Partnerships – What being a Partnership means

Small business owners often choose to be sole traders when starting up; however this can be a lonely way to develop a business and so some people look towards forming an 'Ordinary' business partnership in order to achieve greater rewards. Partnerships offer more freedom for business owners with shared business tasks and the potential to earn greater profits. Be warned though that a business partnership can be a relationship disaster or a positive experience.

In a business partnership, you and your business partner (or partners) personally share responsibility for your business. You can share all your business' profits between the partners. Each partner pays tax on their share of the profits. It is also important to realise that the individual partners within a partnership are personally liable for any debts incurred in the running of the business. This wouldn't be the case if the business was a limited company.

A partnership is a means of linking two or more self-employed people in a simple business structure. As a partnership, you do not need to notify Companies House, or deal with any administrative or accounting requirements which are required of limited companies. A partnership doesn't have a separate legal status. If you want your new business to be a distinct legal entity you should consider forming a limited company.

Partnerships – legal issues

If either of the partners withdraws from the business (if they die, resign or go bankrupt), the partnership must be dissolved instantly, since it has no legal status.

Most people enter partnerships with the best of intentions; however problems can occur later down the line for instance if one partner wants to pursue a different course for the business, or wants to leave the partnership. For this reason, you should always draw up a deed or partnership which details how the business will be run, including how much each partner invests, how they intend to work together, and how to deal with changes to the partnership.

In the absence of a deed of partnership, the Partnership Act 1890 is used as the reference document for issues which may arise, the terms of which may well be unsuited to the way you run your business in practice.

Setting up in business is an important decision to make; therefore it is recommended that you talk to a local accountant or bookkeeper before starting out. They will be able to advise you on tax basics and records to keep.

Before you form a business partnership consider the following:

Legal responsibilities

- you're personally responsible for your share of:
- any losses your business makes
- bills for things you buy for your business, like stock or equipment
- if you don't want to be personally responsible for a business' losses, you can set up a limited partnership or limited liability partnership
- a partner doesn't have to be an actual person. For example, a limited company counts as a 'legal person', and can also be a partner in a partnership

How to set up as a business partnership

- You must choose a 'nominated partner'. This is the partner who will be responsible for keeping business records and managing tax returns
- **Registration for the nominated partner**
- the nominated partner must register the partnership with HM Revenue & Customs. When they do this, they will automatically register personally for Self Assessment
- **Registration for other partners**
- you must register for Self Assessment to pay your personal tax and National Insurance on your share of the partnership's profit as soon as possible after you start trading
- if you register the partnership or individual partners later than 5 October in your business' second tax year, you could be charged a penalty

Partnerships' tax responsibilities

- **The nominated partner must:**
- send a partnership Self Assessment tax return every year
- **All the partners must:**
- send a personal Self Assessment tax return every year
- pay Income Tax on their share of the partnership's profits
- pay National Insurance
- The partnership will also have to register for VAT if you expect its takings to be more than the current annual threshold

Creating a Winning Partnership

Creating A Winning Business Partnership

Have The Same Vision: For a partnership to be successful, all parties involved must agree on the same strategic direction of the company. If one partner wants to build a national chain of retail outlets and the other would just like to earn a decent living, the business will fail in no time. Set a clear agreed course for the business that meets the needs of both partners	**Define Business Roles:** A winning business partnership capitalizes on the strengths and skills of each partner. Divide business roles according to each individuals strengths. E.g. one partner may be strong in marketing, operations and finance, the other sales, human resources and leadership	**Avoid the 50-50 Split:** It may seem logical and fair to split the share of ownership into an equal 50%. However, this ownership structure can impair decision making in the future. Instead of having decisions stalemated, consider a 49% to 51% split. If this is not possible, an outside board for bigger issue disagreements can help your company from being deadlocked on decisions.	**Hold A Monthly Partner Meeting:** A strong business partnership is built on an open communicating relationship. Meet on a monthly basis to share grievances, review roles and provide constructive criticism	**Create A Partnership Agreement:** It is simple to set up a partnership because no legal documents are needed. Partnerships are often an oral agreement between two or more parties. Potential problems can be averted down the road by drawing up a legal partnership agreement

Disclaimer: Whilst every effort has been made to ensure the accuracy of the information contained in this document we cannot guarantee 100% accuracy and is only issued as a guide.