

COMAPNY GOODWILL (INSTITUTIONAL) & PERSONAL/PROFESSIONAL GOODWILL

In a business enterprise there are generally two types of goodwill:

- a.) *Company – Institutional Goodwill*; and,
- b.) *Personal/or Professional Goodwill*.

Institutional Goodwill is the intangible value in the nature of goodwill that is associated primarily with the Firm as an institutional entity. *Personal/ Professional Goodwill* is the intangible value in the nature of the goodwill that is associated primarily with the individual professional/owner.

Institutional Goodwill is an intangible asset arising from the brand/trade name, reputation, customer loyalty, location, products/services, and other factors not carried on the enterprise's balance sheet. Goodwill can attach to the enterprise (Institutional Goodwill), or to the owner (Personal/Professional Goodwill) depending on the facts and circumstances of those relationships. The business institution itself will acquire many of the intangible assets such as customer list, software technology, scripts, operating procedures, web site, computer systems, trained and assembled work force, and trade/brand name, etc. These types of intangible assets make up the Firm – or Institutional Goodwill (income tax perspective). These intangible assets can generate value over and above the entity's net asset value, thus producing goodwill value.

While a business generally does own goodwill in fee simple interest, the individual professional owner may have **Personal/Professional Goodwill**. This **Personal/Professional Goodwill** may contribute to the overall income-generating capacity of the Company. A certain portion of the Company's customers may utilize the Company's services because of the Personal /Professional owner's personal reputation. This personal customer following generates earnings for the subject Company. If the professional/owner suddenly left the Company, a large majority of income generated from these customers would likely leave as well, because of their personal loyalty to the professional/owner.

When is Personal/Professional Goodwill Applicable?

Personal Goodwill can be useful in both tax and divorce cases. For example, in an asset sale of a C corporation, allocation of part of the purchase price to personal goodwill may have a favorable tax savings. In a divorce situation, many states consider personal goodwill is not a marital asset.

How Do You Measure Personal Goodwill?

Personal Goodwill is measured through a thorough and detailed analysis of the business and the owner's role and related customer relationships. The total goodwill of the business is determined, and a multi-variable weighting analysis approach is used to allocate the total goodwill of the company between the enterprise (Institutional Goodwill) and the owner (Personal/Professional Goodwill).

How Is It Reported and Supported?

Personal Goodwill allocations should be presented in the Uniform Standards of Professional Appraisal Practice (USPAP) compliant Appraisal Report that details calculation of the total goodwill and full analysis necessary to allocate that goodwill between the business and the owner. A detailed USPAP Appraisal Report will fully support the analysis and Goodwill conclusion of value.

Other Considerations

A common misconception is that Personal Goodwill is not marketable, because it is never transferable. Although the transfer of the Personal Goodwill is more difficult than the transfer of Company goodwill, there are procedures by which the profession can facilitate the transfer of this Personal Goodwill. In order to initiate this transfer, efforts would include, at least, a letter of announcement from the selling professional/owner to the current active customers. This letter would inform the active customers that the buyer is taking over their accounts/and or contracts, and that the buyer has the qualifications and expertise to handle their professional service needs. In this way, the selling professional uses his reputation to transfer Personal Goodwill to the successor entity in a business sale transaction.

Another means of ensuring the transfer of Personal Goodwill is for the selling professional to stay with the Company during a transition period (1-3 years). In this way, the active customers can become familiar and comfortable with the acquiring company. It requires the selling professional's best efforts to transfer Personal Goodwill to the acquiring company. This procedure often proves effective in increasing active customer retention.

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