

The Partnership:

Considerations to take on board when forming a partnership if you are consider forming a business partnership with a colleague or friend, there are a number of legal issues and implications which you need to address before you begin to trade.

Partnerships share's the control, responsibility and finances; this could be one other or several people, reducing the overall input one individual will give to the business.

A partnership adopts a different strategy, instead of one person owning the company; a partnership can consist of between two and twenty people. In essence, this would mean that you would need to consider finding one or several people who you could trust unconditionally to take on joint or shared responsibility for the running of your business. Although this would mean that the profits and liability would be shared, a partner or partners would be able to inject fresh capital, as well as skill and ideas into your business enabling you to use this for further expansion and development.

In partnership, perhaps you would need to consider if an ordinary or limited partnership would be the best for your business as the two roles indicated the level of liability and responsibility, the differences are outlined below:

Ordinary

The partner or partners would take on unlimited liability, which means if they go bankrupt they can lose they're personal belongings for any debts incurred by the business and all profits would be shared equally between the partner's. Ordinary partners also take on equal responsibility and decision-making in the running of the business.

Limited partnerships

Allows a partnership to claim limited liability to the amount invested, which demonstrates that they would only lose the cash invested in the company, and whilst profits are shared equally the responsibility and control of the business lies with the ordinary partners. Limited partners are often seen as "Sleeping Partners" as they do not directly involve themselves with the company they are in partnership with.

The amount of previous experience should be a deciding factor in whether adopting an ordinary or limited partnership arrangement. If the partner has limited experience running a business then allowing equal control of the running of the business could prove disastrous. In conclusion, if investment is solely sort after, then a limited liability partnership should be the choice; if shared control of the business is required, then ordinary partnership should be considered with the choice of person carefully selected.

When building a partnership business you need to decide how you would like the partners to integrate within the company, and should also consider the following: the partner or partner's abilities to drive the business forward, leadership qualities and management experience, level of specialist knowledge and expertise, the level of trust associated with the partner, it is recommended that a partnership agreement be arranged to legalize the partnership, this will help to avoid or clear-up any disputes which may arise - i.e. profit, liabilities or responsibility share, legal Requirements and other formalities. Once a

decision has been made as to the type of partnership that you hope to adopt, the legal requirements should be taken into account to ensure the partnership can function properly. Whilst there are no legal obligations set for ordinary partners, it is recommended that a deed of partnership would be arranged to legalize the partnership, this will help to avoid or clear-up any disputes which may arise - i.e. profit share, liabilities or responsibility share. Usually it is recommended that a solicitor should be brought in to collate this agreement and would include the following points: the amount of capital each partner will invest, profit ratio dependent on the amount invested, debt liabilities - whether ordinary or limited partnership, seniority and control over the business, the rules on admitting new partners, rules on ending the partnership and perhaps any dispute arise without a partnership agreement then the dispute would be settled according to the 1890 Partnership Act. It was stressed that this should be avoided, particularly where limited liability is involved, as the act states that each partner is equally responsible for any debts.

Therefore the main advantages on partnership are. The partnership is easy to set up and perhaps future arguments can be avoided if a partnership agreement is properly drawn up. The business can gain professional help through taking on experienced or qualified partner. This may cover an area of expertise that would otherwise be lacking. Often an accountant, solicitor or a person of your confidence may be the ideal partner. The partner will not bring extra expertise, perhaps also extra capital. The responsibility of running the firm is shared. Share decision making and a shared workload will make running the business much less stressful. Apart from information that has to be provided for tax purposes, the finances of the partnership are kept private. Division of labor means that the owners can specialise in what they are best at.

On the other hand there's the disadvantage. The partnership not only has unlimited liability, meaning that the partners could lose all their personal wealth to pay the debts of the business, but each partner is liable for the debts of the business even if the debt was not caused by them. The partnership has a lack of continuity. For example, should one of the partners die, resign or be declared bankrupt, then the partnership is automatically dissolved and would have to be reformed. Partners can take decisions without consulting other partners and one partner's decision, whether the others agree with it or not, is binding on all partners. Even with the addition of extra sources of finance, there is a lack of capital. However disagreements between the partners are possible and this could make decision making more difficult.