



Is a LLC or FLP Right for You?

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Five Alternatives for Property

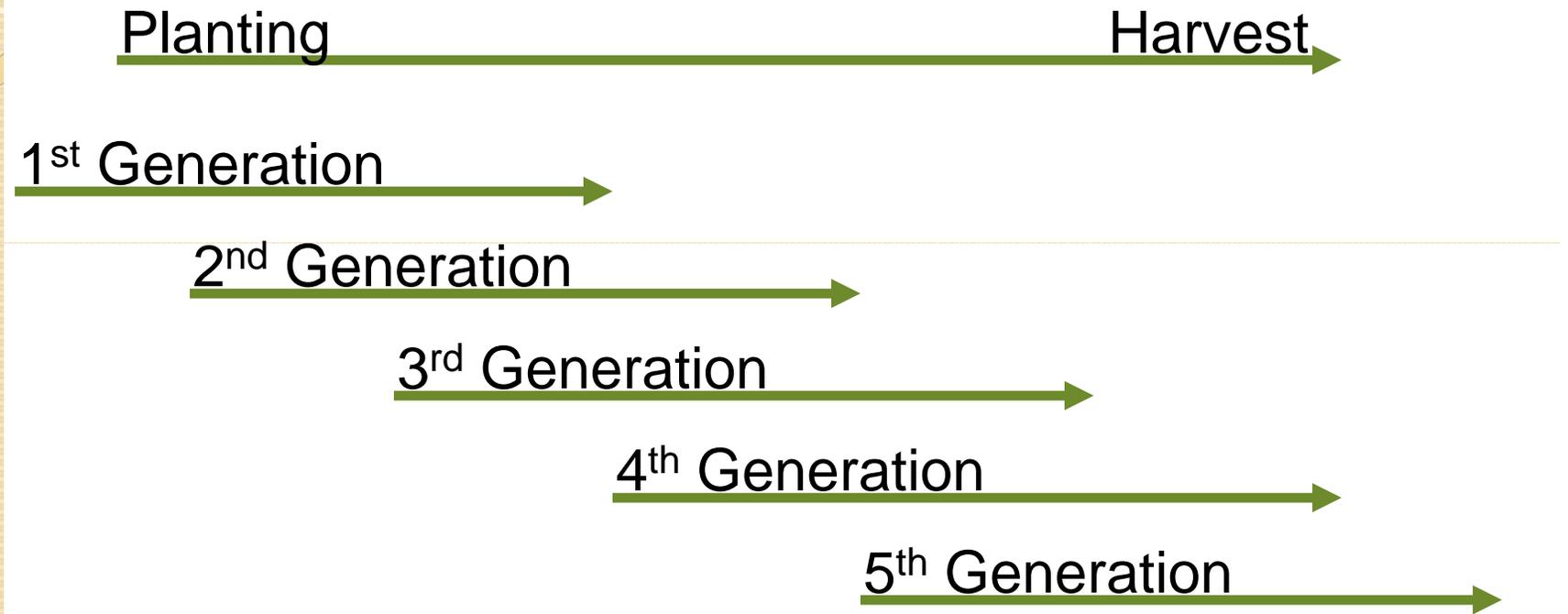
- Turn it into money (redeploy capital).
- Give it to charity (partially or entirely).
- Subdivide it (fragmentation).
- Give it to one child (European model).
- Give it to all children (partnership).



Problems with Owning Property

- How to manage multiple owners?
- Lack of common vision & interest/ability
- Who manages & how decisions made
- Dealing with homesites & dwellings
- Legal liability of undivided owners
- Creditor and divorce problems
- Partition actions – forced sale
- How to create flexibility to deal with future issues – 100 year time frame?

An Intergenerational Affair



1907 FORD Model R

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1907 Ford Model R

The Year 1909

- Average Life Expectancy: 47 years
- 14% of homes had a bathtub
- 8% of homes had a telephone
- Only 8,000 cars and 144 miles of paved roads in the US.
- Tallest structure: Eiffel Tower @ 990'
- Average wage: 22 cents/hour
- Average annual wage: \$200-\$400/yr



The Year 1909

- No income tax, gas tax, or sales tax
- Over 95% of births were at home
- 90% of doctors had no college degree
- Women washed hair once/month
- Five leading causes of death:
 - Pneumonia & influenza
 - Tuberculosis
 - Diarrhea
 - Heart Disease
 - Stroke

The Year 1909

- American flag had 45 stars
- Population of Las Vegas, NV: 30
- 6% of Americans graduated from HS
- 20% of Americans illiterate
- No crossword puzzles, canned beer or ice tea (not invented yet)
- No Mothers or Fathers Day
- Cutting edge technology: Steam!

The Year 1909

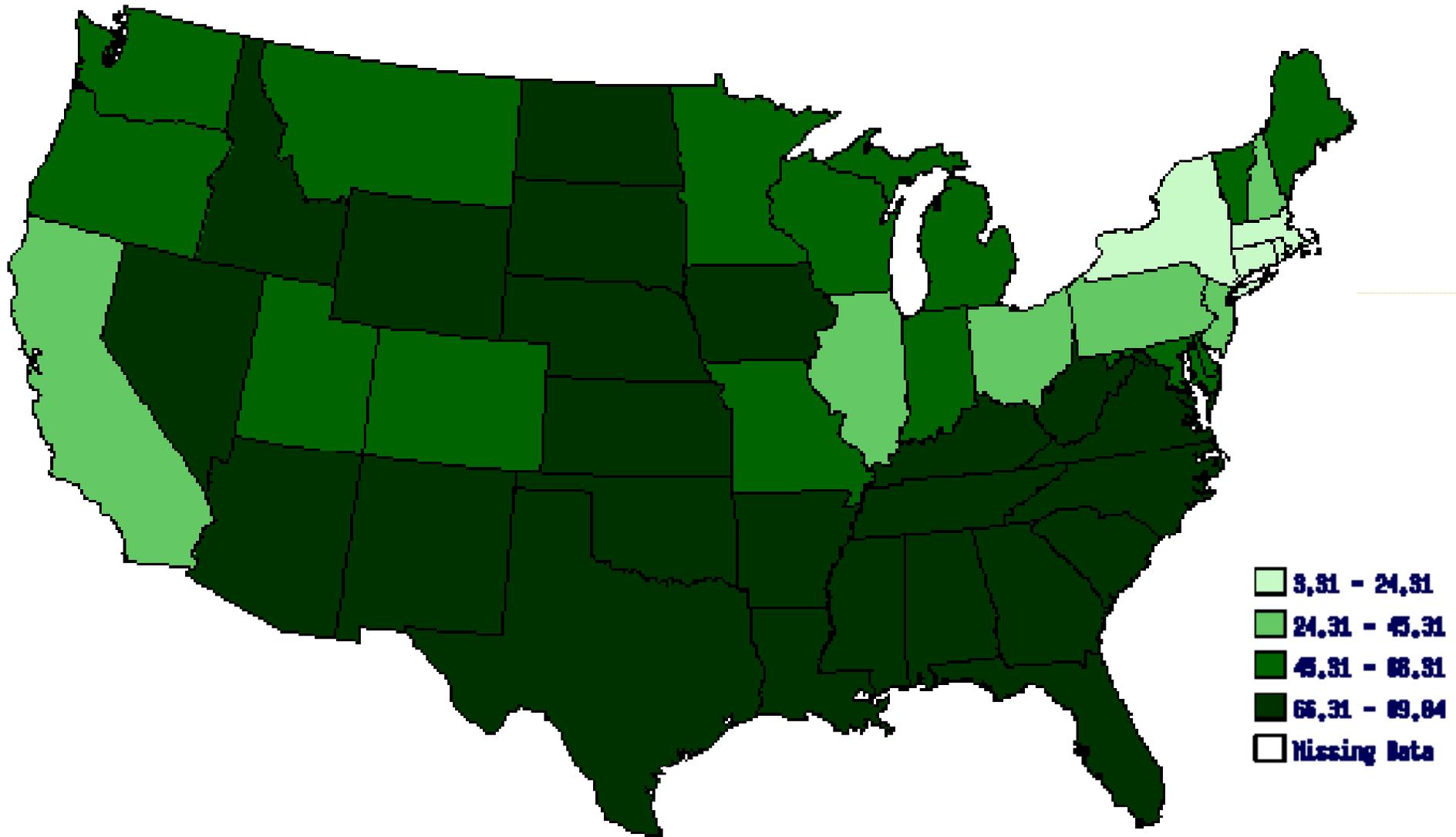
- Marijuana, heroin & morphine sold over the counter at drug stores
 - *“Heroin clears the complexion, gives buoyancy to the mind, regulates the stomach and bowels and is, in fact, a perfect guardian of health.”*
- 18% of households had at least 1 full time servant
- 230 reported murders in the USA



The Year 1909

- Top 5 States by Population:
 - New York (9.1m)
 - Pennsylvania (7.6m)
 - Illinois (5.6m)
 - Ohio (4.8m)
 - Texas (3.9m)
- California is 12th behind NJ at 2.4m

1910 Census – Percentage of Rural Households by State – Nat'l 53.85%



The Year 2010 vs 1910

- US Population: 310m vs 92million
 - % living in rural: 16% vs 54%
- Number in rural: 50m vs 50m
 - 2.5m farmers, 10m woodland owners
- Ford, Diesel, Bell, Edison, Goodrich, Westinghouse vs Gates, Jobs, Buffet
- What will the world be like in 2110?
 - NEED TO STAY FLEXIBLE
 - Pass on values and passion!



FLP's & LLC's Solve Problems

- Provides governance & protection
- Managing owners? Partner meetings.
- Common vision? Operating agreement.
- Abilities/interest? GP/Managers.
- Decision making? Voting rights.
- Legal liability? Limited liability.
- Divorce/Creditors? Partition/buy-sell.
- Homesites/dwellings? Leases.



Terminology

- Limited Liability Company (LLC)
 - Managing/Non-Managing Members
- Family Limited Partnership (FLP)
 - General/Limited Partners
- Operating / partnership agreement
- Flow-through (partnership) taxation
- Majority-in-interest vs majority
- Voting rights vs management rights
- Non-voting interests
- Supermajority requirements
- Economic rights vs voting rights

FLP's & LLC's

- Partnership taxation rules
- Defines “rules of the road”
 - Operating agreement
 - Buy-sell agreement
 - Voting rights
 - Management rights
 - Admittance/Transfer/Withdrawal rights
- Power of sharing ownership
- Caution – cost & complexity / taxes

FLP's & LLC's

- Partnerships are contracts - flexible
- Separate ownership from control
 - General partners / Managers
 - Day to day control of entity, contracting rights
 - Limited partners / Non-managers
 - Sell substantially all the assets
 - Amend agreement
 - Dissolve entity
 - Admit new partners/members
 - Hire/Fire GP/Managers
- Ownership matches business cycle!



Why Use FLP's & LLC's?

- Governance system for family & property
- Liability protection – accidents, lawsuits
- Asset protection – creditors, out-laws
- Keep assets in family by restricting sale
- Ease & safety of gifting (need valuations)
- Transfer ownership while retaining some control (IRC 2038 issues)
- Discounted estate value if done correctly
- Intangible personal property

Discounts

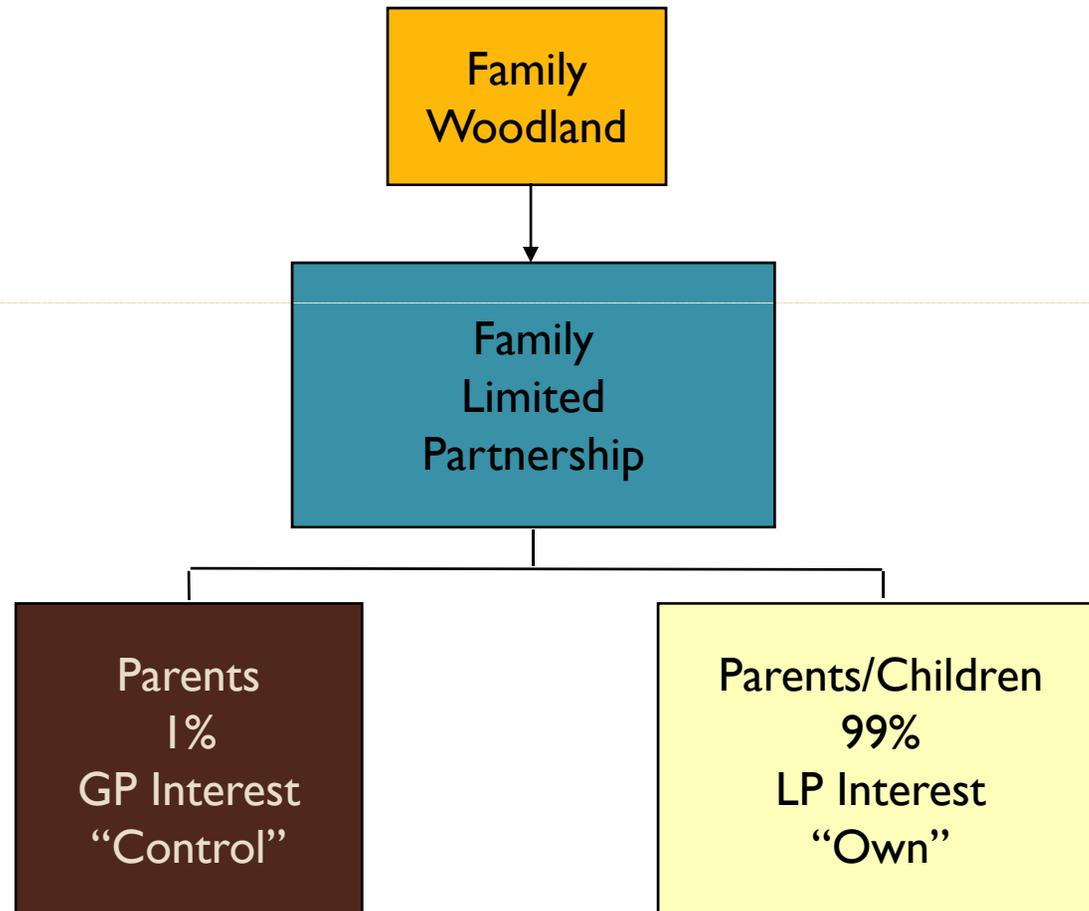
- **Minority Discount (lack of control)**
 - Voting rights?
 - Sell substantially all of the assets
 - Removal of General Partner/Manager
 - Amend agreement
 - Admit new partners
 - Continuation and dissolution
 - Distribution and liquidation rights?
 - How large a vote is needed to control?
 - Swing vote issue



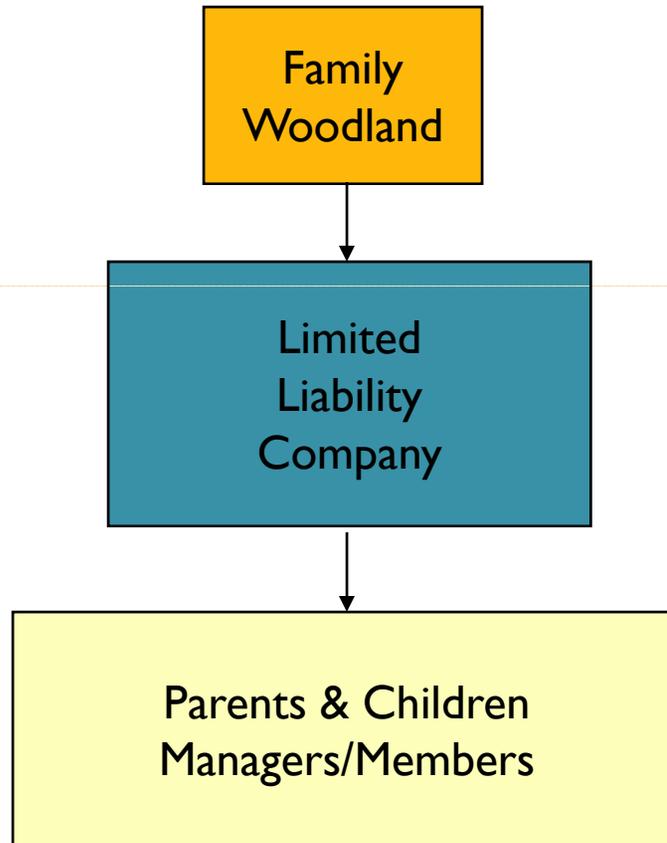
Discounts

- **Marketability Discount (lack of market)**
 - Not publicly traded – blue sky registration
 - Restrict ownership in buy-sell agreement
 - Unanimous vote to admit new partners
 - “Substitute” Limited Partner/Member
 - 30 year term (FLP)
 - Limited withdrawal rights (LLC)

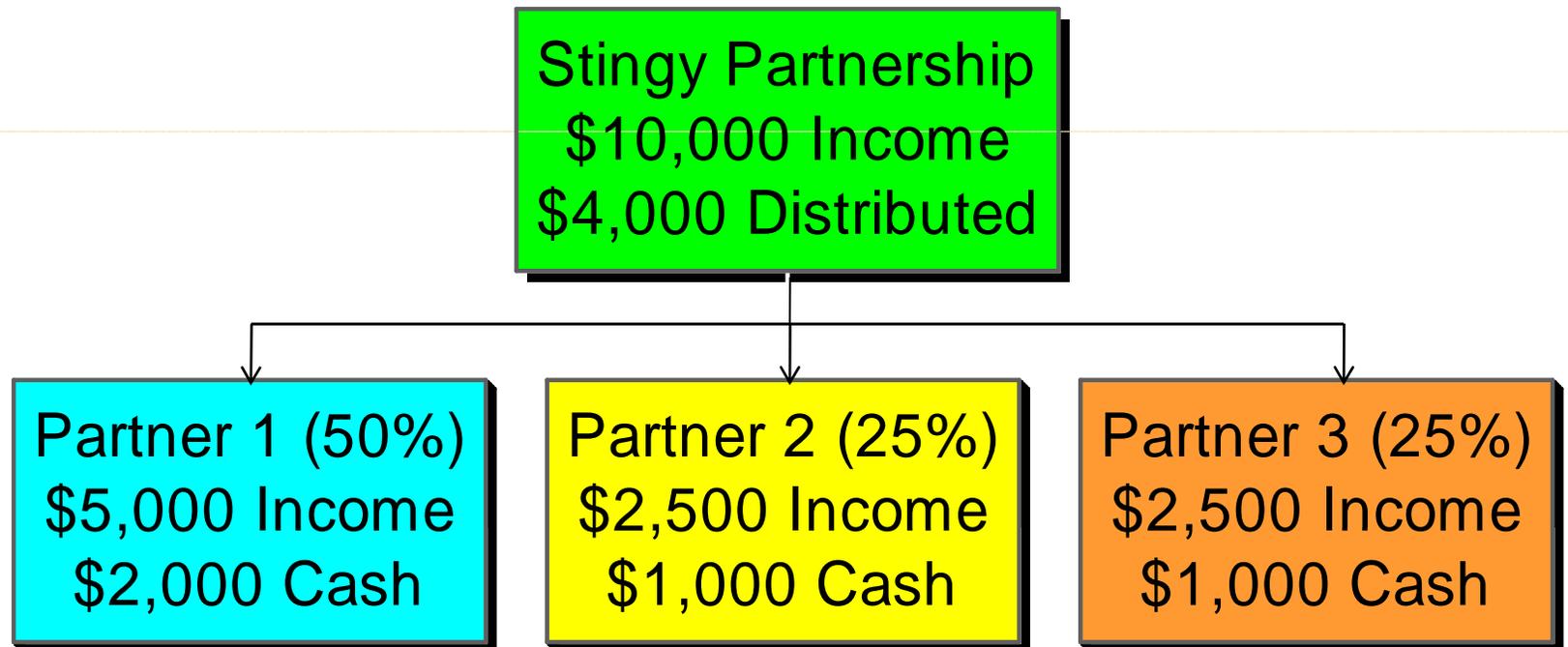
FLP Mechanics



LLC Mechanics



Income Versus Cash





Accounting Issues

- Bookkeeping requirements
- Multiple tax returns
- Business purpose required
- Operated as a business
- Distributions to partners/members
- KISS - managing complexity

LLC vs FLP

- Both are partnerships for tax purposes
- Called Members, not Partners
- Member/Manager managed vs GP/LP
- No general partner problem for LLC
- No 500 hr LP problem in LLC
- Unlimited life (LLC) vs 30 years (FLP)
- Some states tax LLC's differently
- State law (LLC) vs uniform laws (FLP)
- Less history (LLC) for liability shield



Questions?

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