

## 1. What client might need this technique?

Family Limited Partnerships, or FLPs, are frequently used by:

- Clients who operate a business as a sole proprietorship
- Clients who operate their business in the form of a general partnership
- Clients who want to make gifts of property to their children but still control the management or investment policies affecting the property
- Clients with taxable estates
- Clients who want some form of asset protection
- Clients who want to protect life insurance proceeds from estate tax, but want more flexibility than in an irrevocable life insurance trust
- Clients who own real estate in their individual name(s), but who want asset protection regarding the property (particularly if they rent the property out, such as a vacation home).

## 2. How do FLPs work?

The client and spouse form an FLP and then transfer business or investment property to the FLP, each spouse, or their living trust, then receives a 1% general partnership interest and 49% limited partnership interests. The property of the clients is now held in the FLP and the FLP interests are held in the clients' revocable living trust. The spouses make all management decisions because they are the trustees of their living trust.

## 3. How does the client benefit from the FLP?

In many different ways:

- Estate and Gift Taxes-** Because of the way the partnership agreement is prepared, the total value of the partnership interests is worth less than the property the partnership holds. As an example, if \$1,000,000 in property is contributed to the FLP, the value of the partnership interests might only be \$600,000. That means an immediate savings in gift or estate taxes.
- Asset Protection-** The assets of the partnership are protected from lawsuits occurring at the partner level because a creditor of a partner has no rights or access to partnership property. This limit on the creditor frequently results in a negotiated settlement on reasonable terms.
- Property Management-** Because the parents retain control of the partnership in their status as general partners, they can give limited partnership interests in the partnership to their children and still control investment and management decisions. This provides the children with financial experience under their parents' guidance.

## 4. What are the clients' responsibilities?

Typically, the client follows the attorney's instructions as to the necessary documents to create and fund the partnership. The most important responsibility for the client is to operate the partnership in accordance with the formalities required by law and the partnership agreement itself. Failure to do so may result in the IRS's ignoring the partnership and its many benefits to the client will be lost. **In addition, the client must hire a qualified appraiser to value the property in the partnership and the partnership interests themselves.**

## 5. What are the attorney's responsibilities?

Aside from the preparation and filing of the necessary documents to create and fund the partnership, the most important duty of the attorney is to advise the client that the IRS is hostile to their effectiveness and may audit the partnership and attempt to reduce the estate and gift tax benefits, and that legal and accounting costs would be incurred if such an audit occurred and the client wanted to fight the IRS.

## 6. Are limited liability companies different?

Other than that no member of an LLC is responsible for partnership liabilities, LLCs and FLPs are very similar.

## Our Practice Focus

Buckley Law Offices, P.C. limits its practice to legal advice on all aspects of estate planning and corporate law, both within the U.S. and internationally. Our services include:

\* **Estate Planning**, to include: **all phases of tax planning**; advising client objectives to match client needs with client goals (irrespective of financial resources within the client's family); Use of trusts, corporations, limited partnerships, and limited liability companies in order to meet client goals; selection of offshore structures and jurisdictions that maximize liability protection for clients in professions facing high litigation exposure; charitable planning to meet client's desire to meet important social and/or religious objectives that continue long after the client is gone; advising clients concerning the appropriateness of the plethora of financial planning products available in the marketplace, including the use of offshore financial tools.

\* **Corporate planning** and counsel, to include: identifying business structures that maximize tax savings for entrepreneurs; providing counsel on avoiding shareholder conflict, and the drafting of conflict resolution mechanisms that insure the survival of the business entity in the event that conflict between shareholders occurs; all phases of successfully planning and implementing a successful business exit strategy.

\* **International business** counsel, to include negotiating, preparing, and implementing international agreements; providing advice on insuring monies owed to clients by a foreign partner are paid, especially in the event that a conflict between the U.S. client and the foreign partner arises.

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