

## **Discounts Still Appropriate in Multi-Tiered Entities**

Entities often exist on multiple levels. When valuing such a multi-tiered entity, should control, marketability or other discounts still apply at each level, or should these entities be valued as a whole without concern for constraints facing the individual components that comprise the entity?

The answer? Every level of the entity should be valued independently, and appropriate discounts should be applied at each level.

Consider the example of many family limited partnerships (FLPs). Often, an FLP is comprised of a number of limited liability corporations or other entities. These sub-entities may own businesses, real estate or other assets.

Yet, because of the FLP structure, each of those smaller entities often has significant constraints on its marketability and control. Therefore, the value of each of those entities should be discounted to reflect economic effect of those constraints.

Since significant discounts are possible from such arrangements, why not purposely stack up entities just to generate discounts? Owners of these entities and their components must be able to demonstrate a legitimate business purpose for such a multi-tiered structure.

In the case of FLPs, families often form them to consolidate and coordinate the management of family assets. Yet, it also makes sense to maintain independent control of many of the business, real estate and other interests that make up the FLP. Therefore, families can demonstrate a business purpose for such a structure while still benefiting from appropriate discounts.

Families should take care, however, to ensure that operating agreements are not inappropriately restrictive.



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