



for tax purposes. Also, the question of equity with non-farming children may be a concern.

A farm family may wish to start with a share arrangement that is less than a 50/50 arrangement. Income may be shared according to each partner's relative contributions of land, machinery, labor, and management. For example, the older party may receive 75 percent of the income and the younger party 25 percent. A one-third and two-thirds share agreement also may be considered. A process for dividing income is provided in *Information File C4-16*, [Dividing Business Income](#).

### Transferring Property

Partnership shares can be transferred from the older to the younger party, although not quite as easily or conveniently as corporate stock. Transfer of partnership shares to minors poses special problems.

### Dissolution

A partnership is a fragile arrangement. Dissolution of a partnership occurs when the stated term of the partnership is completed, or when a partner or partners decide to dissolve the partnership. Dissolution by law may occur at the death, departure, or bankruptcy of a partner unless there is a provision in the agreement for continuation.

Because the younger party is likely to be concerned with gaining equity in and eventual control of the business, it is a vulnerable position. However, dissolution of the partnership may not lead to a winding-up of the business. When the partnership is dissolved the partners can:

- Terminate the partnership
- Form a new partnership
- Change the form of business organization

### Buy and Sell Agreements

Partnerships may include buy-and-sell agreements where a deceased partner's partnership interest is purchased by the surviving partners. This agreement permits the business to continue

and reduces financial problems at the death of a partner. A buy-and-sell agreement may be funded with life insurance.

### Income Taxes

Generally the partnership pays no income taxes. The partnership files a Form 1065 information return. Income, losses, capital gains, etc. pass through the partnership to the individual partners. The partners report their individual share of income, losses, etc. on their individual income tax returns.

### Employee Benefits

The partners in a partnership are not employees for purposes of participating in employee benefits. However, partners can participate in benefits available to self-employed persons.

### Unlimited Liability

Partners of a general partnership have unlimited liability for the obligations of the partnership. If a general partnership incurs obligations, these obligations can be satisfied first out of partnership assets. If the partnership does not have sufficient assets, the partnership obligation can be satisfied out of the individually owned assets of the partners. Insurance is usually carried to cover liability based on negligence. The other liability is contractual liability.

### Limited Partnership

The limited partnership is a variation of the general partnership. A limited partnership has one or more limited partners. Limited partners have limited liability and cannot participate in management. A limited partnership must have at least one general partner who participates in management and has unlimited liability. Limited partnerships may be structured so that the farming family members are general partners and the off-farm partners are limited partners. In some situations, the limited partnership is used to hold the land, which is then rented to a general partnership, sole proprietorship, or corporation.

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