Mack Business Appraisals, LLC

Valuation Insights Extra

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The Bright Side to the Financial and Real Estate Crisis? It's a Great Time to Gift

As a child, I was always taught to "look at the bright side" when things were down. Well, investment accounts and real property holdings for most individuals certainly are "down" right now…and in many cases these assets have declined in value somewhere in the range of 30% to 40%. What's the bright side to this? It's never been a better time to gift. Why is it such a good time to gift? Let's explore this through the use of an estate planning tool known as the family limited partnership (FLP):

Gifting Example:

Mr. Joe Smith had plans to establish a family limited partnership (FLP) and was going to fund this partnership with a combination of marketable securities and real property. Shortly after funding, Mr. Smith was going to gift limited partner (LP) equity interests to his children. Let's look at the impact the asset values would have on the amount that could be transferred to his children. Our comparison will assume that he funded the FLP and transferred LP equity interests in January 2008 versus November 2008. Furthermore, we will not discuss appropriate valuation discounts in this example but instead will apply a 40% combined minority and marketability valuation discount for illustration purposes only.

	Jan-08	Nov-08
Marketable Securities	$2,000,000	$1,300,000
Real Property	2,000,000	1,500,000
Net Asset Value	4,000,000	2,800,000
Multiply by (1% LP Equity Interest)	1.00%	1.00%
Pro Rata Value of a 1% LP Equity Interest	40,000	28,000
Less: Valuation Discounts (estimated at 40%)	(16,000)	(11,200)
FMV of a 1% LP Equity Interest (to below)	$24,000	$16,800
Lifetime Exclusion Amount for Mr. Smith	$1,000,000	$1,000,000
Divide by: FMV of a 1% LP Equity Interest (from above)	24,000	18,200
LP Equity Interest Able to Be Gifted	41.67%	59.52%

As you can see from the example above, Mr. Smith is able to gift approximately 43% more of the FLP away to his children (59.52% versus 41.67%) simply because the assets declined in value. The reduced asset values have enabled Mr. Smith to transfer a greater percentage of the FLP out of his estate while the asset values are low while his children will benefit from owning more of the FLP when the asset values recover in the future. Not a bad "bright side" for individuals looking to do some estate planning.

Mack Business Appraisals, LLC specializes in providing business valuations for estate planning purposes. Please call our office today if you are interested in discussing a potential valuation for your client's estate planning needs.