



SMALL BUSINESS **STARTUP**

Choosing Your Legal Structure – Business Partnerships

Once you decide to start a business, you need to choose what type of legal structure the business will have. The most common types are sole traders, limited companies and business partnerships. The structure you choose will define your legal responsibilities, including paperwork and registration requirements, taxes and personal liability. The following is an overview of setting up a business partnership.

What is a Business Partnership?

A partnership is defined by the Partnership Act 1890 as ‘the relation which subsists between partners carrying on a business in common with a view to profit’. In a business partnership, the business is run as though it is a self-employed individual, but all the partners share responsibility for the business, meaning that they are personally liable for business losses and debts.

Business partnerships are easy to start; they can even be created orally. However, it is advisable to write a partnership agreement between partners which lays out the structure of the partnership and the rights and obligations of each partner.

Liability

In an ordinary business partnership, every partner is personally liable for his or her share of business losses and debts. You can avoid personal liability for business losses if you set up as a limited company, limited partnership or limited liability partnership.

The content of this Small Business StartUp Guide is of general interest and is not intended to apply to specific circumstances. It does not purport to be a comprehensive analysis of all matters relevant to its subject matter. The content should not, therefore, be regarded as constituting legal advice and not be relied upon as such. In relation to any particular problem which they may have, readers are advised to seek specific advice. Further, the law may have changed since first publication and the reader is cautioned accordingly. Design © 2013 Zywave, Inc. All rights reserved.

Contains public sector information published by GOV.UK and licensed under the Open Government Licence v1.0.



**Credon
Insurance
Brokers**

Responsibilities

In a business partnership, you and your partner(s) share the responsibility for the business. This means that:

- All profits are shared between partners
- Each partner is personally responsible for his or her share of business losses, debts and liabilities
- Both the partnership and individual partners must file an annual Self- Assessment Tax Return
- Partners must pay income tax on their share of profits, and must also pay National Insurance

How to Set Up a Business Partnership

When setting up a business partnership, you need to choose a nominated partner, come up with a name and register with HM Revenue & Customs (HMRC).

1. Select a Nominated Partner

The nominated partner is the partner responsible for managing the partnership's tax returns and keeping all the business records.

2. Choose a Name

You will need to come up with a partnership name. This name can be as simple as using your own names or coming up with a partnership name. The name cannot contain any terms such as 'Limited,' 'Ltd', 'public limited company' or 'LLP'. It also cannot be offensive, contain any sensitive words or expressions (a list can be found at www.companieshouse.gov.uk), suggest involvement with the government or local authorities, or be too similar to a registered trademark or existing business in the same sector.

3. Register for Self-Assessment with the HMRC

The nominated partner must register the partnership with the HMRC and file annual partnership tax returns. This process automatically registers the nominated partner. The remaining partners must then individually register for Self-Assessment to pay personal tax and National Insurance as soon as possible. The partnership will have to register for VAT if takings are to be more than £79,000.

Avoiding Personal Liability

If you prefer to not be personally responsible for business losses, debts and liabilities, you can also consider forming a limited company, a limited partnership or a limited liability partnership instead of an ordinary business partnership. Keep in mind that there are additional registration requirements and responsibilities.

- A limited company is an organisation that is set up to run your business. It is considered a completely separate entity, thus limiting your own personal liability for business finances, unlike a sole trader or business partnership. Please contact Crendon Insurance Brokers Ltd for more information on limited companies.
- A limited partnership consists of both general and limited partners. A general partner is one who is personally liable for all of the partnerships' debts. A limited partner is only liable for the amount he or she initially invested in the business. Please visit the Companies House Web page on [limited partnerships](#) for information on setting one up.
- In a limited liability partnership, partners are not personally liable for business debts. Partner liability is limited to the amount a partner invests into the business. The majority of limited liability partnerships are set up by professional services firms, such as accountants or solicitors. Please see the Companies House Web page on [limited liability partnerships](#) for information on setting one up.

For information on different types of legal structures, contact **Crendon Insurance Brokers Ltd** today.