



ESTATE TAX VALUATION SERIES: PRICING VALUATION SERVICES

"NOTHING IS CERTAIN BUT DEATH & TAXES"
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AGENDA FOR TODAY

Valuation of FLPs & LLCs

- Introduction
- Information to Prepare a Valuation
- Pricing Alternatives



THE GREAT RESET

- Estate exemption \$13.61 million (2024)
- Set to “sunset” and return to 2017 levels
- Expected to go to b/w \$6M to \$7M
- Marginal Tax Rate @ 40%

INTRODUCTION

FLPs vs LLCs

- FLPs are non-taxable entities created & governed by state statutes.
- General & limited partners made up of family members
- Limited partnership created under and governed by the RULPA of the state in which it was formed
- Each states' RULPA must be reviewed separately as differences exist
- LLCs has a different legal structure with characteristics of a corporation & of a partnership
- Valuation issues resemble that of a family limited partnership
- LLC looks like a partnership in terms of internal structure & relationships b/w members or members & managers
- Additional liability shield from vicarious liability of members & managers

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INTRODUCTION

Understanding the value of an LLC is crucial for strategic decision-making and financial planning. Valuation provides insights into the company's worth, aiding in various business scenarios.

- **Information to Prepare**

- Financial Statements
- Market Trends
- Asset Evaluation
- Earnings and Cash flow
- Risk Assessment

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- **Pricing Alternatives**

- Comparable Company Analysis
- Discounted Cash Flow
- Market Capitalization
- Asset-Based Valuation

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- **Conclusion**

- The valuation process involves a comprehensive analysis of financial data, market conditions, and various pricing methodologies. Careful consideration of these factors allows for a more accurate understanding of the LLC's value, aiding in strategic decision-making.

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The valuation process involves a comprehensive analysis of financial data, market conditions, and various pricing methodologies. Careful consideration of these factors allows for a more accurate understanding of the FLP/LLCs value, aiding in strategic decision making

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FLPS ARE PARTICULARLY ATTRACTIVE AS ESTATE PLANNING TOOLS

- Unified management of Assets
- Indirect Transferability by Generations
- Creditor Protection Enhancement
- Preservation of Family Assets
- Mitigation of Undivided Interest Issues
- Economies of Scale & Diversification
- Flexibility Thru Partnership & Operating Agreements
- Tax Efficiency
- Strategic Value in Gifting
- Dispute Resolution & Litigation Avoidance
- Enhanced Family Knowledge & Communication

INFORMATION TO PREPARE A VALUATION

INFORMATION NEEDED TO PREPARE FLP/LLC VALUATION

- Partnership agreement or operating agreement
- List of assets initially contributed to the FLP/LLC + documentation about any assets that were contributed after the formation of the FLP/LLC
- Valuations of real estate and other assets held by the FLP/LLC
- Financial statements and/or income tax returns of the FLP/LLC for a reasonable number of years
- General partner's or managing members' anticipated policies regarding distribution or Sec 754 election
- History of distributions made to the owners
- Partnership minutes of past meetings or other documents that give insight into the donor's intent at the time the FLP/LLC was formed

UNDERSTANDING THE AGREEMENT

- Form the foundation for the valuation adjustments used in arriving at FMV of the transferred interest
 - Assist the appraiser define the subject interest & the rights associated with it
- Legal interpretations often exist and require input from legal counsel
- Some provisions that give rise to valuation adjustments include:
 - Term of years provision
 - No guarantee by the managing partner(s) or managing member(s) regarding the return of any owners capital or any cash distributions
- Approval rights of limited partners or non-managing members required for certain major decisions
- Limited partners, non-managing members and assignees excluded from management
- How the election of new managing members is accomplished
- Distances limited partners, non-managing members and assignees from the assets of the FLP

MORE ON UNDERSTANDING THE AGREEMENT

- The right of the GP or managing member to determine whether cash will be distributed and at what amount
- Capital call provisions that obligate partners, members, or assignees
- Limitations on the voluntary and involuntary transferability of general partner, limited partner, member and assignee interests
- First refusal rights
- Whether the transferee of an interest is a partner, member or assignee
- Consent of all owners required for a transferee or assignee of an interest in th FLP/LLC to become a substituted limited partner or member
- General Partners or managing members eligible or required to make Sec 754 elections
- Limitations on the right of GPs to withdraw from the partnership prior to the expiration of its stated term

STILL MORE

- Should the GP/MM exercise his power to withdraw early the GP/MM interest shall become a limited partner interest, and the partner may also be subject to damages breach
- Ability of LP, member or assignee to withdraw from the FLP prior to expiration of stated term
- Provisions for dissolution of the FLP mirroring state law

SOME ADDITIONAL FACTORS THAT NEED TO BE CONSIDERED

- Size of the interest
- Number of investors in the FLP/LLC
- Type of assets owned by the FLP
- Are assets well diversified
- Current & historical amount of cash distributed to partners, members and assignees
- Underlying cash flow coverage of yearly distributions
- The “default rules” under state law
- Mgmt Competency
- Financial leverage inherent in the FLP/LLC capital structure
- Caliber of the information from the FLP/LLC
- Universe of interested buyers

CAVEATS

- FLP assets should be expected to appreciate in value
- Personal assets (especially a personal residence) should not be placed in an FLP. FLP must have legitimate business purpose (Consider using a QRPRT instead)
- All personal assets not advisable to be placed in a FLP/LLC because the owners should maintain enough assets outside the FLP/LLC to pay personal bills & expenses without relying on FLP/LLC distributions to make good on those obligations

PRICING ALTERNATIVES

VALUATION CONCIERGE SERVICES

- Hourly Consultation Rate - \$450 per hour
- Valuation Analysis - \$500
 - Includes 29-page report with Key Performance Indicators (BizEquity)
- Deal Structuring & Optimal Pricing Modeling (BVxpro) -\$2,500
- Summary Report - \$10,000 - \$12,500
 - Control/Non-Control/Marketable/Non-Marketable Valuation
 - 60+ page report
 - IRS compliant for Gift Tax/Shareholder/Partner Buyout/Charitable Giving
- Detailed Report - \$17,500 - \$20,000
 - Control/Non-Control/Marketable/Non-Marketable Valuation
 - 75+ page report
 - IRS compliant for Gift Tax/Shareholder/Partner Buyout/Charitable Giving



THANK YOU!!!!
PLEASE CALL US TO SET UP YOUR APPOINTMENT TODAY

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