

Business Guide: Going into Partnership

A partnership is a business structure in which two or more people work in business together with a view to making a profit. This means sharing the risks of the business, such as the responsibility for bank loans and other credit, as well as the profits it makes. Unlike a limited company, or limited liability partnership, the partnership is not legally separate from the partners.

In the majority of cases partners manage the partnership themselves but a partnership can also have employees to whom to delegate tasks.

The Role of Partners

There must be at least two partners in a partnership. At least one partner must be a 'general partner' who invests in and runs the business on a day-to-day basis. Other partners may be investors only (known as dormant or sleeping partners) and it is also possible to have corporate partners (i.e. a partner that is a limited company.)

Financial Matters

In terms of financing the partnership, each partner normally raises capital from their own assets, or obtains a loan in their own name. Sometimes the partnership has one or more dormant partners who are not concerned with its management or running. As each partner remains self-employed, they are taxed on their share of the partnership's profits and also pay their own National Insurance contributions.

Advantages of a Partnership

A partnership allows its partners a flexible and simple way to operate in business together. There are no requirements to register the partnership with Companies House, and there are no obligations relating to filing statutory records such as annual returns or accounts. It is important to note that partnerships should be run with a view to making a profit, so this structure is not suitable for most charities or members' clubs.

Disadvantages of a Partnership

If the business fails, or there are financial problems, a partnership offers the partners no legal protection against the liabilities of the business. Each partner is jointly and severally liable for the partnership's debts, which means that a creditor may go after the partner with the greatest personal assets in the event of default.

Creditors have the option to wind up the partnership, and/or make individual partners bankrupt. Creditors can also seize a partner's personal assets in order to pay off debts of a partnership, and this is the case even if the debts were accrued by another partner.

What if things go wrong?

A partnership is a long-term relationship between two or more people and it can be easy, especially at the beginning, to assume that things will run smoothly. All businesses change and develop with time, and the advantages to having the terms of a partnership set out at the outset can be invaluable, especially in the

event of a dispute, or a change in one or more partner's circumstances. It is therefore highly advisable to have an agreement that sets out the rights and obligations of each partner.

The Deed of Partnership

There is no legal requirement for partners to have an agreement called a 'Deed of Partnership' that governs the relationship between them. However an agreement serves as proof of the existence of the partnership, and can cover working arrangements, profit share, investments made by each partner and what to do if and when partners come into or leave the partnership.

Partnerships that are growing rapidly or increasing their borrowing are likely to benefit from incorporation. If you would like to talk to a specialist solicitor about protecting yourself and your business interests, contact us today.

*For more information contact PCB Solicitors on 01743 248148
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