

Partnerships

When a Partner leaves/retires from Partnership

When two or more persons establish a partnership, they are acting in a “joint and several” relationship with each other and the partnership. Any actions taken by a partner is deemed to be done by all the partners and the partnership as a whole. In most partnerships the partners have an equal share, but the partners can in a Partnership Agreement, hold differing proportions of the partnership

The partnership will operate under a trading name, sometimes it is the names of the partners e.g. Smith & Jones Carpenters, or a descriptive name such as Top Notch Carpenters. The partnership’s customers, suppliers and bankers etc, will know the business by its partnership name and not the individual partners. After a period of trading the partnership builds up a list and a value of assets, goodwill etc and liabilities to creditors, which are effectively owned and owed in a proportion by each partner.

When a partner leaves or retires there are two main considerations, the legal position of ownership and liabilities of the partners and the financial winding up of the partnership.

Legal

To continue the partnership trading under the partnership name the remaining partners must accept all the past and present actions of the partnership. In effect third parties need not know that the partnership has a change of partners. The main problems are those in respect of title to property etc and guarantees given to creditors, as the changes will need to be registered. In practice most changes in partnerships are published in local newspapers and all existing customers, suppliers and bankers etc are informed of the change.

Financial

The partners will agree between themselves what they will pay the outgoing partner for their share of the assets and what liabilities the outgoing partner will continue to be liable for.

Previously the Inland Revenue took the action that the partnership was automatically wound up, and a profit and loss account and balance sheet were prepared at the date of the partner leaving. It is now assumed that the partnership continues, and accounts are prepared at the normal year end accounting period with the proportion of the profit/loss being allocated to each partner. On the Partnership Tax Return details of the date of any new partners and leavers are shown.