

# DREGGORS, RIGSBY & TEAL, P.A.

## CERTIFIED PUBLIC ACCOUNTANTS

### **What is a family limited partnership, and will it help reduce estate taxes?**

Answer:

A family limited partnership (FLP) is a partnership created and governed by state law and generally comprises two or more family members. As a limited partnership, there are two classes of ownership: the general partner(s) and the limited partner(s). The general partner(s) has control over the day-to-day operations of the business and is personally responsible for the debts that the partnership incurs. The limited partner(s) is not involved in the operation of the business. Also, the liability of the limited partner(s) for partnership debts is limited to the amount of capital contributed.

An FLP can be a powerful estate planning tool that may (1) help reduce income and transfer taxes, (2) allow you to transfer an ownership interest to other family members while letting you keep control of the business, (3) help ensure continued family ownership of the business, and (4) provide liability protection for the limited partner(s).

An FLP is often formed by a member(s) of the senior generation who transfers existing business and income-producing assets to the partnership in exchange for both general and limited partnership interests. Some or all of the limited partnership interests are then gifted to the junior generation. The general partner(s) need not own a majority of the partnership interests. In fact, the general partner(s) can own only 1 or 2 percent of the partnership, with the remaining interests owned by the limited partner(s).

There are several advantages to organizing your business as an FLP:

- \* Limited partnership interests that are gifted to other family members are generally valued at less than the full fair market value of the underlying assets. That is, reasonable discounts to the value of the limited partnership interests are permitted for lack of marketability and lack of control. This means that by gifting the assets via a limited partnership interest instead of an outright transfer of the business assets themselves, you may be saving gift and estate taxes.

- \* At death, only the value of your ownership interest in the partnership will be included in your gross estate.

- \* The use of the partnership entity allows you to shift some of the business income and future appreciation of the business assets to other members of your family.

- \* You maintain management control of the business while transferring limited ownership of the business to family members.

- \* Restrictions within the partnership agreement limiting the transfer of the partnership interests may help ensure continuous family ownership of the business.