

# Treasury Strikes Back: Proposed Regulations Target Valuation Discounts for Family Businesses

The Treasury Department has released proposed regulations that seek to eliminate valuation discounts for interests in family-controlled entities, according to an **Arnold & Porter article**.

Authors **Laura A. Jeltema, Thomas W. Richardson** and **Cara M. Koss** write that the impact of these new rules is significant and far reaching, and if adopted in their current form, will drastically alter the landscape of wealth transfer planning for family business owners.

In the existing code, Internal Revenue Code Section 2704 was created to prevent families from using valuation discounts to artificially reduce the value of interests in family-controlled entities.

The IRS and Treasury now believe that Section 2704 “has been rendered ‘substantially ineffective’ by the recent trend of states providing restrictive default liquidation provisions. In response, one of the many changes contained in the Proposed Regulations narrows the exception to only those restrictions that are *required* to be imposed by federal or state law, and not merely those allowable as default provisions,” according to the article.

**Read the article.**