You and Arthur A.

Want to live dangerously? Be a partner in something — a family venture, a thing with your buddies, or even an Arthur Andersen-size practice or business. Being a partner in a general partnership is like driving with an open gas tank; it might never explode, but if it does, lots of assets will go with it.

Why? Because partners in a general partnership are liable for each other's acts. It's why all over the news for months now, partners in Enron's accounting and law firms are saying "What? Me? Might have to pay *what*?"

Don't think you're in a partnership? Count to two. If two or more people do something together for profit, *violá,* it's a general partnership automatically.

You don't need a document to create a partnership. You don't need to use the word "partnership." You don't need to do *anything*. If you have not formed a corporation, limited liability company, limited partnership or similar entity, then you are — and will treated as — general partners in a general partnership.

Labels won't help you. Call it a joint venture, a hobby, or a trust; none of these matter. Is it an inheritance or something you're holding in two or three names? Doesn't matter either. For liability purposes, you're still a partnership to the Georgia courts, to IRS, and to most other states, too.

And in that general partnership, whether you intended it or not, you—lucky you! — get "joint and several liability" with each other partner.

Translated: if the partnership becomes liable to pay something, then all the individual partners owe it. Take a page from the Enron book: if one partner triggers a legal problem, the other partners get stuck, too.

It'll never happen? Wrong. Consider what's happening at *Arthur Andersen!* It's why each Arthur Andersen partner might have to pay big dollars individually, thanks to the Houston Shredders.

Want another example? 109 partners paid a chunk of a $41 million settlement because their law firm partnership was involved in the Lincoln Savings and Loan scandal.

And how about the two lawyers who had withdrawn from their law firm partnership before malpractice claims were filed and before the firm bankrupted.

They were held personally liable for $1.6 million, because they had been in the firm partnership when the malpractice occurred.

The attorneys at Enron's key law firms are scurrying, too . . . big firms which never thought about incorporating or converting to limited liability companies or similar entities before.

And it happens every year to smaller, less newsworthy groups — as small as two! — who operate something for profit, when that "something" is not a

corporation, L.L.C. or similar protecting structure.

Why are general partnerships like that? Because no state automatically hands you a liability shield unless you file papers, issue stock, go through a few formalities. In effect, if you want to get the protections, "You gotta buy a ticket."

If you don't do the pomp and circumstance, you have no liability shield, and *ergo,* you are personally liable. So two or more people deciding ***"Hey, let's go open a bank account together!"* is all it takes to create joint liability.** To prevent the risk, you need to do more.

So why not always be a corporation? Well, taxes made a difference. Corporation tax was intricate but partnership tax was nonexistent, since the separate partners paid instead. Consequently, ventures without risk became partnerships. Ventures with risk had to weigh if the liability protections of a corporation were worth the tax complexity.

Limited partnerships eventually gave some relief, but the general partners still had full personal liability and you still had filings with the Secretary of State and more. "S" corporations became an alternative, too, but they had their own complexities and complications.

Finally, in the 1990s, state legislatures created something to bridge the gap, *i.e.,* a business structure which protected like a corporation but was taxed like a partnership: the limited liability company. Every state passed L.L.C. statutes, and IRS accepted them, too. At last we had an entity which met both criteria.

Converting a partnership into an L.L.C. also was a snap, at least in Georgia. And once done, the L.L.C. $25 annual fee became the least expensive liability insurance "premium" (The fee is higher in other states, which is why many people living elsewhere create Georgia LLCs, regardless of where the L.L.C. assets were located.)

So for all of you who think you and your siblings are protected because you inherited something together; or for you and friends who own the rental house; or for those of you who feel that protecting yourself would be unnecessary, undignified or un-anything else; think again. Denial doesn't protect. Ask Arthur Andersen. Ask the lawyers in the big firms which represented Enron.

Or ask us. We stopped recommending and forming general partnerships years ago. Hopefully, you now understand why . . . and why legions of people in the Enron mess understand, too.

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