Small Business » Business Models & Organizational Structure » Limited Liability Partnerships » Can a Limited Partnership Have a Pension Plan?



A small business can be organized as a sole proprietorship, partnership, corporation or LLC. The tax and employee benefit rules allow a small business of any structure to set up a pension plan for employees. For a company organized as a partnership, the tax rules do make a difference between types of partners, and limited partners may not be allowed to participate in a retirement plan.



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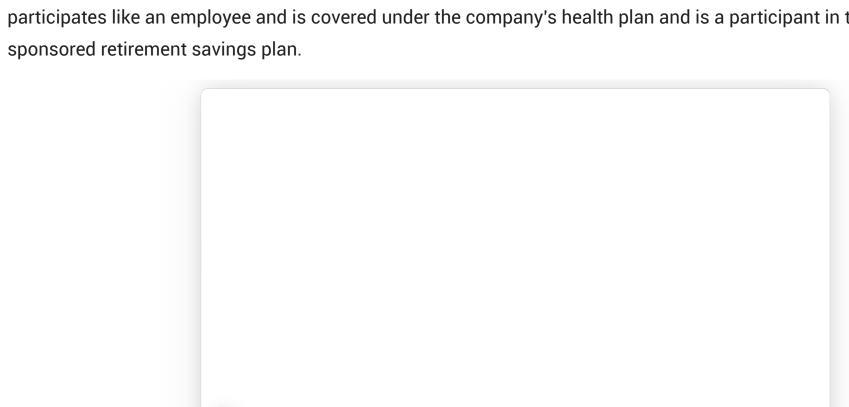
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Employer-Sponsored for Employees

The types of pension plans that can be used by a small business include 401(k), SEP-IRA, SIMPLE IRA and definedbenefit plans. Most small businesses go with the defined contribution plans such as a 401(k) or IRA based plan rather than the traditional but complicated and expensive defined-benefit plan. A pension plan set up by a business is for the benefit of employees, which can include the owners or partners in the business.

Partners As Owners And Employees

When a business is organized as a partnership, a partner typically is viewed in two ways by the Internal Revenue Service. As an owner, a partner's compensation is her share of the net profits of the business. The partner does not earn wages nor receive a W-2 at the end of the year. Instead, the partner receives a report of her proportionate share of business expenses and earnings to claim on her personal tax return. However, when it comes to benefits, a managing partner participates like an employee and is covered under the company's health plan and is a participant in the partnership-



Limited Partner Limits

Partnerships may have several different types of partners and compensate partners differently. For a partner who works to run and manage a business, his earnings from the business are viewed as earned income for tax purposes. With the earned income, the partner also fills the employee requirements for benefits. A limited partner, because he does not work or provide service toward the daily operation of the business, is more of an investor, and the money paid by a business to a limited partner would be classified as investment income. Limited partners would not participate in the company pension plan.

Real World Example

A visible example of limited partnerships and pension plans are the publicly traded partnerships in which investors can buy into through shares -- technically called units -- trading on the stock exchanges. In this case, there is a company with employees that participate in whatever pension plan the company offers. Investors own limited partnership units in their brokerage accounts and are not part of any employee benefits.



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 U.S Department of Labor: Choosing a Retirement Solution for Your Small Business **About the Author**

Tim Plaehn has been writing financial, investment and trading articles and blogs since 2007. His work has appeared online at Seeking Alpha, Marketwatch.com and various other websites. Plaehn has a bachelor's degree in mathematics from the U.S. Air Force Academy.

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