

THE ADVANTAGES OF A LIMITED PARTNERSHIP STRUCTURE FOR NEW BUSINESSES

When you start a new business, one of the first decisions you need to make is how to structure your business. Many people automatically assume that incorporating is strategically best, if for no other reason than it allows the business owner(s) to limit liabilities to the corporation, and thus protect personal assets. It's a familiar concept and one that is easily understood at your local bank.

There is another option to consider, however: Limited Partnership. For some businesses, this structure preserves the benefits of incorporation while offering additional advantages. Here, we'll explore the details.

A limited partnership allows you to bring on investors without ceding control of your business. The general partner(s) deal with day to day operations and do not need to consult the partners for most business decisions. That being said, you will need to hold annual meetings and create a detailed partnership agreement.

As with a corporation, a limited partnership can include limited liability for both the general partner(s) and the limited partners. The limited partners' liability extends only to the amount that they contribute to the business, which can make it an attractive investment. The owners of the general partner may limit their liability by use of a corporation in a carefully drafted limited partnership agreement.

A limited partnership also offers an added tax benefit for all the partners. Unlike a corporation where losses are typically 'trapped' in the company, in a limited partnership, all profits and losses flow through the business to the partners. This can be particularly interesting in the first few years of a business, or in a

down economy, where losses are expected. Partners can choose to set these losses against other income, reducing their tax burden. It's important to note that if there is no reasonable expectation of profit, Canada Revenue Agency (CRA) may disallow the losses.

Limited partners can come and go without dissolving the limited partnership, making this a flexible structure.

Limited partnerships can be used effectively in a wide range of industries including real estate development, mining and manufacturing. They can also be used to structure business agreements involving First Nations.

Although a limited partnership may be the right structure for your business at its outset, it is straightforward to convert it into a corporation at a later date. This may be a logical step to take once the business becomes more successful and starts to retain profits.

As with all advice, we recommend working with legal counsel and an accountant to ensure you take the best route for your business. These professionals can make you aware of compliance issues with respect to the Securities Act in your province, and with the regulations of the CRA.

If you have any questions or would like to discuss this further, please contact Jeff Fixsen. 780.409.2658
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This handout is intended to give general information only.
We recommend you contact a lawyer for specific legal advice.