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Family Limited Partnerships

AN OVERVIEW

1. What client might need this technique?

Family Limited Partnerships, or FLPs, are frequently used by:

- Clients who operate a business as a sole proprietorship
- Clients who operate their business in the form of a general partnership
- Clients who want to make gifts of property to their children but still control the management or investment decisions affecting the property
- Clients with taxable estates
- Clients who want some form of asset protection
- Clients who want to protect life insurance proceeds from estate tax, but want more flexibility than in an irrevocable life insurance trust

2. How do FLPs work?

The client and spouse form an FLP and then transfer business or investment property to the FLP. Each spouse, or an entity controlled by the spouse or their living trust, then receives a small general partnership interest probably 1 % or less, and the balance in a limited partnership interests. The property of the clients is now held in the FLP and the FLP interests are held in the clients' revocable living trust. The spouses make all management decisions because they control the general partner.

3. How does the client benefit from the FLP?

In many different ways:

HELPING FAMILIES PRESERVE AND PROTECT ASSETS AND VALUES

- **Estate and Gift Taxes-** Because of the way the partnership agreement is prepared, the total value of the partnership interests is worth less than the property the partnership holds. As an example, if \$1,000,000 in property is contributed to the FLP, the value of the partnership interests might only be \$600,000 due to discounts associated with partnership interests. That means an immediate savings in gift or estate taxes.
- **Asset Protection-** The assets of the partnership are protected from lawsuits occurring at the partner level because a creditor of a partner has no rights or access to partnership property. This limit on the creditor frequently results in a negotiated settlement on reasonable terms.
- **Property Management-** Because the parents retain control of the partnership in their status as general partners, they can give limited partnership interests in the partnership to their children and still control investment and management decisions. This provides the children with financial experience under their parents' guidance.

4. What are the clients' responsibilities?

The most important responsibility for the client is to operate the partnership in accordance with the formalities required by law and the partnership agreement itself. Failure to do so may result in the IRS's ignoring the partnership and its many benefits to the client will be lost. **In addition, the client must hire a qualified appraiser to value the property in the partnership and the partnership interests themselves.**