PARTNERSHIPS

DEFINITION

A partnership is a form of business in which two or more people share ownership. Each individual contributes money, property, labor and/or skills. In return, each partner shares in the profits and losses of the business and any net income is passed-through to the partners for tax purposes.

HOW THEY WORK

SETUP

To form a partnership, each partner contributes money, property, and/or labor in exchange for an ownership interest. Most partnerships are created by a formal written partnership agreement, but some may be based on an oral agreement or a handshake. Partners must also register their business with the state and obtain any licenses and permits required by that state.

TYPES OF PARTNERSHIPS

There are three general types of partnership arrangements:

- General Partnership – All profits, liability, and management duties are divided among partners. Each individual partner assumes full responsibility for all of the business' debts and obligations.
- Limited Partnership – This allows for two levels of partners, general and limited. At least one participant must be a general partner, exposing them to full personal liability for the business' debts and obligations. The general partner retains the right to control the business, while the limited partners do not participate in management decisions. However, both general and limited partners benefit from business profits.
- Joint Venture – This form looks like a general partnership, but for only a limited period of time or for a single project. A joint venture can be recognized as an ongoing partnership if the partners choose to continue the venture, but they must file accordingly.

TAXATION

A partnership is what the IRS views as a "pass-through entity," similar to an LLC or sole proprietorship. Unlike a corporation, a partnership is not considered separate from its owners for tax purposes. This means that business income passes through the business to the partners, who report their share of profits or losses on their respective individual income tax returns. While the partnership itself does not pay taxes, it must file Form 1065, an informational return, with the IRS each year. This form, which LLCs also have to file, sets out each partner's share of the partnerships profits or losses, which the IRS reviews to make sure each partner is correctly reporting his or her income.

CONTINUITY

The continuity of a limited partnership's existence is usually determined by the partnership agreement. Most state laws provide that a limited partner may assign his interest in the firm to someone else without affecting the dissolution of the partnership. However, the withdrawal of a general partner normally constitutes grounds for the dissolution of a limited partnership unless one of the following conditions is true:

- There is at least one other general partner and the partnership agreement permits the continuation of the business.
- The remaining partners agree in writing, within 90 days, to continue the business and to elect a new general partner if necessary.

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