
Partnership Buy-out agreements

Posted by lex_advoc - 2008/03/28 17:50

Can we dispense with partnerships buy-out agreements?

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Re:Partnership Buy-out agreements

Posted by Mark - 2008/03/28 19:38

You can contract your way out of them or terminate them on their terms.

How do you usually handle?

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Re:Partnership Buy-out agreements

Posted by manny_mandy - 2008/04/02 14:26

Several business partnerships that, although financially successful have failed in all other respect because the most important covenant in the partnership agreement was lacking, that is the partnerships buy-out agreements. Most importantly, a buy-out agreement can help the partner's control who can buy into the partnership to avoid gloomy situations.

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Re:Partnership Buy-out agreements

Posted by manny_mandy - 2008/04/11 19:19

Providing such provision is more on practicality, convenience and being responsive.

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Re:Partnership Buy-out agreements

Posted by Jackie - 2008/04/18 15:41

I have a situation where a partner wants to buy the other out of its interest. To sweeten the deal the selling partner will take payment in installments over 1 yr. Does the selling partner have to charge interest? Can it be an interest free installment or do we need to charge interest by law?

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Re:fair guess

Posted by melvs - 2008/04/18 17:49

I think the selling partner can fairly charge for interest. Interest free or not, fairly it could be done either way. Maybe the law may not compel the parties to stipulate interest on that particular transaction. I guess the law sets in only when complications arose, but at most, no law requires to charge interest.

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Re:Partnership Buy-out agreements

Posted by manny_mandy - 2008/04/18 18:20

The catch: I guess the parties can settle what may be convenient for them. They have freedom to do what they desire, whether to charge interest or not.

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Re:fair guess

Posted by Brian - 2008/04/18 18:38

The IRS will usually ignore loans of \$10,000 or less, as long as the money isn't used to buy income-producing securities. Also, you can usually lend an unlimited amount without interest, as long as its paid back in a year or less.

Problems occur when loans terms exceed \$10,000 and 1 yr. You always run the risk that if you don't charge interest, the IRS may calculate an "imputed interest rate" for the transaction. The IRS will expect you to pay taxes on this "phantom interest income", even if never received any interest from the loan. The "imputed interest rate" is based on what it costs the government to borrow and is recalculated every month.

The exception is where your loan is \$100,000 or less, and the borrower's investment income the year of the loan is \$1,000 or less, the IRS won't tax you on the imputed interest. If the borrower's investment income exceeds \$1,000, your imputed interest is limited to the amount of investment income. So, for example, if you give your son \$50,000, and he earns \$1,500 from bonds and stock dividends, your imputed interest will be \$1,500.

To avoid phantom interest income you can always charge a low interest rate and document the loan.

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