

1996

## Selected Tax Issues for Pass-Through Entities

Charles H. Egerton

Samuel P. Starr

---

### Repository Citation

Egerton, Charles H. and Starr, Samuel P., "Selected Tax Issues for Pass-Through Entities" (1996). *William & Mary Annual Tax Conference*. 320.

<https://scholarship.law.wm.edu/tax/320>

Copyright c 1996 by the authors. This article is brought to you by the William & Mary Law School Scholarship Repository.

<https://scholarship.law.wm.edu/tax>

WILLIAM AND MARY TAX CONFERENCE

December 6-7, 1996

SELECTED TAX ISSUES  
FOR  
PASS-THROUGH ENTITIES

Charles H. Egerton  
Dean, Mead, Egerton, Bloodworth, Capouano & Bozarth, P.A.  
Orlando, Florida

Samuel P. Starr  
Coopers & Lybrand, L.L.P.  
Washington, D.C.

FACT PATTERNS FOR DISCUSSION IN SESSION  
ON  
SELECTED TAX ISSUES FOR PASS-THROUGH ENTITIES

**CASE #1** -- Mother and Father created a family limited partnership (FLP) several years ago for asset management and valuation discount planning. The FLP is presently owned as follows:

Father	50.0%
Mother	15.0%
Son	07.5%
Daughter	07.5%
GST Trust	20.0%

Father and Son are the general partners. Son is concerned about his personal liability. Father has been taking as a management fee all cash of the FLP not needed for debt services or expenses of the FLP. The FLP's assets consist of several commercial properties, a large tract of unimproved land subject to a mortgage, and minority interests in several other real estate limited partnerships (LPS) and limited liability companies (LLCs) owned and controlled by unrelated parties. Some of the LPS and LLCs produce positive cash flow and others throw off phantom income.

**CASE #2** -- LLC is a Virginia limited liability company in the business of distributing office supplies at wholesale throughout the United States. It has 24 distribution centers nationwide and carries on its affairs much like any business corporation. The LLC's two founders are the sole managers and serve as Chairman and President, respectively. The two managers and the three senior vice presidents serve as a board of directors to formulate policies and set compensation for the other officers. Each distribution center is managed by a vice president who reports to the senior vice president for his region. The LLC is interested in implementing for its officers various equity based compensation arrangements which may include options, appreciation rights, or phantom "stock."

**CASE #3** -- FLP is a Virginia limited partnership created several years ago by Mother and Father to own a vacation home at the beach. Although Mother and Father have continued to be the primary users of the home, Son and his family have begun to spend some vacations using the home. Daughter and her family never use the home. Mother and Father have regularly made annual exclusion gifts of LP interests to Son and Daughter and their spouses and descendants. No rent is paid by Mother or Father or by Son. Mother and Father pay all real estate taxes, utilities, and expenses of upkeep and maintenance.

**CASE #4** -- A and B are unrelated and are equal owners of LLC, a Virginia limited liability company engaged in the business of rendering consulting services to various industries throughout the Mid-Atlantic area. The LLC's offices are located in Charlottesville, and all employees live in Virginia. In addition to A and B, the LLC has six other consultants and three staff members, all of whom receive a base salary and share in bonuses tied to profits. A and B are considering admitting C as the owner of one-third of the LLC.

**CASE #5** -- C is a C corporation has a June 30 fiscal year end. Shareholders want to make an S election and have it take effect as soon as possible. C's chief financial officer has told Shareholders that they will probably have to wait until July 1 of next year to make the S election but that C's CPAs and tax lawyers should be asked whether anything can be done to accelerated the S election.

**CASE #6** -- S corporation that does business in several states would like to convert to an LLC because certain of the states in which it does business tax LLC income more favorably than income of corporations. The chief financial officer says he has heard about a way to convert to an LLC without having S corporation treated as having been liquidated for federal tax purposes.

**CASE #7** -- Advisors to a brother-sister group consisting of various S corporations, C corporations, and LLCs have been asked what flexibility exists under the 1996 tax act to restructure the entities into a parent-subsidary group and to use the stock of the S corporations for charitable giving purposes.