

Consultation on Gifting Undivided Interest in Real Property

Fractional Interest Discount – A fractional interest discount is intended to recognize the decline in value that results from owning less than 100% of the real property. The value of the real estate would be reduced because the full value of the real estate cannot be realized without the cooperation of the other owners or interest holders. The key to sustaining a fractional interest discount for an undivided interest in real estate is the owner's lack of control over the use of the property.

The starting point for valuing an undivided interest in real estate (i.e., a fractional interest owned directly by an individual, as opposed to ownership through an intervening entity) is the net asset value of 100% of the real estate. The distinguishing characteristic of an undivided interest in real estate is that the interest can sometimes be partitioned and sold, giving the owner a small degree of control, in contrast with a partial interest in an asset such as closely held corporate stock, in which a minority shareholder has little ability to force a liquidation of the corporation or a redemption of his interest.

Discounts from the property owner's pro rata share of 100% of the property's net asset value may be appropriate in circumstances when (1) the owner lacks the ability to control the use of, cash flow from, or disposition of the property, and (2) the time and expense of converting the property to cash causes a diminution of the property's value.