

Partnership – Unlimited Liability

- A relationship that exist between persons carrying on a business in common with a view to a profit
- All profits and all losses accrue to the partnership (subject to taxation).
- All assets of the business are owned by the partnership
- All debts of the business are their debts and they must pay them from their personal assets/resources. This means that the owner has unlimited liability.
- Partnership exists as soon as you start doing business

Joint and Severally Liable - This is potentially very dangerous as partners are joint and severally liable for partnership debts regardless of whether or not they had prior knowledge of the activities would be equally liable to make good any shortfall in funds from their personal assets.

Partnership Deed - The internal workings of a partnership are usually governed by a deed. This agreement is the equivalent of the memorandum and articles of association belonging to a company. The partnership deed will set out procedures and rules relating to capital maintenance, profit shares of individual partners, the admission of new partners and the resignation of existing ones.

Partnership Act 1890 - The Act does not provide a comprehensive set of rules & procedures on the governance of a partnership and therefore, without a partnership deed many important aspects of the business, such as disputes & working practices will not be covered & may therefore result in inconsistent and perhaps unfair decisions being taken

Managing Finances & Administration

- A partnership may do business with a trade name other than their legal names.
- Introducing a new partner has no tax implications. However, if there is goodwill a new partnership agreement is required
- “Cash flow” is King and don’t go merely on profits
- Have filing systems as follows :-
 - Outgoings/Expenses with receipts filed by months
 - Income/Revenue with invoices raised filed by month
 - Bank Statements filed by month
 - Drawings
 - Get a book keeper or have a spreadsheet where you reconcile your expenses, income against your bank statements
 - Work out your monthly cash profit or loss
- No audit required and accounts not required in statutory format
- You can hire any number employees – Employer Help Line 0845 714 3143, 0845 6070 143

- You can hire sub contractors. Better to draft a Service Level Agreement (SLA).
- **Insurances** – Need to get Professional Indemnity, Employer & Public and Product Liability depending on the nature of business

Managing Taxes

- In general, and as far as taxes are concerned, a partnership is no more than a convenient term for describing a group of persons who are actually taxed as if they were individuals.
- Certainly in the context of the taxation of business profit or capital gain, a simple statement that the partners are taxed on their shares as if they were individuals would be an accurate (and very concise) statement of the rules.
- Need to do a Partnership Tax return – SA 800 0845 9000 444
- As well as individual returns from each partner – SA 100, Self employed - 0845 915 4515, 0845 714 3143 to get a Unique Tax Reference Number
- Partnership and the legal and tax implications starts to exist as soon as the Partnership does his first job.
- **VAT registration** – If annual turnover over £73,000 (2011/2012)

Advantages

Avoid Double taxation if you carry out your business through a company.

- As Corporations are separate entities from their owners they pay corporation tax on any taxable profits
 - a. Owners will pay tax on their individual income
 - b. As a partner, you will not pay double tax on your partnership income because the law makes no difference between you and your partners' income and is treated as your personal income.
- More credibility and less risky as 2 or more people are involved and carried limited liability.

Disadvantages

- A business organized as a partnership faces difficulty in raising own capital since shares of the business cannot be sold.
- Hiring employees may also be difficult.
- When the business grows, the risks accompanying the business also tend to grow.
- To minimize those risks, a partnership has the option of a limited liability partnership (LLP) or limited liability company.