PARTNERSHIP FACTSHEET

What is a Partnership?

In general terms, a partnership is where a business is run by a number of joint owners. These owners (partners) share the responsibility of running the business and therefore any decisions and actions made should be agreed by all partners.

What is my Liability?

Within a partnership, all the partners are consider to be “joint and severally liable”
In other words, profits are shared equally, along with any liabilities that are accumulated no matter who were originally responsible for generating the debt.

What Types of Partnerships are there?

There are two main types of partnerships:

1. THE FULL PARTNERSHIP, which is the scenario outlined above and is subject to The Partnership Act, 1890. Full partnerships, as outlined above, have between two and twenty partners, but more commonly the number of partners in a full partnership lies between two and four inclusive.

2. THE LIMITED PARTNERSHIP, which is subject to The Limited Partnership Act, 1907. Also known as Limited liability partnerships, they are very rare today and account for less than 1% of all partnerships in the UK. A limited partnership is formed when one or more of the partners invest capital into the business but do not participate in running and managing the business. These partners therefore have limited liability as they can only lose the amount of money that they initially invested into the business.

In a limited partnership, the law states that there must be at least one partner that has limited liability and at least one partner that has unlimited liability. Consequently, the law further allows this type of partnership to have more than 20 owners.

What are the advantages of a Partnership?

- The workload can be shared between partners
- Each partner may specialise in their own area of the business
- More finance can be raised then, say sole-traders, due to more owners investing in the business
- Due to the business being generally larger than a sole-trader, it has a better chance at generating other sources of finance e.g. bank loans, etc
- There are no legal formalities to complete prior to starting the business
- Partners can cover each other during times of absence, e.g. holidays or illness

What are the disadvantages of a Partnership

- Profits are shared between partners
- Decisions may take time to reach due to other partners disagreeing
- Partners are equally responsible for liability (stated by The Partnership Act, 1890)
- Any actions and decisions based on the business are legally binding to ALL partners
- A partnership is terminated when a partner dies and therefore the process of forming a new partnership has to be taken

Do I need to have a Partnership Agreement?

The simple answer is no. However, **not** having a partnership agreement carries serious risks.

If there is any dispute between the partners, or if a partner is acting improperly, then there is no implied right to expel him or her. That means, one partner can dissolve the partnership on notice, which could potentially lead to any bank loan being called in, and all of your staff being entitled to redundancy payments.

If conflict should arise between partners of the business, without a partnership agreement in place, this may lead to lawsuits being pursued by one partner against the other. With the right terms and conditions in place however, legal disputes are avoidable saving both time and money.

Having no agreement could also mean that retiring partners pay capital gains tax at a higher rate than they need to.

Similarly, in the absence of any agreement to the contrary, the partners have the right to share equally in the capital and profits of the business.

It is important that your partnership agreement is reviewed and brought up to date every three to four years because of the rapid change in both tax and legal issues.

What is the biggest danger?

That will be dependent on your partnership. However, the loss of capacity of one of the partners will be very close to the top of the list and can render a business unusable:

* You cannot close a or use a bank account if it requires 2 signatories
* You Cannot close the partnership down
* You Cannot pay bills

We recommend that any partnership should seek to put in place Lasting Powers of Attorney to ensure that your partnership can continue.

What should a partnership agreement cover?

Your Partnership Agreement is a contract with clear rules setting out:

* Partnership capital
* Profits and losses
* Drawings by each of the two business partners (or however many)
* Conduct of the business partnership
* Decision-making between the two or more partners
* What happens if there is a dispute or deadlock among the two or more business partners,
* Permitted business partnership expenses,
* Business accounts
* Holidays
* Insurance
* Retirement of a business partner
* Expulsion of a business partner
* The consequences of termination and dissolution of the agreement
* Restrictions on the two business partners