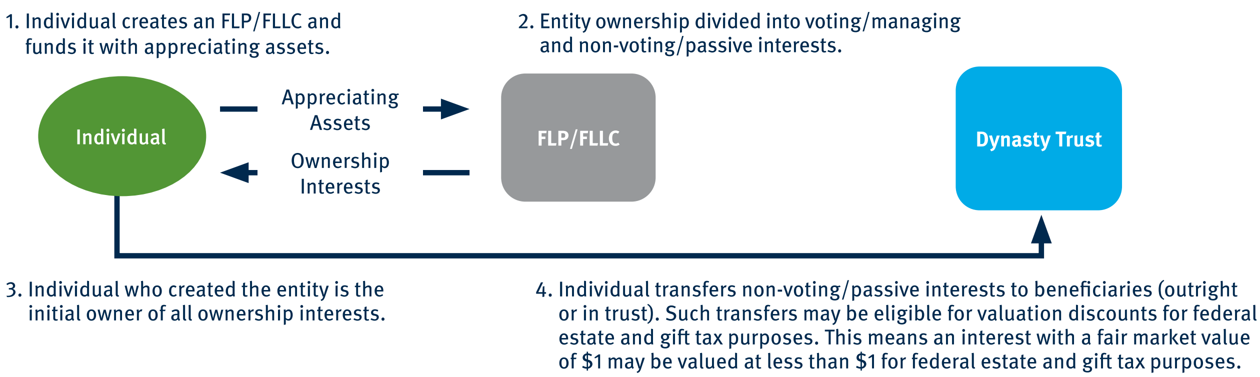
Reducing Estate Tax Exposure With a Family Limited Partnership (FLP) or Family Limited Liability Company (FLLC)

Wealth Planning | Estate and Tax Planning

An FLP or FLLC can be a powerful estate tax planning strategy that allows an individual to transfer appreciating assets at a discounted value for federal estate and gift tax purposes.



Color Key	
Green	Assets subject to probate, included in taxable estate, and eligible for a step-up in cost basis.
Blue	Assets avoid probate, not included in taxable estate, and not eligible for a step-up in cost basis.

Entity Creation. FLPs and FLLCs are legal entities. State law outlines the requirements for creating and maintaining the entity. The entity may own a variety of assets, including privately held businesses, real estate interests, and publicly traded securities. Entity assets are generally protected from the individual owners' creditors. The individual owners' assets are generally protected from the entity's creditors.

Ownership. The entity is typically divided into voting/managing interests and non-voting/passive interests. The individual who creates the entity often initially owns all interests. He or she then transfers non-voting/passive interests to his or her descendants (outright or in trust). By retaining all voting/managing interests, the individual who creates the entity retains control. As a result, the entity can be an excellent vehicle for centralized pooling of family assets.

Income Tax Consequences. FLPs and FLLCs are typically considered flow-through or pass-through entities. The individual owners of the entity typically report the income attributable to their ownership shares and pay the corresponding taxes. The entity itself is not a taxpaying entity.

Gift Tax Consequences. When an individual transfers interests to a descendant (outright or in trust), he or she may have to file a gift tax return (Form 709) if the value of the gift exceeds the annual exclusion gift threshold ($19,000 in 2025). The individual usually does not owe gift tax unless he or she has exhausted his or her federal estate and gift tax exemption ($13.99 million in 2025).

Valuation Discounts. The individual who creates the entity must determine its value. Accordingly, he or she may need to obtain an appraisal of assets transferred to the entity, and consequently, the ownership interests. For estate and gift tax purposes, the value of the non-voting/passive interests may be discounted for lack of marketability and control. Thus, a non-voting/passive interest with a fair market value of $1 may be valued at less than $1 for federal estate and gift tax purposes.

Transferring Interest to a Dynasty Trust. An individual often creates an FLP or FLLC in conjunction with one or more irrevocable dynasty trusts for descendants. The individual can transfer the non-voting/passive interests to these trusts to protect the assets from a beneficiary's creditors while facilitating multi-generational tax-efficient transfer of wealth.

For more information about this strategy, contact your local attorney and Stifel Financial Advisor.