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CASE SUMMARY

This article examines utilizing fractional share interest discounts to reduce the taxable estate.



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Fractional Share Interest Discounts

There are a number of techniques to create a fractional share interest in an asset which will result in a discounted valuation of the asset.

Fractional share interest discounts are a relatively simple technique to reduce the taxable estate. Fractional share interest discounts work well where an estate is only slightly above the lifetime estate tax exclusion or as a first step to reduce an estate greatly in excess of the lifetime exclusion. Fractional share interest discounts are generally used to reduce the value of real property or business interests.

The basis of the fractional share interest discount is relatively straight forward. There is a limited market of buyers willing to purchase only a portion of an asset with the remainder of the asset owned by another party. Additionally, even if a buyer would be willing to purchase an asset with strangers owning the remainder, the purchaser would expect a large discount. The market value of a partial interest in property is discounted from its pro rata share of the whole property because of its reduced control over the property and the increased difficulty of sale

due to a lack of willing purchasers of partial interests.

There are a number of techniques to create a fractional share interest in an asset which will result in a discounted valuation of the asset. A very simple but effective manner is to transfer two percent of a property to a child through a quitclaim deed. The transfer will result in the parent owning ninety-eight percent of the property which will allow a discount in the value of the property of up to twenty percent.

One draw-back to fractional share interest discounts is that they must be an irrevocable transfer.

Alternatively, the parent and child can enter a tenancy in common agreement and waive the right to partition which will result in a greater discount, possibly up to thirty percent. One draw-back to fractional share interest discounts is that they must be an irrevocable transfer.