

Partners in Business

Small Business Development Corporation

A partnership can be a satisfying, profitable and enduring form of business relationship. But to avoid conflict and misunderstandings, partners should agree on the terms and conditions that will apply to the partnership, and put the agreement in writing, before the business commences.

A partnership is a relationship between persons carrying on a business in common with a view to making a profit.

Partnerships are covered by the provisions of the *Partnership Act 1895*.

The partnership agreement

Every partnership agreement implies a term of the utmost good faith of each partner in all dealings involving the partnership.

A written partnership agreement is strongly recommended for all partnerships.

The section on partnerships in the Small Business Development Corporation (SBDC) publications *Business structures* and *A guide for operating a small business*, includes a list of 29 points to consider when drawing up a partnership agreement.

Intending partners should agree on these points and other issues identified as being important for the partnership relationship before going into a partnership. The items agreed should be listed for further discussion with your accountant or solicitor.

The partnership agreement should include a process for the resolution of disputes that may arise between the partners.

It is recommended that a solicitor draw up a formal partnership agreement, **a copy of which should be retained by each partner.**

Caution

- Each partner is jointly liable for partnership debts.
- Do not proceed with the proposed partnership if you are uneasy with your proposed role in the business, if you have been unable to resolve problems encountered in the planning stage or if you have any reservations about your proposed partner(s).
- Do not assume that friends and relatives will make good business partners. A good friend may not necessarily have the personal attributes of a good business person.
- Do not relinquish your responsibilities and duties to other partners.
- Run the business as a business - maintain good relationships with your partners. Be prepared to compromise, but do not let your relationship cloud your business judgement.

The partnership relationship

The following are just a few of the issues that should be decided before going into a partnership:

- The contribution by each partner of time, effort, money and assets
- The share of profits and losses
- Partnership salaries
- Participation in management.

Management issues

Before going into partnership, details of a whole range of management issues should be agreed. Agreement of broad principles is rarely adequate. Issues that should be settled include who will be responsible for each area of the business, the mechanism for reporting to other partners and the holding of regular management meetings.

Management meetings

Good management includes having regular management meetings (usually monthly). A standard agenda should be developed, listing the issues to be discussed at each meeting. Minutes of meetings should be kept, recording decisions made, what action is to be taken, and by whom.

Agenda items should include the tabling of financial statements for the past month and forecasts and plans for the current and future months. Partners should be accountable to other partners and report to the meeting on their areas of responsibility.

In addition to standard monthly meetings, meetings may be required from time to time to discuss issues that should not wait until the next monthly meeting.

Australian business number (ABN) and tax file number (TFN)

A partnership needs its own ABN and TFN. These numbers and registration for the GST (if required) may be applied for on the same application form online at www.abr.gov.au or contact the SBDC or the Australian Tax Office for an application form.

The Partnership Act 1895

The *Partnership Act 1895* is available from the State Law Publishers, 10 William Street, Perth, Tel: (08) 9426 0000 and is available on their website www.slp.wa.gov.au.

Publications

Publications available from the SBDC Business Information Centre at Level 2, 140 William Street Perth, or online at www.smallbusiness.wa.gov.au, include the following titles:

A guide for operating a small business

PLU 407\$25.00

Business structures

PLU 442 \$5.50

Profitable Partnerships: Improve your franchise relationships

PLU 266\$29.95

For further information and guidance contact:

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This publication is also available upon request in alternative formats such as large print, electronic format, audio, or braille.

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