**ONAIBRE SUCCESS OGHENEWOMA**

**15/SMS02/052**

**ACC301 (Intermediate Financial Accounting)**

**QUESTION**: 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.

**SOLUTION**

1. **Freedom**

A partnership allows for a fluid governing structure. In fact, there doesn't have to be any particular governing structure at all. Partnerships are closely held private arrangements that -- unlike corporations -- don't have to report their activities to anyone. Partners can come up with any way they like to manage the organization including one partner managing, both or handing the business over to a professional manager and having no partners managing day to day.

## Taxes

Partnerships themselves don't actually pay taxes. Their profits and losses are passed through to their owners, who then incorporate them in their personal income tax. This simplifies the burden on owners. Corporations -- being entities in their own right -- are taxed, and the profits are passed to owners who are then also taxed on them. Partnerships avoid the double taxation issue. Additionally, in corporations and often in LLCs, losses are not passed through to the owners. This takes away owners' ability to receive additional tax relief when their businesses perform poorly

## 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 the business. Because in the end, the taxes fall on the owners anyway, there's nothing stopping them from moving monies, property and other goods in and out of the service of the partnership. In a corporation or LLC, property and monies must be accounted for carefully and transfer of physical property -- land or chattel -- must be legally recorded.

1. **No Audit Requirement/Cost**

Partnerships are not required to audit their financial statements. They are not even required to publish their annual financial statement to the public. Hence they can avoid audit cost by converting from Limited Liability Company to partnerships.

1. **Limited Lifespan**

A limited liability company may decide to convert to a partnership if it discovers that it is no longer a going concern. Partnership are easier to wind up since there is no need for a winding up procedure.