FLP — Family Limited Partnerships: How to Give, Yet Retain Control

One way many consider to *reduce or eliminate estate and gift taxes* is by outright gifting of money or assets directly to your children or their trusts, at a rate of no more than $14,000/yr per child (or $28,000 per child if married) as of 2015. These figures change annually. More than this may incur gift taxes.

But gifting children in this way moves money and assets into the children's control -- and out of your control -- something that you may not want to do during your lifetime.

What then, is a suitable solution? Family Limited Partnerships (FLPs).

FLPs allow for asset protection and for estate tax planning. Your assets are protected because you will "own" and control only a small portion of the assets after you contribute them to the new entity, the FLP. And because your estate no longer owns these assets, they are not subject to estate taxes upon your death.

While FLPs are not a primary estate planning tool (those are your wills and marital or A&B Trusts), they can nicely supplement an asset protection and estate plan and save your heirs sometimes millions of dollars in estate taxes, when done correctly.

One attractive benefit of FLPs is that they allow for accelerated gifting through the use of substantial discounts on assets in the FLP.

Typically, you (and your spouse) set up an FLP and then contribute assets to the FLP in return for General Partnership units and Limited Partnership units. Normally, the general partners have a 1% interest in the FLP (commonly held by a C-Corp to avoid personal liability) and limited partners have a 99% interest.

You and your spouse can then embark on a plan of gifting Limited Partnership units to your children and grandchildren, while retaining the General Partnership units that control the FLP. Through this gifting, and through the discounting of the ownership shares, your children would eventually end up owning the assets they would have otherwise received through your estate. But, and this is the important "but" — those assets will have passed to your children free from estate taxes.

This is not the only advantage of gifting to your children via FLP.

Because you and your spouse are set up as General Partners and your children as Limited Partners, *you still retain control* of the FLP assets during your lifetime.

Not only that, there are three powerful discounting provisions. The first occurs because the interest in the partnership is no longer marketable in the open market — because the interest can only be sold to another family member. The second is due to the fact that because the children have no voting rights, they have a "minority interest." And the third comes from the Limited Partners' reduced management control.

Another and very powerful way to use a FLP is to gift “seed money” early on into the entity. This is then used to fund a new business or some other asset that is likely to greatly appreciate. No discounting is required. The asset is protected. The asset is not in your estate. Gift and estate taxes are eliminated.

Depending on the law firm, CPA firm, and valuation firm involved, assets can be discounted upwards of up to 40% of their normal market value. (A notable exception occurs when using a “Freeze” Partnership which can obtain upwards of a 90% discount — this is discussed in the article on “Freeze!” Partnerships.)

If your estate goes beyond $2,000,000, you should consider FLPs as an important and valuable piece of your asset protection and estate planning. Why not **call our office today at (866) 977-2252** to find out how this, and other strategies, can save you substantial amounts on your estate taxes? Or sign up for our free, no-obligation consultation, where you will discover unique and powerful strategies to grow and protect your wealth.