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NEWSLETTER

Curbing Valuation Discounts of Family Controlled Entities

The IRS recently proposed regulations under Section 2704 of the Internal Revenue Code which impose special valuations rules on transfers of interests in family-controlled entities for purposes of estate, gift and generation skipping transfers.

In general, the proposed regulations aim to halt the discounts on valuation of gifts and also provide that certain transfers made within three years of death would be treated as made at death and includible in the transferor's gross estate. If adopted, the regulations would severely dwindle valuation discounts on transfers of interests in family-controlled entities. In other words, the effect would include potentially millions of dollars of additional value subject to 40% transfer tax.

In order to demonstrate the effects of the proposed regulations if finalized and approved, suppose a parent is the sole shareholder of 2,000 shares of stock of a family-controlled corporation and a majority vote of shareholders is required for all transactions. The parent then gifts 1,000 shares to a child and holds the remaining 1,000 shares at death. Under existing law, the IRS allows the parent to obtain a 30%-40% discount on the value of the stock at the time of the gift, then again to the value of the remaining shares at the time of the parent's death.

If approved, the proposed regulations would largely negate this result. Specifically, the regulations would eliminate the partial discounts to be applied at the time of the gift or the time of death, unless the shareholder's limitations on liquidation meet strict requirements (e.g., "put right" or "minimum value"). In practicality, the loss of the opportunity to apply these discounts would produce substantial increases in the value of one's gross estate and ultimately the amount subject to transfer tax.

Moreover, the proposed regulations will not become finalized until December 2016 at the earliest, until which time families may continue to capitalize on the discounts under current law.

The full proposed regulations may be found on the [IRS's website](#).

We encourage you to review your estate plans with these principles in mind.

Please call with any questions.

Sincerely,
Citron & Deutsch

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