

Family Limited Partnership

A Family Limited Partnership is an ideal vehicle to protect assets from litigation and to reduce or eliminate estate and GST taxes. A Family Limited Partnership is a legal entity consisting of a general partner and one or more limited partners. The general partner can be a corporation or a limited liability company. General partners are fully liable for partnership debts and liabilities.

Limited partners are liable only for their contributions. Typically, limited partners are both the parents and their children and/or their issue. Two entities are required to form a Family Limited Partnership. (For example, a corporation, a limited liability company, or a person.)

Aging family members can reduce the size of their taxable estate by transferring their partnership interests to other family members, such as children. The Transferor will still maintain control over decisions and distributions of the investment. The investments and/or distributions may be eligible for valuation and minority interest discounts at the time of the transfer because the limited partners are unable to control investments or distributions.

Should you and your Advisor and/or Attorney decide the Family Limited Partnership is appropriate for your situation, it should be formed while the General Partner is in good health and has a reasonable life expectancy.

The “charging order” ruling effectively protects your assets because distributions won’t be made, but the lawsuit winner will have to report any income on their own tax return.

Be aware, the IRS routinely scrutinizes deathbed family partnerships. There also needs to be a legitimate business purpose for forming the partnership and, whatever it is, it should be set out in detail in the organization documents.

For further information on this asset protection plan, please contact me.

Advantages of a Family Limited Partnership

- ◆ Asset Protection inside and outside of the FLP due to “charging order” issuance
- ◆ Continuity of Management
- ◆ The ability to make transfers of limited partnership interests
- ◆ Business valuation and minority discounts may decrease your estate taxes
- ◆ Parents/creators can receive income as a management fee for being general partners
- ◆ Ownership can be limited to 1% for each spouse, with children owning minority shares
- ◆ Can be used for Separate Property Maintenance and Pre-Marital Planning
- ◆ If asset protection is your main planning goal, you should consider this plan

DISCLAIMER

These materials are for informational purposes only and not for the purpose of providing legal advice. Please contact a licensed attorney to obtain advice with respect to any particular issue or problem.