SOC compliant, a Financial Industry Regulatory Authority (FINRA) and SIPC member, and committed to the highest levels of professional ethics and standards.

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¹ IRS Publication 535: Business Expenses, Ch. 9, Cat. No. 15065Z