

Chapter 23. Family Limited Partnership

A partnership is a legal entity your attorney creates for you by filing a Certificate of Limited Partnership with the Secretary of State and having you and your spouse sign a Partnership Agreement. This is much like incorporating your business. The difference is you form a partnership instead of a corporation and you put investments into it instead of a business. This provides a number of benefits partially illustrated below.

If you own your investments directly in your name or your Living Trust, they are taxable at full fair market value.

If instead they are held in a Family Limited Partnership (FLP) or Limited Liability Company (LLC), they can be value-discounted to reduce Estate Taxes.

	Investments in Your Name	Investments in FLP or LLC
Gross Investment Value	\$1,000,000	\$ 1,000,000
Less e.g. 25% Discount	-0-	-250,000
Taxable Value	\$1,000,000	\$ 750,000
Estate Taxes	400,000	300,000
Estate Taxes Saved	-0-	\$ 100,000

Many clients want to begin gifting to save taxes, but also want to maintain some control over gifted funds. An FLP or LLC can provide this control by holding your gifts for your children and grandchildren.

You can direct distributions over time or as your children/grandchildren financially mature. These can also help protect gifts from children/grandchildren misspending, children's/grandchildren's creditors and children/grandchildren marital disputes.

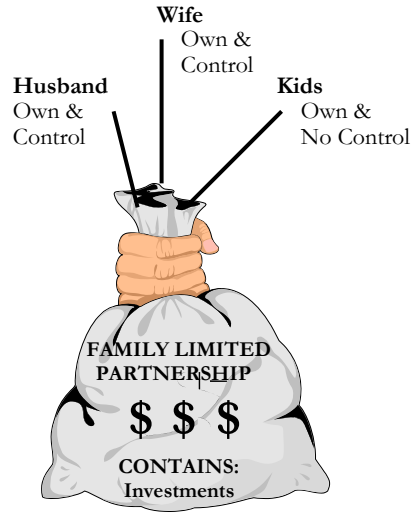
In addition, you can gift more because investments gifted this way can be value-discounted to increase the tax benefit of your Exemption Gifts.

To be effective for Estate and Gift tax purposes, the partnership (or LLC) will include certain provisions to qualify for the Annual Exemption Gifts as a "present interest" and to avoid Federal Estate Tax by certain limits on control.

Both Congress and the IRS have looked at whether to disallow this benefit from time to time.

Family Limited Partnership (or LLC)

	Outright Gift	Gift in FLP or LLC
Gross Investment Value	\$14,000	\$18,667
Less e.g. 25% Discount	<u>-0-</u>	<u>-4,667</u>
Annual Exemption Gift	\$14,000	\$14,000
Extra Property Gifted Tax Free <u>Per Gift</u>		\$ 4,667



BENEFITS

- Income Tax Savings
- Estate Tax Savings
- Gift Tax Savings
- Asset protection
- Maintain Certain Controls
- Teach Financial Responsibility to Kids
- Flexible