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POLITICS

U.S. Aims to Clamp Down on Tactic to Avoid Estate Tax

Regulations target practice of discounting value of fractional interests in closely held businesses

The U.S Treasury Building in Washington. Tuesday the government proposed new limits on a common technique used to transfer interests in illiquid businesses. *PHOTO: ASSOCIATED PRESS*

By RICHARD RUBIN

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WASHINGTON—The U.S. government on Tuesday proposed making it harder for wealthy business owners to transfer assets to heirs without paying estate and gift taxes.

The Treasury Department and Internal Revenue Service plan would place new limits on a common technique used to transfer interests in illiquid businesses.

“By taking advantage of these tactics, certain taxpayers or their estates owning closely held businesses or other entities can end up paying less than they should in estate or gift taxes,” Mark Mazur, the assistant secretary for tax policy, said in a written statement. “Treasury’s action will significantly reduce the ability of these taxpayers and their estates to use such techniques.”

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The regulations relate to the practice of discounting the value of fractional interests in closely held businesses or land, allowing wealthy families to pack assets inside the $10.9 million lifetime exclusion from estate and gift taxes.

The proposal could make it harder for taxpayers to claim valuation discounts by changing how the IRS considers restrictions of an individual's right to liquidate interests in a business.

The government has signaled for months that the regulations were imminent. Estate planners have urged clients to complete transfers before the government acted. Such efforts may accelerate, because the regulations must first go through a 90-day public comment period and parts of the regulations won't take effect until 30 days after the government issues a final version.

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