



Pros And Cons Of Family Limited Partnerships

A Family Limited Partnership (FLP) can be an incredibly useful entity structure — in certain situations.

An FLP is simply a limited partnership among members of a family. Typically, the partnership is formed by the older generation family members, who contribute assets to the partnership. The parents can then embark on a plan of giving limited partnership units to their children and grandchildren, while retaining the general partnership units that control the partnership. Both general and limited partners usually share income and cash flow based on their percentage interest in the partnership.

Pro: Tiered Discounts. First and foremost, an FLP can reduce the value of an estate through the use of valuation discounts. Valuation discounts are based on the principle that the sum of the FLP interests is less than the value of the underlying assets held by the entity because of a lack of control, marketability and liquidity of the ownership units.

Pro: Asset Protection. An FLP also provides formidable asset protection for the younger generation of shareholders. Hostile creditors must first obtain a charging order to obtain benefits from the attachment of a limited partner's interest. However, the general partner of the FLP (typically, an adult family member) still has unlimited exposure (other than assets exempt under the bankruptcy provisions).

Con: IRS Scrutiny. The IRS maintains a well-publicized negative stance on FLPs. That's the bad news. The good news is that there are steps you can take to improve your chances of having an FLP hold up. Simply put, an FLP should not be overused or made into a single large target. A

good rule of thumb is to create a new FLP for every \$2 million to \$5 million in assets.

Our accounting professionals can help with the complexities of Family Limited Partnerships.