Setting up a partnership (what you need to know to get started)

A partnership is established when two or more people agree to set up in business together (without forming a limited company) with a view to sharing the profits. This can arise from agreements that are oral, written or implied by conduct.

The typical rights and responsibilities of partners which are fundamental to the relationship include:

1. the right to be involved in making decisions which affect the business
2. the right to share the profits of the business
3. the right to examine the accounts
4. the right to insist on openness and honesty from fellow partners
5. the right to veto the introduction of a new partner
6. the responsibility for sharing any losses made by the business

Partnership is governed by one of the oldest bits of legislation still on the statute book – the Partnership Act of 1890 which contains a number of provisions concerning the running of a partnership that will be implied in the absence of contrary agreement. The act is limited in scope and does no more than treat all partners equally. Any piece of legislation that has been around for over a century cannot be expected to meet modern business practices!!

The sensible approach is to draw up a Partnership Agreement to regulate matters such as financial input, shares in profits, the ability for partners to leave (or be removed) and the rules for buying out the exiting partner. It is analogous to a prenuptial agreement, in that it is designed to avoid disputes by setting out the ground rules first at a time when all parties are getting along together. If you have a written document to refer to should things turn sour, disputes are easier to resolve.