Kenneth E. Devore, LL.M. (Taxation)*
Attorney at Law
kdevore@trustplanner.net

Barbara L. Taaff*
Attorney at Law
btaaff@trustplanner.net

Stephanie M. Manis
Attorney at Law
smanis@trustplanner.net

Kenneth E. Devore & Associates
A PROFESSIONAL CORPORATION
Attorneys at Law
Estate Planning, Trust, Probate, & Elder Law
31355 Oak Crest Drive, Suite 250, Westlake Village, CA 91361
Telephone 818.338.3252 Facsimile 818.338.3287
www.trustplanner.net

**Certified Specialist in Estate Planning, Trust and Probate Law by the State Bar of California Board of Legal Specialization*

Of Counsel:
Rubin M. Turner

September 16, 2016

Re: IRS Issues Proposed Regulations to Eliminate Valuation Discounts on Family Transfers – TIME TO ACT IS NOW

Dear Valued Client or Friend of the Firm,

I hope you are enjoying the last days of summer. I am writing to alert you that the IRS recently announced proposed regulations targeting valuation discounts. If, as expected, the regulations become final in substantially similar form, they will significantly curtail or eliminate valuation discounts on transfers of entity interests among family members. Without valuation discounts, certain powerful wealth transfer strategies that help families reduce estate taxes will become significantly less effective.

The regulations may become final as soon as the end of the year, although more likely in early 2017. There is a limited window of time to complete transfers before the regulations become effective.

What are valuation discounts? Currently, when one family member transfers a non-controlling interest in a family business or an entity (such as an LLC, partnership, or corporation) to another family member, a professional appraiser will apply a "discount" to reflect the decreased market value resulting from lack of control and lack of marketability inherent in the interest transferred. These discounts are often 30-40% and can result in substantial estate and gift tax savings.

Who Is Affected? If your estate will likely be subject to estate taxes and reducing your estate tax liability is of interest to you, you should meet with your advisors to examine your assets and determine if there are opportunities to shift substantial wealth out of your taxable estate on a discounted basis, before discounts effectively disappear. Taxpayers who have been thinking about setting up trusts for family members, have already set up trusts for family members, or are interested in business succession planning *should act now*.

Next Steps Call my office to set up a time to meet, review your existing estate plan, and discuss whether it makes sense to structure gifts or sales of discounted business interests prior to the end of the year. We anticipate that many clients will want to complete transactions prior to the end of the year so the last quarter of 2016 should be busy. This call to action may remind you of 2012 and the rush to make gifts before the end of the year on the fear that the estate and gift tax exemptions might be reduced from $5M to $1M in 2013. While the exemptions were never reduced to $1M, we believe that the 2016 situation is different and that there is a good chance these proposed regulations will be made final in a form that significantly curtails or eliminates valuation discounts.

Learning from the lessons of 2012, we ask that you contact us soon if you are interested in completing a transaction before the end of the year. We are happy to assist you, but the planning process takes time. In addition to the legal work, professional appraisals will be needed to substantiate the value of the transfers for tax purposes as well as the discounts.

We require two months lead time to complete a transaction. If you would like to complete a transaction prior to year-end, we must get started by October 31st. We appreciate that many clients would like to wait until the outcome of the November election before beginning the planning process; however, we will not be able to complete your transaction before the end of the year if you wait until then to get started.

If you have any questions about your plan or the proposed regulations, please do not hesitate to call or email me.

Sincerely,

KENNETH E. DEVORE & ASSOCIATES

Kenneth E. Devore

KED