

# CLIENT ALERTS

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## New Proposed Regulations to Severely Limit Family Valuation Discounts

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The United States Department of Treasury recently published proposed regulations to Section 2704 of the Internal Revenue Code. Section 2704 was initially enacted to impose certain restrictions and limitations upon transfers of interests in family-controlled business entities among family members.

Valuation discounts are commonly used in such transactions. When transferring an interest in a corporation, LLC or partnership, the value of such interest can be discounted if it is a minority interest in the business or if there are any restrictions imposed on the owner in making subsequent transfers of the interest in the business. In the context of estate planning, valuation discounts play an important role in limiting the value of amounts transferred to family members through gift or sales transactions when using family LLCs or family limited partnerships.

The new proposed regulations under Section 2704 have far reaching consequences that may entirely eliminate the ability to use valuation discounts for transfers of interests in family-controlled business entities. The proposed regulations will not take effect until 30 days after the date the regulations are published and finalized by the Department of Treasury. A public hearing is scheduled for December 1, 2016 to review comments to the proposed regulations. It is not currently known when these regulations may be finalized but it is not currently anticipated to occur prior to the hearing.

If you are considering making a transfer of an interest in a family LLC or partnership, now is a critical time to begin the process of making such transfers. If you would like to discuss taking advantage of any planning opportunities for valuation discounts that may be available prior to the finalization of the new Section 2704 Regulations, you may contact one of the members of the Estate and Succession Planning Practice Group.

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