

Business Organizations & Corporate Law: Chapter 5

Introduction

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Chapter 5

Limited Partnerships

Chapter Outline

- I. Introduction
- II. Limited Partnerships
 - A. Limited Partnerships' Authorization by State Statutes
 - B. Uniform Limited Partnership Act
 - C. Differences between Limited Partnerships and General Partnerships
 - D. Advantages of Limited Partnerships
 - 1. Tax Consequences of Limited Partnerships
 - 2. The Limited Partner's Contribution
- III. Creation of a Limited Partnership
 - A. The Certificate of Limited Partnership

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 - 1. Tax Consequences of Limited Partnerships

2. The Limited Partner's Contribution

III. Creation of a Limited Partnership

A. The Certificate of Limited Partnership

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 6. Distribution of Profits
 7. Classification of Contributions
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 9. Dissolution of a Limited Partnership
 - a. Winding Up Business Affairs
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Applying Concepts



The screenshot shows a software interface with a sidebar on the left containing six buttons: 'Applying Concepts' (highlighted), 'Chapter Review', 'eLecture: Review Answers', 'Reflection', 'Reflection Responses', and 'Chapter Quiz'. The main content area is titled 'Applying Concepts' and contains the following text:

Instructions: Email your responses to your instructor, making clear that your answers are for the *Applying Concepts* segment of Chapter 5.

1. Limited partnerships are often used as investment vehicles or to acquire investment capital for a risky business venture. Locate limited partnerships in your area that have been created for the express purpose of engaging in a speculative business practice, such as oil exploration, making a movie, or buying real estate to develop. Once you have located his limited partnership, answer some basic questions:

- What does it cost to become a limited partner?
- What are the potential profits?
- What provisions or disclaimers do general partners and limited partner express in the materials advertising limited partnership?

Your responses will vary depending on the type of business that you locate in your area.

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Chapter Review

Chapter Review

1. What is limited liability?
2. How is a limited partnership different from a general partnership?
3. Is there a common law of limited partnerships? Why or why not?
4. What is the Uniform Limited Partnership Act?
5. What is the basic definition of a limited partnership?
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 8. What are some of the advantages of a limited partnership over a general partnership?
 9. Explain the tax consequences of passing through profits and losses from a limited partnership.
 10. What is a certificate of limited partnership?
 11. What types of information are normally contained in a certificate of limited partnership?
 12. Besides identification of the partners, what other important items of information are required in a certificate of limited partnership?
 13. What are some of the rules and limitations on naming a limited partnership?
 14. How can a company considering creating a limited partnership reserve the name before the partnership is formed?
 15. What types of considerations go into drafting a limited partnership agreement?
 16. What are the rules regarding construing language in a limited partnership agreement?
 17. What duties do general partners owe limited partners?
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19. What are some of the considerations that partners face before distributing profits from a limited partnership?

20. Explain some of the ways that a limited partnership can be dissolved.

21. What are some of the concerns in winding up a limited partnership?

eLecture: Review Answers

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Applying Concepts

Chapter Review


eLecture: Review Answers

Reflection

Reflection Responses

Chapter Quiz

eLecture: Review Answers



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Narration Script

1. What is limited liability?

Limited liability is a concept that protects an investor in liability in a business by limiting his or her exposure to the amount of money invested in the enterprise.

2. How is a limited partnership different from a general partnership?

A limited partnership is the first business organizational model that introduces the concept of limited liability in a business organizational scheme. Unlike general partners, limited partners enjoy the protection of limited liability.

3. Is there a common law of limited partnerships? Why or why not?

Because limited partnerships are entirely a creature of state statutes, there is no common law that creates the concept of a limited partnership.

4. What is the Uniform Limited Partnership Act?

The Uniform Limited Partnership Act is a piece of sample legislation created by a board of experts to serve as a guide for states who wished to create the new business organizational model of a limited partnership.

5. What is the basic definition of a limited partnership?

The basic definition of a limited partnership is a business arrangement involving general partners and designated limited partners. The limited partners enjoy limited liability or a restriction that the total amount of the potential loss is limited to their investment in the company.

6. How is the role of a general partner different in a limited partnership than in a general partnership?

The general partner in a limited partnership has many of the same duties as general partners in any business model. However, general partners in a limited partnership have some additional duties, including the responsibility for managing the business on behalf of the limited partners, and like any other general partnership, they face unlimited liability.

7. What rights does a limited partner have in running the day-to-day business?

Limited partners are barred from participating in the day-to-day management of the partnership.

8. What are some of the advantages of a limited partnership over a general partnership?

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Limited partnerships offer the obvious advantage of protecting investors from potential civil suits and judgments for business debts, with the result that it does encourage people to invest in the company.

9. Explain the tax consequences of passing through profits and losses from a limited partnership.

Limited partnerships allow the partners to pass through profits and losses from the business into their individual income tax returns.

10. What is a certificate of limited partnership?

A certificate of limited partnership is a document that is required to be filed with the state Secretary of State's office designating the business as a limited partnership.

11. What types of information are normally contained in a certificate of limited partnership?

A certificate of limited partnership normally contains the name of the limited partnership, the street and mailing address of the agent for service of process for the company, the address of the designated office for the limited partnership, and the names and addresses of all general partners.

12. Besides identification of the partners, what other important items of information are required in a certificate of limited partnership?

The certificate of limited partnership will contain reference material including addresses of the company and the agent for service of process as well as the

names and addresses of all general partners.

13. What are some of the rules and limitations on naming a limited partnership?

Limited partnerships cannot contain the names of the limited partners, although they can contain the name of a general partner. Limited partnerships usually must carry a suffix designation such as "LP."

14. How can a company considering creating a limited partnership reserve the name before the partnership is formed?

The state Secretary of State's office has a procedure that allows any company considering creating a limited partnership to reserve a name for a specified period of time.

15. What types of considerations go into drafting a limited partnership agreement?

A limited partnership agreement should contain provisions discussing the name of the partnership, distributions of profits and losses, and the eventual dissolution of the partnership.

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16. What are the rules regarding construing language in a limited partnership agreement?

Courts generally construe the language in a limited partnership against those who drafted it.

17. What duties do general partners owe limited partners?

General partners owe fiduciary duties to limited partners including the duty to ask fairly, the duty to act in good faith, and the duty to avoid self-dealing.

18. Is a general partner a fiduciary of a limited partner? Explain your answer.

Yes, a general partner is a fiduciary of limited partners. As such, a general partner owes much the same duties in a limited partnership as he or she owes in a general partnership. A general partner must act on behalf of the best interests of all partners.

19. What are some of the considerations that partners face before distributing profits from a limited partnership?

Partners must consider the tax consequences of any distributions of profits made pursuant to limited partnership agreements.

20. Explain some of the ways that a limited partnership can be dissolved.

A limited partnership can dissolve by its own terms, by general agreement of the parties, or by judicial intervention.

21. What are some of the concerns in winding up a limited partnership?

Among the concerns in winding up a limited partnership, the general partners must ensure that all creditors have been paid and that all profits have been correctly distributed to the limited partners according to their percentage of ownership.

Reflection



Reflection

If you were considering creating a new business, would you opt for a sole proprietorship, a general partnership, or a limited partnership? Would your choice of business model depend on the type of business you were planning on creating? Explain.

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Reflection Responses



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Student responses to this question will vary. If you would like individual feedback, please send the Reflection and your Response to your instructor.

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Chapter Quiz

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Chapter Quiz

[Click here for the Chapter Quiz.](#)

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