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# How is the best way to structure joint ventures?

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Combining resources to invest in real estate or develop projects can have some obvious benefits â€” such as pooling financial strengths and experience. The question is how best to structure such joint ventures.

A general partnership is the simplest option to set up, there are no special forms or fees to establish. For tax purposes, this structure is a "pass-through entity," meaning owners report their share of the income or losses on their personal income tax returns.

With a partnership there are no operating rules to follow, although agreements should be written and reviewed by an attorney. The agreement should include: goals, capital investments, management practices, individual partner responsibilities and income distribution. General partnerships provide tremendous management flexibility, but it does not protect partners from personal liability. This is a key consideration when investing in real estate. Additionally, many states allow a partner to terminate a general partnership at any time.

Limiting your liability: Several types of business structures do afford personal liability protection and offering the benefits of pass-through entities.

Limited Liability Company (LLC): An LLC is a hybrid business structure offering the flexibility of a partnership and the liability protection of a corporation. Like corporation owners, LLC owners are not personally liable for any of the company's debts or liabilities, and creditors can not go after the owners' other assets. Unlike a corporation, an LLC is not required to allocate profits and losses in proportion to ownership interests. The LLC has become very popular for real estate because it allows for management flexibility and offers full personal liability protection.

Limited partnership (LP): This structure affords personal liability protection for those partners who are not active in operating the business, but still receive a share of the profits and losses. One or more general partners are designated to run the business, and assume the personal liability in the LP. Often the general partner is an LLC or corporation (to limit liability) but this approach has the disadvantage of requiring an additional legal entity. Creating an LP (and its general partner entity) requires filing documentation with the state and paying state fees. LPs have become less common as more ventures prefer the LLC.

Limited liability partnership (LLP): An LLP is a general partnership, governed by the state statute applicable to general partnerships. An LLP is different from an LP (and more like an LLC) because it allows all partners to be active in running the business without the liability of the debts and obligations of the LLP. LLPs do face liability for their own negligence and for those employees directly under their supervision. The benefits of an LLP are similar to an LLC, including the freedom to split proceeds however many states have less user friendly statutes for general partnerships compared to LLC and LP statutes.

Limited liability limited partnership (LLLP): An LLLP is a limited partnership, which does not have a

general partner. The benefits of an LLLP are very similar to those of an LLC except that it is governed by the limited partnership statute. The disadvantage is that many lenders and other parties are less familiar, but in jurisdictions which restrict or tax LLCs, an LLLP can be advantageous.

Dennis Pellecchia is a CPA and chairman of the board of Braver PC, Newton, Mass. Julia Livingston is a director at Goulston & Storrs, Boston, Mass.