

# Gift and Estate Tax Valuation

## MAXIMIZING VALUE THROUGH KNOWLEDGE™

All gifted or bequeathed assets must be assigned a value for federal transfer tax purposes. Consequently, the determination of such value serves critically to the estate planning process. Many estate and gift planning techniques are subject to intense scrutiny by the IRS, and any undervalued assets may be subject to tax penalties. Penalties are less likely to be levied if a valuation has been performed in good faith by an independent third party appraiser. A qualified appraisal prepared by a competent professional appraiser helps establish a "reasonable basis" for the valuation.

Family Limited Partnerships ("FLPs") are a popular tool for estate planning. FLPs maximize family wealth while centralizing control of family assets for efficient management. The market considers the following factors when determining the fair market value of limited partnership interests:

- Illiquidity - Limited partners cannot force the liquidation of the partnership assets to recover their investment.
- Lack of marketability - These partnership interests are generally not transferable, and cannot be bought or sold as easily as equity that is regularly traded on a public market.
- Lack of control - General partners control the partnership's day-to-day operations and make decisions that have significant impact on a partnership's financial performance. Limited partners have little, if any, influence on these decisions.
- Cash flow taxation - Limited partnerships potentially generate income tax liabilities that are payable by the partners. Because a partnership may not distribute adequate income to pay the taxes incurred, limited partners may not receive distributions sufficient to satisfy income tax liabilities resulting from their ownership of limited partnership interests.

For these reasons, the fair market value of a limited partnership interest and the value of a limited partner's pro rata portion of the partnership's net asset value are not equal; this difference is commonly referred to as a "discount". The use of the FLP vehicle combined with appropriate discounting can significantly reduce the estate and gift tax burden on asset transfers between family members. Other commonly used estate planning techniques include: charitable remainder trusts, charitable lead trusts, private foundations, private annuities, generation-skipping trusts, grantor-retained trusts (GRAT) and annuity trusts.

Estate planning is an essential way to assure the desirable disposition of ones assets. Adams Capital's professionals are experts in the valuation of assets for gift and estate tax planning. We use the latest available information regarding transactions of similar entities and quantitative discount models to determine the fair market value of partnership interests. We work closely with our clients' legal and financial advisors to ensure that our work is conducted in a professional, timely, and economical manner. Contact us to discuss any of your gift or estate valuation questions.