

Family Limited Partnerships

Smith Investments, LLLP
Smith Management, LLC, General Partner

Example of Structure

Ingwersen & Taylor

Smith Investments, LLLP

The General Partner

Smith Management, LLC
Manages the LLLP

The Limited Partnership

Smith Investments, LLLP
Holds the investments

Smith Investments, LLLP

The General Partner

Smith Management, LLC

| | |
|----------------|---------------|
| John | 49% |
| Jane | 12.75% |
| Child 1 | 12.75% |
| Child 2 | 12.75% |
| <u>Child 3</u> | <u>12.75%</u> |
| Total | 100% |

Smith Investments, LLLP

The Limited Partnership

| Smith Investments, LLLP | |
|----------------------------------|------------|
| GENERAL PARTNER | |
| Smith Management, LLC | 1% |
| LIMITED PARTNERS | |
| <u>John, Jane & Children</u> | <u>99%</u> |
| Total | 100% |

After the General Partner is established, organize and fund the Limited Liability Limited Partnership.

Smith Investments, LLLP

FLP Asset Protection

LP interest cannot be sold without GP approval.

Creditors typically do not want an FLP interest that is completely illiquid. Creditors know that the GP won't allow a sale for the creditor's benefit.

Distributions will only be made upon GP approval.

If any creditor obtains a "charging order" to receive income paid to the LPs, the GP will simply cease making distributions until the creditors go away.

K-1's are issued to the holders of the LP beneficial interests.

The GP can submit a K-1 to a creditor who has a charging order; therefore the creditor might have to pay tax on "phantom income" (income never actually received)