



Special Alert – Estate Planning Opportunity

Minimizing taxes through estate, gift, and income tax planning is one of the primary objectives for owners of closely-held businesses. Many business owners gift shares of common stock and/or pass through entity interests to their children, grandchildren, and other family members as part of an extensive estate and succession plan. Gifting shares and/or pass-through entity interest can serve as a means of saving potential estate taxes and ensuring the successful transition of closely-held businesses from generation to generation.



In light of the current situation in the economy and financial markets, now is an excellent time for individuals to gift shares of common stock or pass-through entity interests as part of a comprehensive estate and succession plan. With pricing multiples at low levels and many businesses facing declining earnings, current valuations could lead to maximizing the Lifetime Gift Tax Exemption, which currently stands at \$1,000,000. This gift tax exemption essentially allows individuals to pay no taxes on otherwise taxable gifts of up to \$1,000,000 over their lifetime.

Business owners and their advisors should consider taking advantage of current market conditions. Individuals utilizing gifting programs can save substantial potential estate taxes by transferring significant amounts of their estate at significantly reduced levels.

A business valuation is typically required by the IRS to substantiate gifts and ensure compliance with the adequate disclosure of gifts as required in [Internal Revenue Code 301.6501 \(c\)-1](#). The professionals at Barnes Wendling have extensive experience in assisting business owners with both succession and estate planning, as well as valuation strategies, and can develop a plan to take advantage of the current situation.



Please call your Barnes Wendling contact to discuss these opportunities. Or, you can contact Don Zwilling, Lou Maglione, or Matt Silla of Barnes Wendling Valuation Services at 216.566.9000.

A Gifting Example:

As many people have investment accounts and real property holdings down in value currently, what could possibly be good about that? It's never been a better time to gift.

Mr. Joe the Investor had plans to establish a family limited partnership (FLP) and was going to fund it with marketable securities and real property. Shortly after funding, he was going to gift limited partnership (LP) interests to his children. Our example will compare funding the FLP and transferring LP interests in January 2008 versus November 2008. Further, for purpose of this simplified illustration, we will apply a combined discount for lack of control and marketability of 30% without a detailed explanation.

	<u>Jan 08</u>	<u>Nov 08</u>
Marketable securities	2,500,000	\$1,500,000
Real property	2,500,000	1,800,000
Net asset value	5,000,000	3,300,000
Subject interest	1%	1%
Pro Rata Value of 1% interest	50,000	33,000
Less: Combined Discount (30%)	(15,000)	(9,900)
FMV of 1% LP interest	\$35,000	\$23,100
Lifetime Exclusion	\$1,000,000	\$1,000,000
Divide by FMV of 1% LP int.	35,000	23,100
LP Interest Able to be Gifted	28.57%	43.29%
<p>As you can see from the above example, Joe is able to gift approximately 52% more of the FLP away to his children (43.29% versus 28.57%) simply because of the decline in asset values.</p>		

Barnes Wendling Valuation Services, Inc.

Contact: Don Zwilling, Lou Maglione, or Matt Silla at 216.566.9000