Freeze Family Limited Partnerships: A Most Powerful Estate Planning Variation

If you read the article on Family Limited Partnerships (FLPs), you know how the assets in the FLP can be discounted up to 30-40% for lack of marketability and lack of control.

"Freeze" Partnerships — a variation of the traditional FLP — can obtain upwards of a *90% discount* on assets.

What does this mean to you? By taking that large discount on the assets, you and later your heirs, get to *enjoy the income (tax-free)* from the asset, remove it from your taxable estate, avoid gift taxes, and protect the asset all at the same time – at a very low cost ($2,000-8,000 to create, and $1,000-2,000 per year for maintenance).

How is this possible? It's due to its highly flexible nature. It can be readily adapted to a wide variety of needs.

How does a "Freeze Partnership" work? In a "Freeze Partnership" you create two classes of interest: preferred and common. The "preferred" interest is entitled to preferred dissolution rights that are fixed at the value of the property you initially contribute to the partnership.

Additionally, you can usually enjoy preferred income rights as well. This means that the preferred interest holder is entitled to receive preferred distributions of net cash flow from the partnership, equal to a set percentage of the value of the dissolution value.

Much like preferred stock in a corporation, the "common" interests are subordinate (or take a back seat) to the preferred interests — however, with an interesting twist. While the common interests usually have voting and managerial control over the partnership, the common interest-holders *share proportionately in the partnership's income distributions*, but only *after the preferred interest holders* have received the preferred income or dissolution payments. So, you and your spouse would be the preferred interest holders and your children's trusts the common interest holders with you receiving current benefits first.

There are multiple planning implications of using preferred family limited partnerships:

1. Because the liquidation values of the preferred interests are "frozen," the *common interests will receive all of the growth* and appreciation of the assets held by the FLP. This permits substantial amounts of appreciating wealth to be shifted to the common interest holders.
2. Since the common interests are subordinate to the preferred interests in many respects, especially with regard to cash flow, it is possible that the common interests would be subject to valuation discounts for gift or sale purposes. Thus, depending on the types of assets that the FLP will own, there are substantial planning opportunities to use the preferred and common interest structure to provide significant wealth transfer planning benefits.
3. The Freeze Partnership may often have multiple classes of interests (i.e., senior preferred, junior preferred, participating common, and non-participating common), so the planning can be very creative.

The ability to use the preferred and common interest in a Freeze FLP in connection with your overall wealth planning can present substantial planning opportunities.

While this may sound a little complex, we at Summit will simplify it for you, and show you how this powerful tool can give a substantial boost to your estate planning. We welcome an opportunity to help you more. **Call us now at 866-977-2252**.