

The Case Of The Properly Planned Family Limited Partnership



Problem:

How to Structure and Value Family Limited Partnerships

A significant part of our practice addresses the value of minority limited partnership interests. Properly planned with an appropriate business purpose and by skilled legal counsel, a family limited partnership can provide a vehicle for family asset management and estate tax minimization. In two recent cases, we valued non-marketable limited partnership or limited liability corporation interests with specific reference to the actual facts and circumstances of the partnership and operating agreements.

Each family transferred between \$8.0 and \$12.0 million of assets to the Partnership / LLC, generally consisting of a portfolio of marketable securities, directly owned real estate and investments in other partnerships (real estate).

ABA Approach and Solution

Using (i) what we call the specific factor rating system benchmarked to established marketability and lack of control studies; (ii) the Mercer Quantitative Marketability Discount Model (“QMDM”); (iii) the Kam/Schroeder studies; (iv) Partnership Profiles; and (v) other published studies, ABA provides a reasoned and reconciled estimate of the combined adjustment for differences in degree of marketability and control relative to the subject minority interest being appraised. Essentially, we approach the problem from four different viewpoints and then synthesize and reconcile our final estimate with well-reasoned and documented opinion.

In each case, the families liked the concept and result so much that additional assets were later contributed and the family limited partnership became the vehicle for estate management, asset transition and wealth transfer.

In our experience, a reasoned and well-documented appraisal report prepared by a qualified professional appraiser carries significant weight and is meaningful to the IRS. Our experience suggests that the range of the combined adjustment (discount) for differences in degree of marketability and control is from 40% - 52%. Of course, each circumstance and partnership is unique and should be evaluated as such.