General Partnership

A ***general partnership*** is a separate legal entity created by a partnership agreement among two or more people. Partners then transfer money and property to the partnership in exchange for a partnership interest. This is a very flexible ownership arrangement with few formal restrictions and relatively low cost to set up. All partners become agents for the other partners and are able to actively conduct business in the name of the partnership. Because all partners have management capabilities, all partners are equally liable for business debts as well.

Partnership earning and capital gains and losses flow through the entity to the partners. Tax liability also flows through to the partners who are also responsible for self-employment tax. Transferring property can be facilitated using a general partnership. With the approval of all partners, an incoming partner may purchase or be given partnership interests. They also may earn interests as compensation for labor and management contributed to the partnership. Transferring interest so that one partner completely leaves the business and a new partner is brought in may terminate the old partnership and create a new one.

Partnerships can be dissolved as easily as they are created by agreement of the owners. The death, withdrawal, insolvency, or legal disability of a general partner may terminate the partnership as well, since the other partner(s) may be forced to liquidate the business to distribute the deceased or incapacitated partner's share of the business, or to pay off debts. Written buy-sell agreements or other similar provisions ensure a smooth transition of the business interests when one party leaves the partnership.

Your basis in the partnership is equal to the amount of money and the basis in property that you transferred to the partnership plus your share of partnership liabilities.

Advantages: easy to set up and easy to work with – won't affect income or taxes differently than a sole proprietor. Can hold real estate but subjects it to liability and creditors. Vehicle for transferring business interests.

Disadvantages: takes on liability for someone else and exposes your assets to liability. May force liquidation to separate interests.

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