
LIMITED PARTNERSHIPS

DEFINITION:

A limited partnership is a partnership with one or more limited partners, and one or more general partners. A limited partnership may engage in any trade, occupation, or profession for profit except those businesses that involve banking, insurance or trust company business. Limited partners are passive investors who do not participate in managing the partnership business, and are only liable for partnership obligations to the extent of their capital contributions. General partners are those who actively participate in managing the partnership business and have unlimited personal liability for partnership debts and obligations.

FORMATION:

The partners should enter into a written partnership agreement, although there is no form prescribed by law. The California Revised Limited Partnership Act (CRLPA) also applies. A limited partnership must be registered by filing the required Certificate of Limited Partnership (Secretary of State Form LP-1) and its accompanying filing fee with the Secretary of State prior to the limited partnership commencing business. Until this certificate is filed, the limited partnership is treated as a general partnership. A limited partnership is subject to a minimum franchise tax deposit for the privilege of doing business in California. The fee is due when it files its informational tax return and annually thereafter.

TAXES:

A limited partnership is generally not taxed at the partnership level for purposes of federal or state income or franchise tax. The partnership's net profits, losses, and tax credits are passed through and taxed directly to the partners. The partners report their respective distributive shares of partnership income, gain, loss, deduction, and credit on their individual income tax returns.

In order to be entitled to partnership rather than corporation tax treatment, the entity must possess no more than two corporate characteristics, which are limited liability, continuity of life, centralized management, and free transferability of interest.

OTHER CONSIDERATIONS:

A limited partner's ownership interest in a limited partnership constitutes a security for state and federal securities law purposes. Accordingly, all offers and sales of such interests must satisfy the registration or qualification requirements of these laws unless an exemption applies.