

What are the benefits of having a Partnership Agreement?

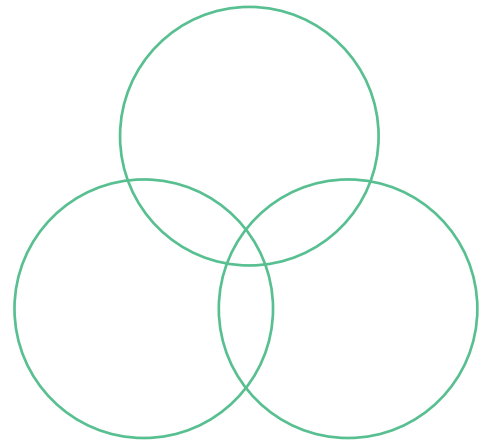
Under English law, there is no legal requirement to have a written partnership agreement if you're going into business with another person. The act of carrying out business with someone else actually means you are legally considered partners under the Partnership Act 1890; it also means the default provisions of the Act will automatically apply, and in many cases, these are less than ideal.

A formal partnership agreement allows you to define the nature of your partnership, as well as the relations of partners to the people with whom they are dealing, and their relations to one another.

Partnership agreements usually outline how the business' accounts will be managed, dictating how your profits will be allocated or withdrawn, and who will be held liable for any debts. If relying on the default position of the Partnership Act, both partners have equal access to the company accounts, neither is entitled to any interest on his capital contribution, and both partners are equally responsible for all debts.

Similarly, a partnership agreement can include provisions on how and when working capital contributions are to be made, as well as how and when they should be returned.

If you wish to remove an existing partner, the default rules of the Partnership Act are far from optimal. In section 25, it in fact states that "no majority of the partners can expel any partner", effectively making it impossible to remove a partner! Where this is the case, the only way for partners to stop working together is



for the partnership to be dissolved.

Alternatively, a partnership agreement can provide for the removal of a partner, with provisions for the necessary notice period, as well as the grounds and motives for expulsion.

The Act also states that the death, exit or bankruptcy of one partner automatically dissolves the partnership.

On the other hand, a written agreement allows the partners to establish the terms for the dissolution of the partnership, protecting the interests of the partners and the company.

In any professional dealings with another person, be it a client, partner, or employee, it's essential that written legal documents are in place to protect both parties. This can save you time, hassle and money if any disputes should arise, and it's the only way to get effective legal backing if you need to make or refute a claim.

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