ension Plan?

d Liability Partnerships

corporation or LLC. The tax
up a pension plan for
nake a difference between
n a retirement plan.

401(k), SEP-IRA, SIMPLE IRA
tribution plans such as a
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.

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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-sponsored retirement savings plan.

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.

References
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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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