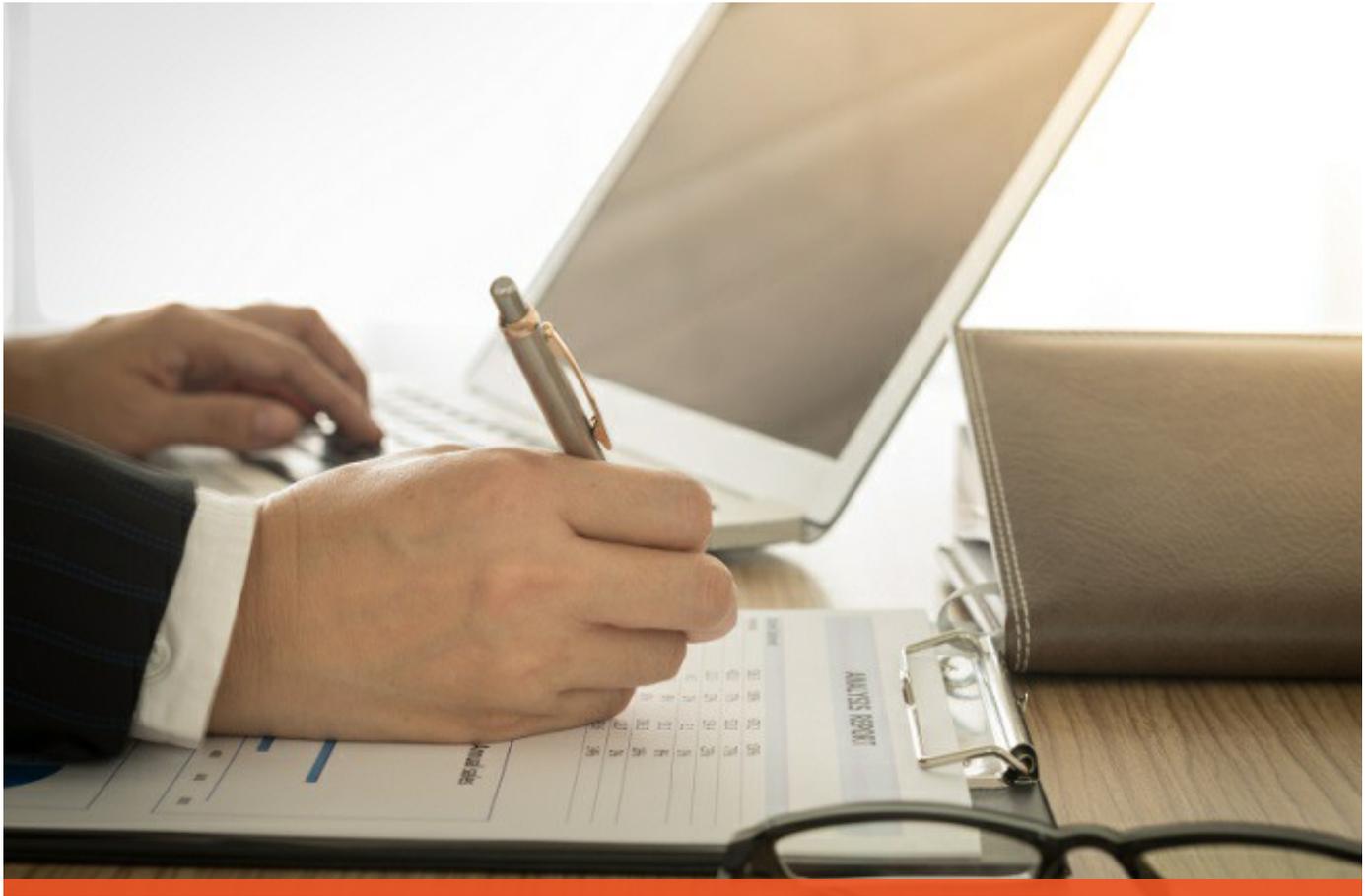


## "TAX TIPS: Accelerate succession planning before changes to valuation discounting"



Carl J. Grassi | Saturday, October 15, 2016

Two months ago, the U.S. Treasury Department released proposed regulations aimed at curtailing the practice of valuation discounting — a common wealth transfer planning technique where the value of an interest in a family-owned business is discounted upon the transfer of that interest, reducing the estate or gift tax due on the transfer. Discounting also can apply where family members transfer assets into a business entity (such as a limited partnership or an LLC) and impose restrictions on that entity that reduce the gift or estate tax owed on those assets.

If they become effective as expected, the new regulations will severely limit this practice in several significant ways.

The Treasury Department has prioritized curtailing estate valuation discounts for many years because valuation discounts can yield significant tax savings. For example, suppose an individual owns a family business worth \$10 million. When applying the current estate tax rate of 40% against the amount in excess of the lifetime exemption of \$5.45 million, the individual would owe about \$1.82 million of estate tax. If the value of the business could be discounted by 30% to \$7 million, instead of \$10 million, then the individual would instead owe only \$620,000 in estate taxes — a tax savings of \$1.2 million.

Valuation discounting operates by having a business or other assets owned by an entity (such as an LLC) that imposes restrictions on the ability of the owners to convert the assets into cash. A 49% interest in an LLC owning assets or a business worth \$10 million would on its face be worth \$4.9 million. In reality, it is likely that a buyer of a minority stake in the closely-held company would require a discount from this value. Therefore, the actual value of the 49% interest would be less than \$4.9 million. The value could be further reduced if additional restrictions are imposed on the LLC owners, such as the lack of voting or limited liquidation rights. Since the individual family member cannot control the entity or "cash out" his or her interests unilaterally, taxpayers have reduced the value of the individual's share for estate and gift tax purposes.

[Click here to read Carl's full article in Crain's Cleveland Business.](#)



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