# Discounting

*Essentials 2018*

Discounting allows interests in entities to be transferred at a reduced value. Why? Because the ownership of a minority (i.e. non-controlling) interest in a business does not provide the ability to control the entity or its underlying assets. Ownership interest cannot be easily transferred. In addition, there is usually a limited market for interest in closely held businesses. This lack of control and lack of marketability reduce the value of the business interest and reduce (gift, generation skipping tax and/or estate) taxes.

## Lack of Control Discount

This discount reflects the inability of the minority owner to control the entity and the assets owned by the entity. Minority owners cannot dictate management decisions regarding the entity's direction; cannot dictate investment decisions regarding the entity's assets; cannot make decisions concerning distributions to owners and are generally at the mercy of those who "control" the entity. Lack of control discounts are applicable not only to "minority interests" (less than 51% ownership) but can be applied to "non-voting" and "limited" interests in the entity. Typical discounts for lack of control generally range between 20 percent and 30 percent.

## Lack of Marketability Discount

This discount is often applied because of the owner's inability to sell the interest in a readily available market. Most closely held businesses contain specific provisions limiting that transfer of the interests. Each of these provisions, by design, reduces the owner's ability to sell his/her interest and thereby reduces its value.

Several factors can influence the level of discount for lack of marketability. These factors include, but are not limited to, the entity's asset mix (i.e. marketable securities, real property, etc.) and transfer restrictions contained in the entity's legal documents. Typical discounts for lack of marketability also range up to 30 percent.

## Essentially

Valuable assets such as a successful close held business, real estate, etc., can be transferred to the next generation in a very tax-efficient manner. Parents can gradually give away business units which represent the bulk of the economic ownership of the entity while maintaining control of the business. The discounts related to minority interests, limited interests and/or non-voting interests can be an effective way to transfer significant amounts for a fraction of the overall value. These discounts must be determined by a qualified appraiser in conjunction with an experienced estate planning attorney.



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