



Office Address:  
96 Autumn Street  
GEELONG WEST Vic 3220

Postal Address:  
PO Box 7518  
GEELONG WEST Vic 3218

Ph: (03) 5229 1290  
Fax: (03) 5222 1629  
Email: [enquiries@spinell.com.au](mailto:enquiries@spinell.com.au)  
Web: [www.spinell.com.au](http://www.spinell.com.au)

No 03 in Series

## **FINANCIAL FACTS**

### **BUSINESS PARTNERSHIPS**

#### **What is a partnership?**

A business partnership is formed when two or more individuals (or other entities such as trusts and/or companies) enter into a business relationship with a view to making a profit. All partners do not necessarily need to be involved in day to day business operations.

#### **What is the legal status of a partnership?**

While partnerships are a recognised form of conducting business they are not considered to be separate legal entities. They are not separate from the individuals (or other entities) who are conducting the business of the partnership (the partners).

For income tax purposes this means that the partnership does not pay tax but the partners pay tax on their respective shares of the partnership profit. Nevertheless, a partnership tax return must be lodged showing each partner's entitlement to partnership profit (or loss). However, for GST purposes it is the partnership that is registered and partnership completes Business Activity Statements and remits GST to the tax office.

#### **How much of the profit goes to individual partners?**

Each partner's entitlement to profit is determined by the partnership agreement. In the absence of a partnership agreement the tax law assumes an equal entitlement while other matters would be dealt with subject to the Partnership Act. However, to operate the partnership in the way that you have intended it is wise to draw up a partnership agreement.

#### **Benefits of Business Partnerships**

The benefits of operating a business in partnership include the fact that more resources are available than if only one person were involved. These resources might include financial capital and managerial and technical skills. Other benefits includes the possible taxation benefits of dividing the profits (and losses) among the partners.

#### **Disadvantages of Partnerships**

There are major disadvantages to partnerships. These include 1) Each partner has unlimited liability for the debts of the partnership and their personal property may be legally taken to settle partnership debts; 2) Each partner is fully liable for any business transaction conducted by the other partners; 2) A partnership has limited life and terminates, for example, when one partner leaves the partnership; and 3) Profits must be shared with the other partners.

**DISCLAIMER:** *This publication is intended to inform readers and provide general guidelines and information. It is not a substitute for professional advice. Specific application should only be made after consultation with Spinell Accounting Group. Vlado Joseph Dancevic T/as Spinell Accounting Group expressly disclaims all liability to any person who relies, or partially relies, upon anything contained in this publication. Spinell is a registered Trade Mark.*