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CLIENT ALERT

Closely Held Businesses – Valuation

Estate and Gift Tax Planning

Recently the IRS issued proposed regulations which if adopted will have a dramatic impact on valuation of closely held and family businesses – including investment partnerships and limited liability companies. Bottom Line – IRS is looking to minimize or, even in some cases, eliminate the use of "discounts" for "lack of control" or "lack of marketability." Use of these "discounts" has been heretofore acceptable in calculating values for estate and gift tax purposes. In essence, the proposal will establish requirements resulting in higher values for gift tax and estate tax purposes. The regulations will not be effective until they are finalized – this could be in December 2016 or January 2017. Once finalized, transfers made after 30 days of the effective date, by gift or estates, will be subject to the new rules. While there is some movement in Congress to stop the IRS proposed regulations, consideration should be given to take planning actions in 2016 to avoid the tax consequences if the proposed regulations are finalized.

September 30, 2016

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