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TAX AND WEALTH ADVISOR ALERT: TAX COURT AFFIRMS DISCOUNT FOR FAMILY PARTNERSHIP

The United States Tax Court is reminding some taxpayers to run their family like a business. In the *Estate of Barbara M. Purdue* decision, the court affirmed the use of discounts in an estate tax dispute involving a family partnership, which was critical to minimizing the estate's tax liability. Most importantly, the court affirmed the use of discounts because the family actually treated the partnership like a business.

While taxpayers and tax practitioners wonder what will come of the IRS's threat to disallow discounts under this method of estate planning, this case is a good reminder to taxpayers that they should follow through with all the steps of their family partnership based estate plan if they want it to be effective. A plan on paper alone will not cut it.

The court in the *Estate of Barbara M. Purdue* cited to several actions taken by the family that proved the family partnership was formed for a nontax reason—to consolidate and manage the family's investments. To start, the partnership formalities were respected: The decedent maintained assets outside of the partnership to pay for living expenses, the partnership had its own bank accounts, and she did not comingle her assets with the partnership's assets. Further, the five children ran the business like a business. The Purdue children held an initial partnership meeting and agreed to hire a professional management advisory firm and to hold annual meetings. At the meetings, the children discussed the family's accounts and assets, approved distributions, heard presentations from the investment manager, and received estate tax planning updates and advice.

All families already managing or considering managing their assets under this type of estate plan should take note; the court barely mentioned the formal planning documents in this case. Although such documents are important, planning does not stop after the documents have been signed.