

What every Partnership Agreement must contain

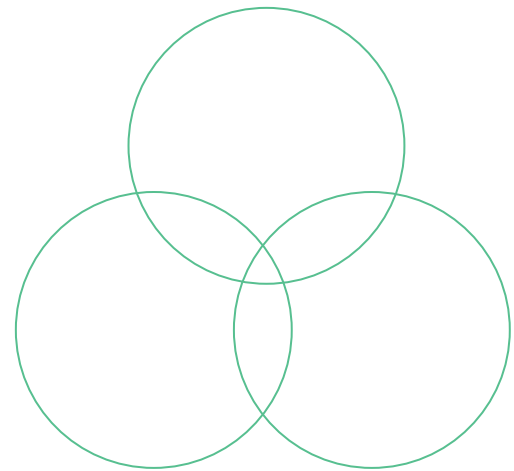
Forming a partnership to start a business is an attractive option for many, particularly if there are low business risks. However, even if you don't form a company together to begin trading, once you're in business with another person, that person is legally considered your business partner, and you could end up being liable for his or her business debts down the road without a formal partnership agreement in place.

That's why partnership agreements are so crucial when going into business with someone else, be it a friend or family member. With this in mind, here are a few points to consider on what every well-drafted partnership agreement should contain.

In line with the Partnership Act of 1890, all such agreements should cover the following:

- The nature of the partnership.
- The relations of partners to persons dealing with them.
- The relations of partners to one another.
- The terms and consequences of the dissolution of the partnership.

Perhaps the most crucial aspects of a partnership agreement are the provisions dealing with liabilities. The document should clearly stipulate the level of liability assumed by each partner according to the



type of partnership in question, and each partner should have a clear understanding of their long-term liabilities, including bank debts, lease costs, and professional liabilities.

This will also affect how liable you are in the event that the partnership is dissolved.

In terms of determining your liability, agreements are especially critical when it comes to managing capital accounts, which contain each partner's contributions, allocations and withdrawals. For example, if the agreement states that you're both general partners, then you're both fully liable for all the company's debts.

On the other hand, a limited liability partnership allows for different levels of liability, with a limited partner being liable only for the amount he has invested into the company.

Similarly, a partnership agreement will dictate how profits and losses are allocated. Without a formal document to outline these terms, you may encounter issues in managing your business' capital accounts, regardless of whether the business becomes hugely successful or if it faces liquidation.

Most businesses require partners to make a working capital contribution towards the business' general funds. This will allow the company to pay staff, bills and partner withdrawals while awaiting client payments.

Importantly, a partnership agreement should stipulate the terms of when and how the capital contributions should be made, and how it will be returned if the partnership is terminated.

No matter the terms of the partnership, the agreement should seek to be mutually beneficial to all partners, setting a fair and ethical foundation for the start of your new business venture together.

For more information, or for expert advice on business or personal legal issues, call us on +44 (0)20 3475 6751 or via email at info@carterbond.co.uk

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Enis Rifat, MIYA Solicitors

HIGHLIGHTS

We were awarded the 'Commercial Lawyers - London', in the prestigious 2020 UK Enterprise Awards
