PARTNERSHIPS

YOUR TR3 GUIDE

A partnership is one way a business can be legally structured, with a formal business relationship being established between 2-20 people.

A partnership could be the perfect opportunity for you to team-up with like-minded professionals, while retaining control of the day-to-day management of your business, having greater flexibility, and benefiting from potential tax savings.

Read on to find out more about the key benefits to establishing a business partnership. Of course, TR3 recommends seeking professional advice from your accountant, solicitor, or financial adviser before deciding on a business structure or entering any legal arrangements.

- Simple & easy to establish or restructure
- Low start-up costs
- Greater capital & borrowing power than a sole trader
- Shared control & management
- Incentives for high-calibre employees
- Minimal external regulation & reporting requirements

Simplicity | Partnerships are relatively simple and easy to run. They are also less costly to establish than a company or trust.

Flexibility | Partnerships allow for flexibility in the partnership agreement. Partners are not employees. Superannuation contributions and workers' compensation insurance are not compulsory for partners.

Splitting Income | The advantages of a partnership are the same as for a sole trader where the partners are treated as individuals for income tax purposes. The one major difference between a sole trader and a partnership is that income may be more easily 'split' between the partners in the partnership. Opportunity for income splitting, an advantage of particular importance due to resultant tax savings.

Structural Flexibility | With appropriate drafting it is possible to structure a partnership agreement that allows flexibility for varying profits/losses between the partners on an annual basis.

Sharing of Burdens | There are a greater number of people to share the workload, losses, and legal responsibilities.

Tax Implications | A partnership is not a separate legal entity and does not pay income tax on income earned by the partnership. Instead, each partner pays tax on their share of net partnership income. As with sole traders, any losses from the partnership business will be available to the partner to reduce other income. Accordingly, profits and losses of the partnership are "brought back" into the individual partner's tax returns. The structure of a partnership also allows tax preferred amounts (such as tax incentives and tax-free capital gains) to be passed through the partners.

CGT Discount | Partners can access the 50% CGT discounts as they hold an interest in each partnership asset as an individual.

Control | The partners own and operate the business so this means they can make all the decisions. This control is sometimes difficult to manage because some decisions may require unanimous or joint consent from partners.

Capita Variations | Unless otherwise stated in the partnership agreement, the capital of each of the partners can be increased or withdrawn from the partnership without restriction. It is possible for capital contributions to be made in the form of money or property.