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Moss Adams Construction Group Newsletter

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## Has the Recession Created an Estate-Planning Opportunity?

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Significant declines in both the stock market and the real estate market have caused many people to want to hoard their assets. This is a natural reaction during a recessionary economy. Yet if you have a significant estate, a recession might be the perfect time to think about gifting. Why? Because business owners can maximize the impact of estate planning by gifting interest in their companies while those companies' values are depressed.

### Asset Holding Companies

Asset holding companies often hold investments in real estate or marketable securities. Asset holding company values are based on their net asset values (market value of assets less liabilities). The current decline in values of assets held by these entities makes it a great time to gift interests in these entities while values are low.

### Operating Companies

Two common methods of valuing an operating company are the market approach and the income approach. The market approach uses valuation multiples derived from market transactions to arrive at a company's value, and the income approach uses estimated future cash flows discounted to a present value. Current market and economic conditions have generally caused declining valuation multiples and future cash flows, resulting in lower values for closely held companies. Because most operating companies' values are down, now is a good time to gift.

### Discount for Lack of Marketability

During periods of high volatility, investors increasingly prefer to hold liquid investments, resulting in the lack of a market for

minority interests in closely held companies. The absence of this market triggers a discount for lack of marketability, which means minority-interest values are lower than they would be in a less-volatile market environment. These lower values increase the estate benefits associated with gifting.

### Time May Be Running Out

The federal government has introduced legislation that could limit or even eliminate certain valuation discounts as well as freeze the estate-tax rate and exemptions at 2009 levels. Rather than gamble that this legislation won't pass, now is the time to gift. Every storm passes—the economy and the market will eventually rebound—but the time is right for business owners with significant estates to take advantage of volatile economic conditions. When the economy strengthens and valuations begin to increase, you'll be glad you made the right decisions for your estate and for your family.



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