FLPs vs. FLLCs

	FAMILY LIMITED PARTNERSHIPS (FLPs)	FAMILY LIMITED LIABILITY COMPANIES (FLLCs)
Definition	A type of partnership designed to centralize family business or investment accounts. FLPs pool together a family's assets into one single family-owned business partnership that family members own shares of.	A limited liability company formed principally among family members. A LLC is a business entity that insulates its owners from the liabilities of the entity like a corporation, but is taxed for income tax purposes like a partnership.
Set Up	Complete a form entitled "Certificate of Limited Partnership" in the state in which the partnership resides. List the selected company name as well as the name and address of the registered agent on the form. Record the name of all general partners, usually only the parents in the limited partnership.	File the articles of organization in the state residence which provides basic information about the business such as its name, service activities, address location, members' names, and registered agent.
	The general partner can be set up as a corporation so that any liability to the general partner is trapped inside that corporation.	Generally easier than an FLP to set up since an LLC does not require a general partner and, therefore, there is no need to establish an S corporation or LLC to act as the general partner.
Costs	There are costs, including legal fees and appraisals that must be done to set up an FLP which can be costly depending on the type and number of assets to be transferred.	There are costs, including legal fees and appraisals that must be done to set up an FLLC which can be costly depending on the type and number of assets to be transferred.
Taxation	Must file an annual tax return but pays no taxes.	Must file an annual tax return but pays no taxes.
	The income or loss of the FLP flows out to the partners in proportion to the units they own, and the partners report their pro rata shares of the FLPs income on their personal tax returns.	An FLLC is taxed as a partnership. Each member reports his or her proportionate share of income or loss on his or her tax return each year regardless of whether a distribution is made to the member.
Control	Owner can remain in control as general partner.	Distinct classes or tiers of ownership can be established with a management class and a non-management class.
	Limited partners cannot participate in management.	Members of an LLC are able to fully participate in management without sacrificing liability protection.

Transferability	At death, a partner's shares are typically entitled to minority and/or marketability discounts.	For transfer tax purposes, an FLLC is entitled to the same minority interest and marketability discounts that apply to FLPs.
	In transferring limited partnership interests, they are eligible for the annual gift tax exclusion, which can reduce income, gift, and estate taxes.	In transferring assets to the LLC, they are eligible for the annual gift tax exclusion, which can reduce income, gift, and estate taxes.
Creditor Protection	They protect assets from claims of future creditors since creditors cannot force cash distributions, vote, or own the interest of a limited partner without the consent of the general partners. If the general partner is sued, in most cases, creditors cannot seize his or her partnership assets provided the partnership was set up before the creditor problems ensued.	A creditor's sole remedy is a charging order against the entity, not the owners.
Step Up In Basis	Property transferred to an FLP is not eligible to receive a step-up in basis which inherited property would receive. This could result in the limited partners (heirs) facing significant capital gains tax liability in the future due to assets transferred being eligible for a discount at time of transfer.	Property transferred to an FLLC is not eligible to receive a step-up in basis which inherited property would receive. This could result in the limited partners (heirs) facing significant capital gains tax liability in the future due to assets transferred being eligible for a discount at time of transfer.

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