

Stacking Discounts

by

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ISSUE: I am currently working on a large valuation project in which the advisors have attempted to design several levels of discounts into the structure. Is it possible to design a limited partnership structure, which takes advantage of several levels of discounts? Can you get away with it? Is it too aggressive?

DISCUSSION: This particular client and his advisors have designed a structure, which begins with individual pieces of real estate, some of which represent only a fractional ownership interest. At our request, the client retained an MAI to appraise these fractional interests. He determined that a discount of 30% was reasonable. We agreed (see LeFrak v. Commissioner). Starting from the premise of a taxable estate of \$1.00, we have reduced the amount to 70¢.

Following the MAI valuation of the real estate, our job was to value multiple Limited Liability Corporations (LLC), each of which held a fractional interest in one piece of real estate, and nothing else. After arriving at the net asset value of an LLC (this was easy; the MAI provide that figure), one job was to apply proper discounts for minority interest (if it applied) and lack of marketability (or illiquidity). We chose a minority interest discount of 30% and a marketability discount of 50%. This represents a combined LLC discount of 65%. This second level of discounting further reduced the taxable estate to 24.5¢ [70¢ - (.70 x .65)].

Following the valuation of the LLCs, their stock was contributed to a Family Limited Partnership (FLP). The FLP was entitled to a third level of discounts totaling 40%. The taxable estate is now reduced to 14.7¢ [24.5¢ - (24.5 x .4)].

CONCLUSIONS: Each taxable dollar was reduced by three legitimate levels of discounts which, when combined, totaled 85.3%.

Wow!! I congratulate the advisors for aggressive and state-of-the-art planning. Will it work? I surely hope so!

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