

SENATE BILL 78

Additional Information

CORPORATIONS	GENERAL PARTNERSHIPS
<p>Owned by shareholders; Requires directors and officers; Requires Articles of Incorporation and Bylaws.</p> <p>Sub-S Corporations can be used only in limited circumstances and are not available for certain shareholders. All non-Sub-S Corporations are C-Corporations.</p> <p>Limited liability for owners—no personal liability for shareholders generally for acts of corporation. Officers and Directors maintain fiduciary obligations to run corporations in accordance with applicable laws.</p> <p>Prior to the creation of Limited Liability Companies, which are now authorized by statute in all 50 States*, Sub-S Corporations were used as the corporation of choice for investors.</p> <p>In approximately 1994, Alaska followed the majority of other States in allowing Limited Liability Companies in Alaska.</p>	<p>Owned by partners.</p> <p>No limited liability for owners—all partners are individually liable for acts of partnership. Profits are divided among the partners.</p> <p>LIMITED PARTNERSHIPS</p> <p>At least one general partner which is liable for debts of the Limited Partnership, limited partners are not liable for debts of the Limited Partnership.</p> <p>General Partners in a General Partnership or a Limited Partnership are responsible for the debts of the entity.</p> <p>Prior to the creation of Limited Liability Companies, Limited Partnerships were used as an alternative to Sub-S Corporations for investors, where the Sub-S Corporation was not available to the investment entity.</p> <p>In approximately 2000, Alaska followed the majority of other States in allowing Limited Liability Partnerships in Alaska.</p> <p>A Limited Liability Partnership must start out as a general partnership and be subsequently converted to a Limited Liability Partnership.</p>

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LIMITED LIABILITY COMPANIES	LIMITED LIABILITY PARTNERSHIPS
<p>Owned by members.</p> <p>Commonly used as alternative to Limited Partnerships and Sub-S Corporations because easier to use—greater flexibility in governance and structuring return on investment to owners.</p> <p>Limited Liability Companies are often managed by the members (owners) without need for officers and/or directors. Managers maintain fiduciary obligations to the LLC.</p> <p>Limited liability for owners—no personal liability for members generally for acts of limited liability company.</p>	<p>Owned by partners</p> <p>Used as alternative to general partnership by vote to amend general partnership agreement to become limited liability partnership and then filing statement of qualification with State</p> <p>Limited liability for owners for partnership obligations incurred after conversion to limited liability partnership</p>

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PURPOSE OF SENATE BILL 78

Senate Bill 78 deletes the “pass through liability” to members of Limited Liability Companies with respect to liquor license issues imposed by AS 04.21.035, while retaining the current “pass through liability” for limited liability and foreign limited liability partnerships. This modification will make Alaska Law substantively more consistent with other States, including Washington, Oregon, California, Nevada, Idaho and Utah with respect to pass through liability for members of Limited Liability Companies.

***BACKGROUND OF LLCs.**

Starting with the pioneering state of Wyoming in 1977, and ending with the action of the Hawaii legislature in 1996, every state has, during those twenty years, passed laws creating a new type of legal entity called a "limited liability company" (or LLC). These entities, which resemble (and are usually taxed as) partnerships, offer the advantages of limited liability, like corporations. While it has long been possible for partnerships to offer limited liability to their LIMITED partners, a limited partnership always had to have at least one GENERAL partner, who was fully liable for the debts of the business.

In addition, all 50 states and D.C. have now adopted a similar type of entity, the limited liability partnership (LLP) or registered limited liability partnership (RLLP). The LLP (or an RLLP) is simply a garden variety partnership that registers with the state and pays a specified fee, in order to become an LLP or RLLP and to have limited liability conferred upon the partnership, which is generally quite similar to an LLC, except that it may be operated like a regular partnership, for the most part.

However, LLPs are mostly used for professional firms, and in some states (New York and California and, until recently, Nevada) only professional firms may set up LLPs. For professionals, the LLP offers only somewhat limited protection from liability, in that a professional who is a partner in an LLP remains personally liable for his or her own malpractice or gross negligence, or such misdeeds committed by employees of the LLP who operate under that partner's direction. (The same is generally true of professional corporations or professional LLCs.) But in most states, other, non-professional businesses may also operate as LLPs, and generally obtain more liability protection than professional LLPs.

See: www.roninsoft.com/llc.htm