



## Valuation Discounts: Proposed Federal Tax Regulations Issued

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*This article is provided by BMT Wealth Management.*

Do you or your clients have plans to transfer an interest in a family-controlled entity such as a family corporation, partnership, or limited liability company (LLC)?

If so, you will want to be aware that on August 4, 2016, the Internal Revenue Service published proposed regulations under Internal Revenue Code section 2704, which explains how intra-family transfers of corporate, LLC, and partnership interests are valued.

The proposed regulations are intended to end valuation discounts that occur in intra-family transfers of interest in family-controlled entities.

Currently, transfers of family business interests are valued at a fair market value – what a willing buyer and a willing seller would agree upon – but usually with discounts, to reflect such things as lack of marketability, voting or liquidation restrictions, or lack of control of the family-controlled entity.

The proposed regulations will disregard these discounts when valuing the family-controlled interest being transferred, thereby increasing the federal transfer tax incurred. It will prevent that discounted value from escaping the transfer tax system.

A hypothetical example is as follows:

- Paul owns 100% of the shares of a family corporation that is valued at \$10 million.

- Paul is planning to gift 20% (\$2 million) of the stock to his daughter, Sarah.
- Currently, if he transfers a minority interest to Sarah:
  - Paul could apply a 25% lack-of-control valuation discount to the gift, making the value of the gift \$1.5 million (\$2 million less 25%).
  - Sarah would be receiving a \$2 million (20%) business interest valued at \$1.5 million.
- The proposed regulations would eliminate the minority discount of the family business interest, and the value of Paul's gift would be \$2 million without a discount.

A public hearing about the proposed regulations is scheduled for December 1. They will not take effect until they are finalized.

Since the effective date of the proposed regulations is uncertain, if you are planning to transfer an interest in a family-controlled entity, you may consider consulting with your trusted advisor to see how they could affect the transaction.

Regardless of the changes that may take place in the valuation arena, legacy planning and family wealth succession still have important roles to play in family-controlled entities.

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### BMT in the Press

Bryn Mawr Trust professionals are regularly sought after by the media for their insights on financial matters. The following is a highlight from the past week.

#### Wall Street Rises as Oil Drives Energy Shares (10/5/2016)

Ernie Cecilia, Chief Investment Officer at BMT, spoke with [Reuters](#) about the positive market reaction to the recently released ADP employment data. Ernie explained that The ADP National Employment report is one of the many economic data sets the Fed analyzes to determine when to raise interest rates.

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**BMT Wealth Management**  
**Harry R. Madeira, Jr. ("Gary") | Executive Vice President**  
**610.581.4791 | [gmadeira@bmtc.com](mailto:gmadeira@bmtc.com)**  
**[bmtcwealth.com](http://bmtcwealth.com)**