

## Overview of Reducing your Estate Taxes

The ability of the limited partnership to reduce estate taxes is its most formidable tax benefit. Assume that an individual has, upon his death, cash in the amount of \$3 million and that the estate tax exemption is \$2 million (this exemption is increasing each year until 2010, at which point there is no estate tax. Come 2011, however, and the exemption is expected to return to \$1 million indefinitely). The estate tax would then be levied on the \$1 million balance. If these same assets were titled to a limited partnership, they would be subject to a discounted valuation. Possibly the full partnership interests would be valued at \$2 million for estate tax purposes, thus eliminating estate taxes on \$1 million.

Generally, assets titled to a limited partnership result in a discounted value of 20 to 40% compared to their estate tax value when owned outright. This results in a correspondingly lower estate tax. Several factors determine the amount of the allowed discount. The IRS primarily considers:

- **Control** the decedent had over the partnership
- **Marketability** of the partnership assets and the ability to quickly liquidate its assets
- **Accessibility** of the partnership interests by the decedent's estate

On the issue of control, the family may, for instance, decide to have the children become the general partners as their parents get older. Divesting control from the parents allows for a greater discount on the value of their partnership interest upon their deaths. Cash and marketable securities support a smaller discount compared to a limited partnership consisting of real estate or stock in closely held corporations.

The question of the limited partnership valuation discount is one that has the full attention of the IRS, who routinely contest a decedent's discount valuation and who systematically petition Congress to disallow the discount. Because tax policies and regulations on the subject are likely to change, obtain guidance from your tax advisor when using the limited partnership for estate or gift tax planning.