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Private Client Services Alert

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IRS Proposes Regulations to Limit Valuation Discounts for Family Businesses

On August 2, 2016, the Internal Revenue Service and the Treasury Department issued proposed regulations intended to substantially limit the use of discounts in valuing intra-family transfers of interests in family-controlled entities. If finalized in their current form, the proposed regulations would disallow certain discounts for lack of control (minority interests) and lack of marketability (illiquid interests) that are commonly applied to lower the value of such transferred interests for gift, estate and generation-skipping transfer tax purposes.

Opportunities to use certain valuation discounts available under current law to reduce transfer taxes and increase potential estate planning benefits may remain available for only a few months. The proposed limitations on valuation discounts will not become effective until final regulations are published; however, a hearing on the proposed regulations is scheduled for December 1, 2016, and it is widely expected that the effective date will be sometime in early 2017.

If you are in the middle of an estate planning transaction that involves the transfer of interests in a family-controlled partnership, limited liability company or other entity to your descendants or trusts for their benefit, we urge you to act quickly and complete the transaction before the end of the year. If you have been thinking about doing this kind of planning and just have not gotten around to it yet, we urge you to consult with your estate planning counsel to assess whether it might be desirable for you and your family to implement that planning now.

Contact Information

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