# Family Limited Partnership

A Family Limited Partnership is a type of business structure formed between members of a family—usually parents and children. Also known as an FLP, the purpose is to create a structure for streamlining the operations and eventual transfer of the business down the road—although sometimes a ways down the road. The stand-out feature of the partnership is the division of ownership into two classes: a general partnership (GP) interest and a limited partnership (LP) interest. The GP interest, which usually makes up 1% of the company, is the controlling interest—it determines how and in what direction the business is run. The 99% LP interest, on the other hand, is an economic interest. It is the right to the profit of the business. At the FLP's inception, the GP interest and most if not all of the LP interest remain with the parents. This split is useful for several reasons.

1. The LP interests can be transferred overtime by the parents while they retain the controlling GP interests. In this way, control and flexibility remain with the parents. The parents can begin a transition without having to rush the transfer of operations. Control can be transferred, whole or in part, at such time as a child demonstrates an interest and aptitude for running the business.

2. An FLP is better at treating children fairly. The controlling interests can be handed off to the child or children most suited to run the business. Meanwhile, the limited partnership interests can be divided amongst all the children but allocated in such a way as to reflect certain children's greater involvement in the business and therefore increase the sense of buy-in.

3. The strategy has the attendant benefit of significantly reducing death taxes such as the federal estate tax. The separation of controlling and economic interests, and the application of state limited partnership laws, mean that the value of the business is discounted when it is transferred between parent and child, sometimes upwards of 30%. This discount in turn diminishes any death taxes that might be assessed. Additionally, these discounts can be used together with the tax-free gifting of the $14,000 annual exclusion, allowing even more to be transferred tax free.

An FLP is a mechanism to help a business successfully transition to the next generation. Control can be more thoughtfully passed on, conflict can be minimized between the children, and the business will not have to be liquidated to handle an outrageous tax liability at the end of the day.

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