

**USE AND MISUSE OF BUSINESS ENTITIES IN  
ESTATE PLANNING: MISCELLANEOUS TAX  
ISSUES**

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**CHAPTER 1**  
**THE INDIRECT GIFT**  
**REDEMPTION TRAP**

**I. PROBLEM FOR DISCUSSION.**

Family LLC Balance Sheet.

	<u>2010 FMV</u>	<u>2019 FMV</u>
Assets:	\$6,000,000	\$15,000,000
Capital:		
Bob	\$2,000,000	\$5,000,000
Alice	2,000,000	5,000,000
Sara	<u>2,000,000</u>	<u>5,000,000</u>
Total	\$6,000,000	\$15,000,000

On March 31, 2010, Bob gifted a one-third interest in Family LLC to each of his children, Alice and Sara, and fully disclosed the transaction claiming a 40% combined DLOC/DLOM on the gift tax return. Effective December 31, 2019, Bob wants to withdraw his capital from the LLC. How much will Bob receive if Family LLC is liquidated? How much should Bob receive if Family LLC redeems his one-third interest? How does the existence of a §2036 string impact the value of Bob's interest. Does the elimination of a §2036 string cause a taxable gift?

**II. DISCUSSION.**

**A. Indirect Gifts.**

1. Where property is transferred for less than full and adequate consideration in money or money's worth, the excess of the value of the property transferred over the value of the consideration received shall be deemed a gift and shall be included in computing the amount of gifts made during the calendar year. For gift tax purposes, the fair market value of property is the price a willing buyer would pay a willing seller, both having reasonable knowledge of all the relevant facts and neither being under compulsion to buy or to sell. *See* §2512(b); Reg. §25.2512-1; eg. §25.2511-1(g)(1); and Reg. §25.2512-8. Special consideration is required for transactions between family members. *See* Reg. §25.2512-8.

2. A transfer of property for less than full and adequate consideration by a corporation to B is a gift to B from the stockholders of the corporation. If B himself is a stockholder, the transfer is a gift to him from the other stockholders, but only to the extent it exceeds B's own interest in such amount as a shareholder. *See* Reg. §25.2511-1(h)(1). This rule applies to partnerships and LLCs, as well as corporations. *See Estate of Mary D. Maggos*, T.C. Memo. 2000-129; *Senda*, T.C. Memo. 2004-160; *Kincaid v. U.S.*, 682 F.2d 1220 (5<sup>th</sup> Cir. 1982);

*Tilton v. Comm'r*, 88 T.C. 590 (1987); *Estate of Helen M. Trenchard*, T.C. Memo. 1995-121; and *Linton v. U.S.*, 630 F.3d 1211 (9<sup>th</sup> Cir. 2011).

B. **Taxation of Partnership Distributions.**

1. In the case of a distribution by a partnership to a partner, gain shall not be recognized by such partner, except to the extent that any money distributed exceeds the adjusted basis of such partner's interest in the partnership immediately before the distribution. §731(a)(1).

2. No gain or loss shall be recognized to a partnership on a distribution to a partnership of property, including money, unless §751 assets, §704(c)(1)(B), §731(c), or §737 apply. §731(b).

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