



# Missouri

## *Ag Law Brief*

### **Limited Partnerships**

Every business owner made a decision regarding the type of business entity they would use when they started their business. That decision may have been to operate as a Sole Proprietorship, Partnership, Limited Liability Company, or some type of Corporation. Entrepreneurs recognize that this decision needs to be reevaluated as the business grows or the business environment changes. An additional complexity involved in the reevaluation of this decision comes in recognizing that the criteria used in making the initial decision have likely changed over time as the business has grown, as the family has grown, and as the marketplace has changed.

There are several groups of criteria which entrepreneurs might consider in deciding whether or not a transition in the business entity type is wise. These categories include: Management characteristics such as who should own what assets? Who should control the decision-making process? Who should benefit from the success of the business? Who should carry the various risks inherent in the business? Of course, the answer to each of these questions may involve a number of people, but the decision then becomes how to allocate, for example, the business risk, and how that allocation might change over time based on established milestones.

Another category of issues to consider in identifying or transitioning business entities is related to estate and business transfer planning. Finally, the impact of taxes on the overall business as well as individual owners needs to be considered in determining the best

business entity structure. The outline below describes some of the characteristics of Limited Partnerships as they relate to the criteria entrepreneurs consider in choosing a business entity.

A Limited Partnership is defined by the Missouri Statutes as a partnership formed by two or more persons under the laws of this state and having one or more general partners and one or more limited partners. There are three types of Limited Partnerships recognized by Missouri law: Limited Partnerships, Limited Liability Partnerships (LLP), and Limited Liability Limited Partnerships (LLLLP). The guidelines for partnerships in general apply to each of these except as noted below.

#### **Limited Partnership**

1. A statutory entity created by filing a certificate of Limited Partnership with the Secretary of State.
2. Entity must have at least one general partner and at least one limited partner.
3. General partners are personally liable for the obligations of the Limited Partnership.
4. Limited partners have no personal liability for the actions of the partnership.
5. A limited partner's liability is limited to the investment she has made in the partnership.



6. A Limited partner may not take an active managerial role in the decisions of the partnership or they may risk losing the status as a limited partner for both liability and tax purposes.

### **Limited Liability Partnership**

1. A statutory entity created by filing an application for Limited Liability Partnership with the Secretary of State.
2. General partners in this type of entity are given the same liability protection provided to limited partners in Limited Partnerships. Therefore, they have no personal liability for the actions of the partnership as their liability is limited to the investment made in the partnership.
3. Other than this limited liability component, a Limited Liability Partnership maintains all the other characteristics of a General Partnership.

### **Limited Liability Limited Partnership (LLLLP)**

1. A statutory entity created by filing an application for a Limited Liability Limited Partnership with the Secretary of State.
2. All partners in this type of entity, including the general partners, are given protection from personal liability for the actions of the partnership as their liability is limited to the investment made in the partnership.
3. Other than the limited liability component, a Limited Liability Limited Partnership maintains all other characteristics of a Limited Partnership.



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