



August 30, 2016

# The IRS is Rewriting the Rules on Valuation Discounts

ESTATE PLANNING, INTERNAL REVENUE SERVICE, TAX  
BY

On August 2, 2016, the Internal Revenue Service (the “IRS”) unveiled proposed regulations under Section 2704 of the Internal Revenue Code that threaten to restrict or eliminate the use of valuation discounts in connection with transfers of interests in certain family businesses. These proposed regulations, if and when made final, will have sweeping ramifications on the estate planning for owners of family-controlled entities.

By way of background, valuation discounts play a crucial role in the estate planning playbook of high-net-worth families. Business owners who transfer interests in entities to family members can often save estate, gift and generation-skipping transfer taxes by availing themselves of lack-of-marketability and minority interest discounts that would not be available if the underlying assets were transferred outright. The IRS has long disfavored these discounts and now intends to crack down on perceived abuses in the valuation of family entities.

The mechanics of the proposed regulations will be addressed in a separate writing. Generally speaking, the proposed regulations will achieve their effect by first treating the lapse of certain voting and liquidating rights as an additional transfer. In addition, restrictions imposed on the ownership of family-owned entities that support valuation discounts will be ignored.

It is important to remember that only transfers that occur after the proposed regulations are published as final will be affected. A public hearing on the proposed regulations is scheduled for December 1, 2016, and the new rules could take effect as early as the beginning of next year. This means that taxpayers have a very limited window of time in which to initiate intrafamily transfers at a discounted value. Taxpayers considering the transfer of an interest in a family-owned entity are well advised to act immediately to avoid forfeiting the benefit of valuation discounts.

[Contact us if you have questions regarding estate taxes or estate planning](#) and [visit our Estate Planning webpage](#) to learn about the services we offer.

REG-163113-02

## You’ve heard our thoughts... We’d like to hear yours

The Schneider Downs Our Thoughts On blog exists to create a dialogue on issues that are important to organizations and individuals. While we enjoy sharing our ideas and insights, we’re especially interested in what you may have to say. If you have a question or a comment about this article – or any article from the Our Thoughts On blog – we hope you’ll share it with us. After all, a dialogue is an exchange of ideas, and we’d like to hear from you. Email us at

[contactSD@schneiderdowns.com](mailto:contactSD@schneiderdowns.com).

Material discussed is meant for informational purposes only, and it is not to be construed as investment, tax, or legal advice. Please note that individual situations can vary. Therefore, this information should be relied upon when coordinated with individual professional advice.

© 2024 Schneider Downs. All rights-reserved. All content on this site is property of Schneider Downs unless otherwise noted and should not be used without [written permission](#).