

Overview of Limited Liability Partnerships

A limited liability partnership shares common features with other types of partnerships. Like a general partnership, all partners in a limited liability partnership are liable for commercial debts and other partnership actions. However, when one partner is held responsible for malpractice, only that partner is liable. The remainder of the partners are personally shielded from any liability incurred by the professional misconduct of that one partner. Most states that have adopted the Revised Uniform Partnership Act have extended that shield to cover not only tort claims, but contract claims as well.

Despite the continued liability of partners for partnership debts and personal liability if sued for malpractice, the limited liability partnership is a wise choice for professionals since no partner is liable for another partner's inappropriate or negligent practice. This allows high-risk professions to reap the benefits of forming a partnership without sacrificing their personal wealth because of another partner's mistakes.

The professional's asset protection improves when they conduct their practice through a limited liability partnership. Conversely, the general partnership is the most dangerous business structure because each partner then has unlimited liability for all partnership debts.

Should you still prefer the general partnership structure, each professional operating as a partner should, at the very least, organize his own professional corporation or limited liability company. These respective entities could then become partners in the partnership. While this creates a somewhat more cumbersome arrangement than a simple limited liability partnership, the structure provides certain tax, regulatory, and organizational advantages. In a general partnership, the partners are all equally liable for partnership debts. In exchange, the partners enjoy the pass-through tax benefits not found in a corporation. In a limited partnership, all partners except one have limited liability. The general partner remains personally liable for any and all partnership debts.

A limited liability partnership can help to minimize the risk of its partners, but nothing can completely eliminate that risk. Don't mistakenly think that you no longer need malpractice insurance if you form a limited liability partnership. Also, carefully consider taxes, state regulations for your profession, and malpractice insurance when creating your limited liability partnership agreement.