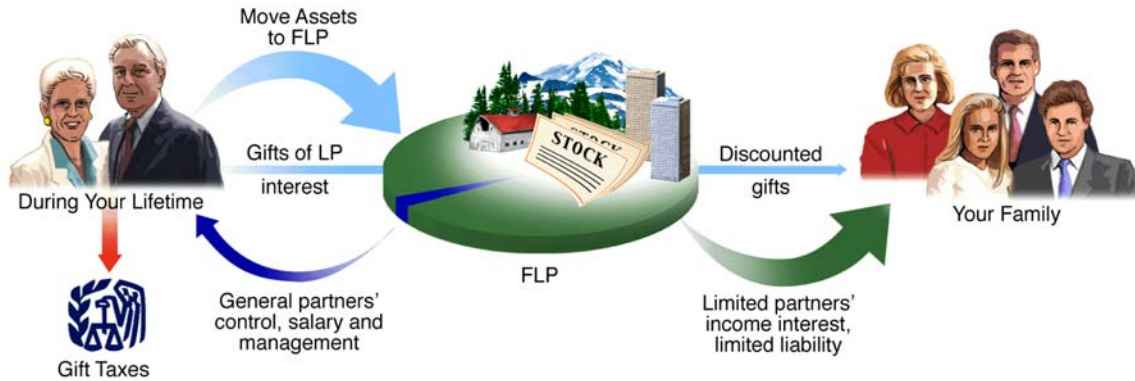


Family Limited Partnership

Protecting the Family Wealth



FLP can protect the family wealth, provide a tool for reducing the size of your estate, and still let you retain control and management of the contributed assets as the general partner.

You create the Family Limited Partnership (which must have a valid business purpose) and transfer assets to it. The FLP is comprised of General Partner (GP) interests and Limited Partner (LP) interests. You (or a corporation created by you) typically retain a GP interest and LP interests. The GP has all the management responsibilities and unlimited liability. GPs can pay themselves a reasonable salary for these managing duties. The LPs have no management responsibilities. The LP interests usually cannot be liquidated without the consent of the GPs, or freely sold or transferred. This lack of control and marketability causes the LP interests to have a discounted value for gift and estate tax purposes.

You make discounted gifts of LP interests to your children or grandchildren (or trusts for their benefit). The discounted value of LP interests lets you leverage your transfers for gift tax purposes. If the discount (determined by an independent appraiser) is 25%, \$2,666,667 of assets would have a gift tax value in the FLP of only \$2,000,000 (after the discount). Each parent's \$1,000,000 exclusion amount could be used to avoid gift taxes at this time.¹ Thus, \$2,666,667 of assets could be removed from your estate without gift taxes.

The GPs control the business including any income distributions. This is one of the features that helps provide additional protection from outsiders for the owners of the LP interests.

Potential advantages of a family limited partnership:

- Parents retain control
- Gifts to children and grandchildren made simple and more effective
- Parents' taxable estate and transfer costs reduced
- Assets, especially family business, may be protected from creditors of LPs
- Assets stay in the family!

* Not all types of assets (e.g., S corporation shares) can be transferred to an FLP.

¹ In 2005, the Applicable Exclusion Amount is \$1,500,000; in 2006 through 2008, \$2,000,000; in 2009, \$3,500,000; in 2010, the federal estate tax is scheduled to be repealed; and in 2011, \$1,000,000.