

# Starting a Business in DC:

## What Type of Business is Right for You?



### The Limited Partnership (LP)

One of the most important decisions for a businessman or businesswoman is determining the form of business organization to use for his or her enterprise. There are several forms of business organization that are available to you. This information sheet will discuss the benefits and disadvantages of a limited partnership. This information sheet reflects changes in the DC Code that went into effect on January 1, 2012.

- **What is a Limited Partnership?**

A limited partnership is similar to a general partnership in that it consists of two or more persons operating a business for profit as co-owners. However, a limited partnership consists of: 1) one or more general partners who manage the business and do not have limited liability, and 2) one or more limited partners who do not participate in management, do not have the power to act for the business, and do not receive limited liability. For example, a limited partner can invest their money to finance a business while the general partner can operate the day-to-day administration of the business. Under recent changes to the law, limited partners no longer lose their limited liability if they take active participation in the management of the business.

The partnership is a distinct entity. Therefore, the partnership can own its own property and engage in transactions independent from the partners.

- **What are the advantages of a Limited Partnership?**

- *Limited Liability*

Limited partnerships offer limited liability for limited partners. This means that in the event the business incurs debt or some other liability, the amount the limited partners would pay is limited to their investment in the partnership. Their personal assets, such as a home and banking accounts, will not be used to pay the partnership's liabilities. General partners do not receive limited liability and can be required to use their personal assets to pay the debts and liabilities of the partnership.

Limited liability protects only against liability for a limited partnership's obligations and only to the extent that a limited partner is claimed to be liable on account of being a limited partner. For example, if a person is both a general and limited partner, he or she generally would be liable as a general partner for the limited partnership's obligations. Further, a limited partner could still be held liable to a third party for damages as a result of the limited partner's own wrongful conduct.

- *"Pass-Through" Taxation*

All partnerships have "pass-through" taxation. This means that the net income of a partnership is taxed only once, at the partner level. There is no taxation of a partnership's income at the entity level. This is different from the taxation of most corporations. A corporation would have to pay tax on its income as an entity, and when the remaining income is distributed to the shareholders, the shareholders would also

have to pay tax on the income they received from the corporation.

- **What are the disadvantages of a Limited Partnership?**

Limited partnerships must have at least one general partner who has unlimited liability for the wrongs and debts of the partnership. This means that a general partner's personal assets, such as a home and personal banking accounts, may have to be used to pay off the debts or other liabilities incurred by the partnership.

- **How are Limited Partnerships operated?**

Limited partnerships are managed by their general partners. Limited partners are essentially passive investors who do not make management decisions. A limited partner does not have any right or the power as a limited partner to act for or bind the limited partnership.

Generally, the partners create a Partnership Agreement, providing rules governing the operation of the partnership and defining the rights of the partners. The Partnership Agreement may allocate certain management rights to one or more limited partners. Further, a separate agreement with the partnership could empower and entitle a person that is a limited partner to act on behalf of the limited partnership as an agent.

- **How do I form a Limited Partnership?**

- *Registration of the Partnership*

Limited partnerships must file a Certificate of Limited Partnership with the DC Department of Consumer and Regulatory Affairs ("DCRA"). The registration fee is \$220. Form DLP-1, "Certificate of Limited Partnership", is available to [download](#) and can also be completed online at <https://corponline.dcrd.dc.gov>

- *Registration of an Agent*

A limited partnership must register a "registered agent" within DC. The registered agent is the person who will receive official notices from the government for you. It can be either an individual person or business entity, provided that the registered agent has a street address in DC that is not a post office box. The agent need not be someone who is a part of the business; for a small fee, third-party services will act as a registered agent.

Note that DC law no longer requires written consent by a registered agent. Thus, you do not have to complete the Registered Agent Written Consent Form, instead you will

designate an agent on the Certificate of Limited Partnership application.

To change a previously designated registered agent, complete the form online at <https://corponline.dcradcr.gov> or by mail by [downloading Form RA-1-7](#).

- *Drafting a Partnership Agreement*

Although not required, it is recommended that the partners draft a written Partnership Agreement. If no Partnership Agreement is created, the DC Uniform Limited Partnership Act will govern the limited partnership. The Partnership Agreement provides the rules governing the partnership and can be crafted to meet the partners' needs. Partnership Agreements generally address issues such as the regulation of the internal affairs and conduct of the company business, the process for dividing profits or losses between partners, management structure, a partner's ability to sell or transfer his or her interest, and a process for terminating the partnership. Partners should consult a lawyer for assistance in drafting a Partnership Agreement.

- **What licenses and certificates must I obtain?**

DC requires many types of businesses to obtain specific licenses and permits. Even if a specific license is not required, a general basic business license often is. A list of business activities having special license and permit requirements and information about the general basic business license can be found at: <https://dcradcr.gov/node/514522>

If a limited partnership is operating under a trade name that is not its registered name, it must register that trade name with the DCRA. Information about registering trade names and the necessary forms can be found at:

<https://dcradcr.gov/service/register-trade-name>

After determining your business' location, you will need to obtain either a Certificate of Occupancy (running the business from an office or storefront) or a Home Occupation Permit (running the business from your home). Generally, if you are leasing space and the owner of the building has a Certificate of Occupancy that covers your type of business, then you do not need to apply. Applications for these permits must be submitted in person at the DCRA Permit Center and can be downloaded from:

<https://eservices.dcradcr.gov/DocumentManagementSystem/Home/retrieve?id=Certificate%20of%20Occupancy%20Application.pdf>

(Certificate of Occupancy)

<https://eservices.dcradcr.gov/DocumentManagementSystem/Home/retrieve?id=Home%20Occupation%20Permit%20Application.pdf>

(Home Occupation Permit)

- **What tax-related requirements should I know about?**

Most limited partnerships (for example, those with employees) must obtain a Federal Employment Identification Number (FEIN) for tax filing and reporting purposes. The FEIN Form SS-4 can be found at: <https://www.irs.gov/pub/irs-pdf/fss4.pdf>

Organizations can now apply for a FEIN online at: <https://sa.www4.irs.gov/modiein/individual/index.jsp>

DC businesses must also complete the Combined Business Tax Registration, Form FR-500. For FR-500 requirements and online registration information, visit:

<https://otr.cfo.dc.gov/page/new-business-registration>

Limited partnerships are required to report their income and expenses on IRS Form 1065. This is an informational return, meaning that the partnership does not pay taxes. Instead, the 1065 informs the IRS of the partnership's income and expenses. The partnership then gives each partner an IRS Form K-1. This informs each partner of his or her share of the partnership's income, deductions and tax credits. The partner then reports the information from the K-1 on his or her individual 1040 tax form.

The employees of a limited partnership are subject to federal withholding tax, and the partnership needs to submit W-2 and W-3 forms. A limited partnership with employees needs to file an IRS Form 941 every quarter and IRS Form 940 annually. Copies of these forms, as well as additional information about federal taxes, can be obtained at:

<https://www.irs.gov/businesses/small-businesses-self-employed/small-business-forms-and-publications>

- **Where can I find more information?**

For general DC business information visit the DC Department of Consumer and Regulatory Affairs website at <http://www.dcradcr.gov> or call at (202) 442-4400.

For DCRA documents and forms, visit:

<https://eservices.dcradcr.gov/DocumentManagementSystem>

For additional information on starting and maintaining a business, visit <https://business.dc.gov>

For an overview of federal tax information, visit the IRS website at: <http://www.irs.gov>

For more information about small businesses, you can visit the Small Business Administration website at:

<http://www.sba.gov>

For the Uniform Limited Partnership Act of 2010 (DC Code, Title 29, Chapter 7), visit:

<https://code.dccouncil.us/dc/council/code/titles/29/chapters/7/>

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