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MATRIC NO: **16/SMS02/017**

COURSE: **ACC 301**

DEPARTMENT: **ACCOUNTING**

ASSIGNMENT: List and discuss at least five other reasons (apart from privacy and cost of operations) why it may be beneficial to convert a limited liability company to a partnership business.

ANSWERS

1. Potential tax benefits: Partnerships do not pay income tax which is considered as a huge tax benefit. A general partnership passes through any profits or losses to its partners. A limited liability company might find this at an advantage when converting to partnership because source of funds can be saved.
2. Fees and Government regulations: A limited liability company might want to convert to a partnership because of the reduced regulations and standards that govern a partnership. Also, in partnership, they are not required to pay as much fees e.g. annual fees and periodic filings with the state.
3. Flow of Assets: Partnerships not being fully separated from their owners can fluidly move assets in and out of the business. Owners can at any time decide to inject more cash into the business from their personal funds or take more earnings out of their business. This can entice a limited liability company to convert as this cannot be fully done under it.
4. Raising capital: This is easier in a partnership compared to the time a limited liability can raise capital. Most of the times a limited liability does not get the required amount to start a financial year which leads to financing by debt. The debt can increase overtime and cause the limited liability to go bankrupt. However, a partnership needs little capital to start-up making it one of the reasons why a limited liability company would like to convert to a partnership.
5. Administration: The set-up of a limited liability company makes it difficult for administration process to be fast. The board of directors has to go through meetings with the shareholders to make decisions like appointment of auditors. In a partnership, this need not be done as partners can just come together and make decisions without the need of shareholders. That is because there are no shareholders in a partnership business. This makes decision-making to be easier and hence and effective and efficient administration.