

# Partnership

A partnership is a form of business where two or more people share ownership, as well as the responsibility for managing the company and the income or losses the business generates. That income is paid to partners, who then claim it on their personal tax returns – the business is not taxed separately, as corporations are.

There are many forms of partnerships mainly -

**General partnerships** - all parties share legal and financial liability equally.

The individuals are personally responsible for the debts the partnership takes on.

**Limited liability partnerships** - are a common structure for professionals, such as accountants, lawyers, and architects. This arrangement limits partners' personal liability so that, for example, if one partner is sued for malpractice, the assets of other partners are not at risk. Some law and accounting firms make a further distinction between equity partners and salaried partners. The latter is more senior than associates but does not have an ownership stake. They are generally paid bonuses based on the firm's profits.

## Some pros:

- Shared cost of start-up.
- Shared responsibilities and work.
- Shared business risks and expenses.
- Complementary skills and additional contacts of each partner can lead to the achievement of greater financial results together rather than if they were individuals.
- Mutual support and motivation.

## Some cons:

- Partners in a general partnership are jointly and individually liable for the business activities of the other. If your partner leaves, you'll be liable for all the debts, not just half of them.
- Shared profits.
- You do not have total control over the business. Decisions are shared, and differences of opinion can lead to potential disagreements, a "falling out," or even one partner buying out the other.
- A friendship may not survive a partnership. Think this one through carefully.

## Simple Series Tip

When drafting a partnership agreement, an expulsion clause should be included, detailing what events are grounds for expelling a partner.

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