



Business Support

FACT SHEET: Partnership Agreement

A partnership is a relationship existing between two or more persons who join together to carry on a trade or business. Each partner contributes money, property, labor, and/or skill to the partnership and, in return, expects to share in the profits or losses of the business.

To be considered a partnership for legal and tax purposes, the following factors are usually considered:

- The partners' conduct in carrying out provisions of the partnership agreement
- The relationship of the parties
- The abilities and contributions of each party to the partnership
- The control each partner has over the partnership income and the purposes for which the income is used

The partnership agreement usually sets out the extent of the liability of the partner vis-à-vis the other partners usually defined by date.

It is important to set out the rights, responsibilities and other aspects of the partners' relationship in writing; to be enforceable in court the parties' agreement must be evidenced in writing if the partnership is to last for longer than a year.

In the absence of a written document or where the agreement does not cover some aspects, then the provisions of the Partnership Act 1958 will be applied in resolving any disputes. The partnership agreement should not contain conditions that are not allowable by regulation.

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It is recommended that a partnership agreement would normally contain provisions covering the following matters:

1. Full names and addresses of all the partners
2. Date of commencement and duration (where known)
3. Location of the business
4. Initial capital
5. Share of capital contributed by each party
6. Share of profits
7. Bankers of the partnership
8. Accountant to the partnership
9. Business name
10. Loans by partners to the partnership including relevant term and conditions which would include any interest and repayment terms.
11. Accounting procedures (reporting period)
12. Duties of partners, including consideration for due allowance for management tasks and an understanding of the time commitment required by partners
13. Drawings/Remuneration of partners (important where hours worked in the business do not relate to initial contribution or share of profits)
14. Holiday and sick leave provisions
15. Pregnancy or arrangements for extended leave (where applicable)
16. Prohibitions
17. Retirement
18. Dissolution other than by retirement
19. Method of valuing business including goodwill on retirement or termination
20. Restraint if partner leaves partnership
21. Release of obligations and indemnities on retirement or termination
22. Provisions regarding equipment brought into partnership
23. Private obligations of partners including involvement in other businesses
24. Expulsion Notice
25. Administrative rules
26. Dispute resolution
27. Admission of future partners
28. Communication between partners. Reporting process and procedures
29. Decision-making process
30. Insurance: income protection and life insurance held by partners
31. Death of partner and restrictions of transfer of ownership share
32. Restraint of Trade

It is also recommended that you consider a management agreement and regular business performance review/reporting process.

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