

FAMILY LIMITED PARTNERSHIPS

A Family Limited Partnership is an effective tool for preserving family wealth by transferring assets to younger generations, while preserving control in the transferor. The general partner of a limited partnership is, as a matter of law, empowered to manage the limited partnership. Limited partners have no managerial powers or responsibilities, so control resides solely in the general partner.

A limited partnership is created by the grantor who contributes real estate, cash, marketable securities, or interests in a closely held business. In return for this contribution, the grantor receives a general partnership interest, as well as limited partnership interests in the Family Limited Partnership. The limited partnership interests can then be transferred to the grantor's spouse, children and/or grandchildren. This is a simple mechanical task, as only a single page assignment form need be completed for each transfer.

The limited partnership interests assigned each year can be equivalent to the annual gift tax exclusion, currently \$13,000 per donee. Accordingly, each year husband and wife can transfer \$26,000 of limited partnership interests in a Family Limited Partnership to each of their children. Another significant benefit to utilizing a Family Limited Partnership for wealth transfer is the availability of discounts for lack of control. Limited partnership interests have no control and are therefore valued at less than their pro rata share of the assets of the partnership. For example, if \$2,000,000 of stocks were used to fund a Family Limited Partnership, each 1% of limited partnership interest would,

without discount for lack of control, have a value of \$20,000. However, if a 35% discount were applied, each 1% limited partnership interest would have a value of \$13,000. Notwithstanding this, in the event that the limited partnership were liquidated, the limited partner would receive \$13,000 of assets. This type of discount would give the grantor the ability to transfer \$20,000 of wealth while only using the annual exclusion of \$13,000. The discount may also be utilized to value for estate tax purposes any limited partnership interests owned by the grantor at the time of the grantor's death.