## TOPIC: FAMILY LIMITED PARTNERSHIPS

A family limited partnership can be used when there is a family business with substantial value and the owners want to gift all or a portion of the business to their heirs, but don't want to lose control of the business during their lifetimes.

To accomplish these goals, the owners (usually the parents) can organize the business as a limited partnership. This is a special form of partnership with two types of partners. General partners are given control over the operation of the partnership's business and have general liability for all debts of the partnership. Limited partners, on the other hand, have no control over the operation of the partnership's business, and have only limited liability (up to the value of their partnership interest) for any debts of the partnership.

In a typical family limited partnership, the owners (parents) retain all general partnership interests in the partnership, thereby retaining control over the partnership's business. At the same time, however, they can give away limited partnership interests to their heirs (children). These limited partnership interests represent ownership of a percentage of the income and assets of the partnership. These gifts of limited partnership interests will qualify for the annual gift tax exclusion and will not have any estate or gift tax consequences as long as any single gift to one individual in one year does not exceed the annual gift exclusion amount ($14,000 in 2015).

A second benefit of the family limited partnership structure is that because the limited partnership interests are non-controlling minority interests they can often be valued at a substantial discount from what would otherwise be their proportionate share of the partnership's fair market value. For example, assume the family business is worth $1,000,000, and each owner (parent) wishes to give away a limited partnership interest representing ownership of approximately 1% of the income and assets of the business. This means each limited partnership interest would be expected to be worth $10,000. However, because each limited partnership interest is a non-controlling minority interest, buyers would not be willing to pay full value. Rather, they would discount the value by some percent. This is called a "minority discount," and could be in the range of 25%. This allows the owners (parents) to gift to each heir annually a greater percentage of the family's business (and their estate) than they would otherwise be able to do.

We at Bingham, Osborn & Scarborough, LLC (BOS), are ready to work with clients, their attorneys and tax professionals on the merits and specifics of these and other investment and financial planning options.  For additional information on this or related topics, or to learn more about the investment management and financial planning services offered by BOS, please visit our website at www.bosinvest.com.