

**BUSINESS STRUCTURES EXPLAINED**

# Partnerships

## Ownership & equity funding

Advantages	Disadvantages
Greater access to equity funding (as compared to sole trader)	Technically partnership ends when a partner joins or leaves
	Ownership not easily transferred

## Control

Advantages	Disadvantages
Allows sharing of control	Larger the partnership, less control each partner has

## Establishment, maintenance & windup of structure

Advantages	Disadvantages
Easy to understand by the partners & third parties	Change in partners can be costly as this results in a new partnership
Winding up can be easy depending on the partnership agreement	
Relatively inexpensive to maintain	

## Risk management

Advantages	Disadvantages
To some extent risk is shared	Unlimited liability
	Partners jointly & severally liable for all contracts made by other partners & actions committed
	If no partnership agreement, then profits & losses split equally

## Operations

Advantages	Disadvantages
Structure relatively simple	Generally the larger the partnership, the more difficult it is to manage
Limited disclosure of financial results	High risk for partners

Partners drawings not subject to super guarantee, payroll tax or workcover	Cannot retain profits
Can cope with any size business provided partnership agreement has required sophistication	

## Return on investments (to stakeholders)

Advantages	Disadvantages
<b>Sharing of profits can be varied by agreement</b>	Can be relatively expensive to transfer part of an interest in the partnership
<b>Relatively simple to increase or decrease funds contributed by a partner</b>	Not a good structure for asset protection as risky due all partners being joint & severally liable
	Unable to accumulate income

## Tax efficiency

Advantages	Disadvantages
Franked dividends can flow through the partnership to the individual	Non-commercial loss rules can apply to partners that are individuals
Tax losses are available for use by individual partners	No corporate tax rate unless partner is a company
50% CGT discount is available to individual partners	No access to FBT concessional treatment for partners
Access to all small business CGT concessions (subject to compliance with rules)	Profit goes to partners and to extent they are individuals they are subject to marginal tax rates (as high as 45% + medicare levy)
Division 7a or its equivalent does not apply	Splitting of income is limited
Ability to split income	No access to R & D concessions
	Super contributors not fully tax deductible

Contact us to find out more about Partnerships and whether it is the right structure for your circumstances.

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