



Convert Your LP to a LLC

Some of our clients have recently taken steps to convert their limited partnership (LP) into a limited liability company (LLC) in 2016. We thought you might want to consider taking similar steps. One advantage of such a conversion is to simplify your entity's governance. For example, you can eliminate the need for the general partner entity and save on tax filings and administration.

Another advantage is to minimize the risk of having a limited partner held liable for an LP's actions. As you know, LPs provide pass through tax treatment so that no federal or state tax is imposed on a partnership's earnings at the entity level. An LP, generally, must have one general partner who is personally liable for the debts of the entity. Under certain circumstances, a limited partner who participates in the management of an LP could be reclassified as a general partner, and thus, be exposed to unlimited liability. The general partner of an LP is oftentimes another business entity. Regardless of entity form, however, an individual who exercises control over the entity serving as general partner may still be susceptible to liability to the LP and its partners.

An LLC enjoys the same pass through tax treatment as an LP. But, in contrast to an LP, an LLC provides limited liability protection for all of its owners, regardless of management level or participation. With an LLC as the operating entity, there is no need for a general partner; thus, the administration and cost of maintaining your business entity becomes more simplified.

Let us know if you might be interested in converting any of your LPs to LLCs.

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