HOW A FAMILY LIMITED PARTNERSHIP WORKS

STEP 1

Parents (and in some cases grandparents) contribute assets (e.g., a family business, investment accounts, real estate) to the limited partnership. *NOTE: assets cannot include personal belongings.*

STEP 2

In return, the parents receive a small amount of general partnership interests and a large amount of limited partnership interests.

STEP 3

[Option A] Using their annual gift tax exclusion amount, the parents make annual gifts of limited partnership interests to their children (or to trusts for their benefit).

[Option B] Utilizing their lifetime gift and estate tax exemption, the parents gift all of the limited partnership interests to their children (or to trusts for the children's benefit). A gift tax return is filed, but if the value of the interests is under the lifetime exemption amount, no gift tax is paid. The value of the gift may be discounted, allowing for more value to be gifted without tax consequences.

STEP 4

Parents retain the general partnership interests, which allows them to control the partnership and when money is distributed to the partners. Children receive money when distributions are made.

STEP 5

At the parents' death, the general partnership interests and any remaining limited partnership interests are distributed to chosen recipients.