

Special Valuation Rules

Previously covered

- Fair market value definition
 - Willing buyer, willing seller
- Basic techniques of valuation
- Discounts
 - Lack of control (undivided interests)
 - No family attribution
 - Lack of marketability
 - Family limited partnerships / IRC § 2036 issues
- Valuation of time-divided (successive) interests - IRC § 7520
- IRC § 2702 (gift tax, retained interests)

Alternate valuation date

- All or nothing - entire estate only
- Each asset valued individually - some may increase in value from d.o.d. while others decrease
- No adjustment from d.o.d. value for value changes due to mere lapse of time
- Affects basis to transferee per IRC § 1014
- Must lower gross estate, and estate tax (no basis-only elections)

Special use valuation

- Farm/business real estate only
- Value reduction capped at \$750,000 per estate
 - Indexed to \$1,110,000 for '16 decedents
- Property must have been used by decedent or family in business for 5 of 8 years before death
- Must make up large percentage of gross estate (50% and 25% tests)
- Decedent's family must receive and continue to use in business for 10-year period
 - Recapture tax
- Heirs must sign agreement as part of election

IRC § 2703

- Options to buy and restrictions on sale or use disregarded
- Exception:
 - Bona fide business arrangement
 - Not a testamentary “device” *and*
 - Terms comparable to arm's-length transactions

IRC § 2704(b)

IRC § 2704(a)

Prop. Reg. §§ 25.2704-2, 25.2704-3

IRC § 2701

- Preferred stock/partnership/ LLC interests
 - For gift tax purposes, value retained interest based on money rights only
 - Ignore retained “bells and whistles”