Sy Accountancy Corporation
Member, American Institute of CPAs
704 Mira Monte Place, Pasadena, California 91101
Tel (626) 744-0200 • Fax (626) 744-0300 • vsy@victorsycpa.com • www.victorsycpa.com

PARTNERSHIPS
(Choosing the Proper Entity for Your Business – Part 5)

By Victor Sy, CPA, MBA

A Partnership is an association of two or more persons as co-owners who intend to carry on a business for profit. Each person must contribute money, property, labor, or skill. Mere co-ownership of property that is leased or rented is not a partnership. Spouses carrying on a business together and sharing profits are partners. The burden of filing partnership returns may be alleviated by having one spouse work for the other, the sole proprietor.

A. Advantages:

1. The partnership avoids double taxation as any net income is passed through to the partners.
2. Losses are also passed through and may be used to offset income.
3. Partnerships are allowed to specially allocate income and expenses.
4. Partnerships are not subject to either the accumulated earnings tax or personal holding company tax.
5. A special election allows a step-up in the basis of assets upon the death of a partner, the sale or exchange of partnership interest, or in certain partnership distributions.
6. A partner's basis includes the partner's share of partnership debts.
7. It has traditionally lower audit profile than sole proprietors.

B. Disadvantages:

1. General partners have unlimited liability. Their situation is even worse than sole proprietors because they also have to worry about other partners' liabilities that can affect business operations as well their own personal assets.
2. Partner fringe benefits are not excludable from their income. This includes 100% health insurance deductibility, meals and lodging, and group term insurance.
3. Partner earnings from a trade or business are subject to FICA tax even if earnings are not distributed.
4. Partnerships must use calendar years (December) in the absence of a business purpose to use a fiscal year end (January to December)