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The truth about Family Limited Partnerships

By Chanon Collins

As we struggle with the constant changes in interest rates, taxation laws and rulings, and selection of estate plans, it becomes difficult to view the forest for the trees. Take a moment to recall your reason for planning. The author William James stated the purpose quite clearly – “The greatest use of life is to spend it for something that will outlast it.” For those who wish to provide his or her family with the fruits of life’s labor, as opposed to involuntarily giving the bulk of the estate to the government, the establishment of a Family Limited Partnership offers numerous benefits.

The Family Limited Partnership, commonly referred to as a FLP, provides family-held businesses and families in general with a safe haven for investments, properties, and liquid assets. The greatest benefit to a FLP is that the general partner, usually a member of the senior generation, retains control of the cash and other assets in the FLP while maximizing gifts through valuation discounts. In simple terms, a FLP allows grandparents to shift family assets to lower income tax-bracket children, grandchildren, and great-grandchildren. Not only have the grandparents received the benefits of discounts on the gifts, they still maintain control of the assets.

The structure of the FLP is quite simple. The partner or partners in charge of the FLP are listed as general partners and maintain approximately 1 to 5% general interest and 99 to 95% limited interest at the inception of the FLP. The small, but powerful, amount of general interest allows them to maintain complete control the assets of the FLP. The limited interest is then gifted to the other members of the FLP.

Establishing an FLP has become increasingly valuable for families in agriculture and disbursing of investment real estate. The FLP allows an easier avenue for transferring property to individuals while maintaining control and the discounts associated with FLP’s allow larger sections of property to be disbursed.

While the FLP has proven to be a safe haven for family assets, there are some items which should not be included. Family homes, S-corporation stocks, automobiles, jewelry, and art should not be placed in the FLP. These items are better served in a living trust so that they will be excluded from estate taxes and will remain within family control.

Providing for future generations and protecting family businesses and assets is a grandiose charge and should not be entered into lightly or without sufficient research. It is in everyone’s best interest to investigate the benefits of a

Family Limited Partnership to determine whether this entity would better serve the needs of the family. Family business is family business – it is up to you to maintain the lock on the door.

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