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**HOW DO I  
KNOW WHICH  
TYPE OF  
BUSINESS IS  
BEST FOR ME?**

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How do I know which type of business is



ited liability partnerships. The intent of this Act is to provide protection from personal liability for a partner in a general partnership for acts of the partnership or other partners, not directly related to the partner's own negligence, wrongful acts or misconduct. Under the Act, once a general partnership registers with the Department of State, the limited liability partnership will then be subject to biennial reports in the same fashion as corporations and limited liability companies.

- ♦ A limited partnership which has previously filed with the Department of State may register as a limited liability limited partnership. The general partner of a limited liability limited partnership limits his or her personal liability in the same fashion as a partner in a general partnership which has registered as a limited liability partnership. All remaining aspects of limited partnership law remain in effect. Other than the issue of general partner personal liability, the underlying limited partnership agreement remains in effect.

**LIMITED  
PARTNERSHIP  
ASSOCIATIONS  
(LPA'S)**

- ♦ 1995 legislation (HB 1061) created a new business entity entitled Limited Partnership Association. The limited partnership association is an unincorporated business association created by filing Articles of Association with the Department of State. A limited partnership association must have two or more persons. The main difference between a limited partnership association and a partnership or limited liability partnership is that the association has an indefinite life. Its exist-

ence terminates upon the affirmative vote of all of its members or as otherwise provided in the bylaws and by the filing of articles of dissolution with the Department of State. The association's existence does not terminate upon the disassociation, death or bankruptcy of a partner.

**CONVERSION OF  
LIMITED LIABILITY  
COMPANIES TO  
LIMITED  
PARTNERSHIP  
ASSOCIATIONS**

- ♦ Under the Act, LLC's may convert to LPA's in the same fashion that they could convert to partnerships or limited partnerships under the Limited Liability Company Act.
- ♦ **REMEMBER THAT THIS PUBLICATION IS ONLY A GUIDELINE, NOT AN INTERPRETATION.**
- ♦ **ALWAYS USE THE COLORADO REVISED STATUTES AS YOUR LEGAL REFERENCE.**
- ♦ **YOU SHOULD CONSIDER CONSULTING WITH YOUR ATTORNEY AND/OR ACCOUNTANT BEFORE CHOOSING THE TYPE OF BUSINESS WHICH IS BEST FOR YOU.**

# ***HOW DO I KNOW WHICH TYPE OF BUSINESS IS BEST FOR ME?***

Choosing the type of business that's right for you can be a difficult decision. There are tax and liability considerations, director and ownership concerns, as well as state and federal obligations that are different for almost every business on file with the Department of State.

The following is a brief explanation of the business entity you may be considering for incorporation. We hope these guidelines help you make a confident, informed decision.

## **CORPORATIONS**

- ♦ The "Corporation" is the classical structure for providing personal liability protection to the owners of the business. Although a corporation is relatively easy to organize, it may not be the best choice of entity for conducting business.
- ♦ Although recent changes in corporate statutes have eased the paperwork burden of corporate operations, businesses which operate under a corporate umbrella are faced with a variety of legal requirements including double taxation.
- ♦ Corporations are taxed on their income at the corporate level and then, if they pay dividends

to shareholders, the dividends are taxed at the shareholders' individual tax rate.

- ♦ A corporation must have a board of directors (which may consist of one person), must maintain books and hold meetings of shareholders. In small, closely held corporations, the documentation of these activities may be more cumbersome than is warranted.

## **LIMITED PARTNERSHIPS**

- ♦ Limited Partnerships must have at least one general partner and one limited partner. There is no document filed with the Department of State which provides you with information concerning the identity of limited partners.
- ♦ Limited partners in a limited partnership are protected from personal liability for the debts and liabilities of the limited partnership. The only amount they can lose is their investment. There is an exception, however, which would impose liability on a limited partner. If the limited partner is actively involved in the management of the limited partnership (in other words, acting as a general partner), the limited partner will expose his/her personal assets for the debts and liabilities of the limited partnership.
- ♦ A limited partnership is only required to file a Certificate of Limited Partnership with the Department of State, naming the general partner and providing an address for the general partner.

## **LIMITED LIABILITY COMPANIES (LLC'S)**

- ♦ Limited Liability Companies were created by statute in 1990. The LLC has some of the attributes of a sole proprietorship, a general partnership and a corporation. For tax purposes, it is treated as a partnership. The LLC has members rather than shareholders. It has a manager or managers instead of a board of directors. Management may be vested in the members or it may be vested in the manager(s). It is essentially a business entity created by contract between the members, much as a general partnership. However, in order to be legally recognized, it must file Articles of Organization with the Department of State. The members are protected from personal liability for the acts of the LLC, much like shareholders of a corporation. The LLC differs from an "S" corporation in that it is not restricted in the number or types of individuals or other entities which may be members. It also differs from a limited partnership by not imposing personal liability on members for participating in the management of the LLC.

## **LIMITED LIABILITY PARTNERSHIP OR REGISTERED LIMITED LIABILITY LIMITED PARTNERSHIPS (LLLP'S)**

- ♦ 1995 legislation (HB 1061) allows partnerships to register with the Department of State as lim-