**Advantages and disadvantages of a partnership business**

A [partnership business](https://www.informdirect.co.uk/business-management/general-partnership-uk-what-is-it/) is one of the most common forms to run a business in the UK, with several hundred partnerships currently in existence. The most common alternatives are the [sole trader](https://www.informdirect.co.uk/business-management/what-is-a-sole-trader/) and [limited company](https://www.informdirect.co.uk/company-formation/advantages-of-setting-up-a-limited-company/).

Looked at positively,  the business partnership model enables you to go into business with someone else without the perceived formality of a limited company. From a less positive perspective, with a partnership business you’re losing control of the direction of your business without putting adequate protection in place.

Let’s look in turn at the advantages and disadvantages of a business partnership:

***Advantages of a business partnership***

The business partnership offers a lot of advantages to those who choose to use it.

***1Less formal with fewer legal obligations***

One of the main advantages of a partnership business is the lack of formality compared with managing a limited company.

The accounting process is generally simpler for partnerships than for limited companies. The partnership business does not need to complete a Corporation Tax Return, but you’ll still need to keep records of income and expenses. A partnership tax return must be submitted to HMRC and each partner will need to file their own self assessment tax return including details of their profits from the partnership (as well as any other income).

Unlike a limited company, you don’t need to complete a [confirmation statement](https://www.informdirect.co.uk/confirmation-statements/confirmation-statement-companies-house-what-is-it/) and the plethora of other possible Companies House forms that a limited company may need to submit will never be required for the partnership. There are also fewer records to maintain: in particular, a business partnership does not need to maintain a set of statutory books like a limited company has to.

Unless a formal partnership agreement has been drawn up, a partnership business can easily be dissolved at any time: this gives each partner the freedom to choose to leave if they wish to.

***2Easy to get started***

The partners can agree to create the partnership verbally or in writing. There’s no need to register with Companies House and registering the business partnership for taxation with HMRC is quite simple. The partners will also individually need to register for self assessment, which they can do online.

Although it will take longer and incur additional cost, it’s usually sensible to put in place a partnership agreement. This documents how the partnership will work, the rights and responsibilities of partners and what would happen in various possible situations, including if the partners fundamentally disagree or someone wants to leave.

***3Sharing the burden***

Compared to operating on your own as a sole trader, by working in a business partnership you can benefit from companionship and mutual support. Starting and managing a business alone can feel stressful and daunting, particularly if you’ve not done it before. In a partnership, you’re in it together.

***4Access to knowledge, skills, experience and contacts***

Each partner will bring their own knowledge, skills, experience and contacts to the business, potentially giving it a better chance of success than any of the partners trading individually.

Partners can share out tasks, with each specialising in areas they’re best at and enjoy most. So if one partner has a financial background, they could focus on maintaining the company books, while another may have previously worked extensively in sales and therefore take ownership of that side of the business. As a [sole trader](https://www.informdirect.co.uk/business-management/what-is-a-sole-trader/), by contrast, you’d have to do all of this yourself (or manage someone you employ to do some of it).

***5Better decision-making***

Compared with operating on your own, in a partnership the business benefits from the unique perspective brought by each partner. In business, very often two heads really are better than one, with the combined conclusion of debating a situation far better than what each partner could have achieved individually.

***6Privacy***

Compared to a limited company, the affairs of a partnership business can be kept confidential by the partners. By contrast, in a limited company certain documents are available for public inspection at Companies House and a company’s [shareholders](https://www.informdirect.co.uk/shares/shareholder-role-risk-and-rewards/) can choose to inspect various registers and other documents the company is required to keep.

***7Ownership and control are combined***

In a limited company, ownership and day to day management of the business is split between shareholders and directors (although they’re often the same people). That can mean that directors are constrained by shareholder preferences in pursuing what they see as the best interests of the business.

By contrast, in a business partnership, the partners both own and control the business. As long as the partners can agree how to operate and drive forward the partnership, they’re free to pursue that without interference from any shareholders. This can make a partnership business potentially more flexible than a limited company, with the ability to adapt more quickly to changing circumstances.

***8More partners, more capital***

The more partners there are, the more money there may be available from their combined resources to invest into the business, which can help to fuel growth. Together, their borrowing capacity is also likely to be greater.

***9Prospective partners***

As a sole trader, while you can employ staff, it’s not really possible to bring someone on board to manage the business alongside you. Employees will always believe you’ll be the one running the business and good people may be demotivated if they feel, as far as their own career is concerned, there’s “nowhere to go”.

By contrast, it’s usually possible to admit a new partner into a general partnership. Good staff may be attracted to the business with the incentive that they could become a partner, either when they join or at some point in the future.

***10Easy access to profits***

In a business partnership, the profits of the business are shared between the partners. They flow directly through to the partners’ personal tax returns rather than initially being retained within the partnership. In a [limited company](https://www.informdirect.co.uk/company-formation/advantages-of-setting-up-a-limited-company/), by contrast, profits are retained by the company until paid out, whether as salaries under PAYE or, with the approval of shareholders, as dividends.

***Disadvantages of a business partnership***

While there are lots of benefits of a partnership business, this model also carries a number of important disadvantages.

***1The business has no independent legal status***

A business partnership has no independent legal existence distinct from the partners. By default, unless a partnership agreement with alternative provisions is put in place, it will be dissolved upon the resignation or death of one of the partners. This possibility can cause insecurity and instability, divert attention from developing the business and will often not be the preferred outcome of the remaining partners.

Even if a partnership agreement is in place, the remaining partners may not be in a position to purchase the outgoing partner’s share of the business. In that case, the business will likely still need to be dissolved.

***2Unlimited liability***

Again because the business does not have a separate legal personality, the partners are personally liable for debts and losses incurred. So if the business runs into trouble your personal assets may be at risk of being seized by creditors, which would generally not be the case if the business was a limited company.

The partners are jointly and severally liable. As one partner can bind the partnership, you can effectively find yourself paying for the actions of the other partners. If your partners are unable to settle debts, you’ll be responsible for doing so. In an extreme example where you only own 10% of the partnership, if your partners have no assets you might end up having to settle 100% of the debts of the partnership and need to sell your possessions in order to do so.

***3Perceived lack of prestige***

Like a sole trader, the partnership business model often appears to lack the sense of prestige more associated with a limited company. Especially given their lack of independent existence aside from the partners themselves, partnerships can appear to be temporary enterprises, although many partnerships are in fact very long-lasting.

This appearance of impermanence, and the fact that the partnership’s financials cannot be independently checked at Companies House, can appear to present more risk. Because of this, some clients (more so in certain industries) will prefer to deal with a limited company and even refuse to transact with a partnership business.

***4Limited access to capital***

While a combination of partners is likely to be able to contribute more capital than a sole trader, a partnership will often still find it more difficult to raise money than a limited company.

Banks may prefer the greater accounting transparency, separate legal personality and sense of permanence that a limited company provides. To the extent that a partnership business is seen as higher risk, a bank will either be unwilling to lend or will only do so on less generous terms.

Several other forms of long-term finance are not available to partnerships. Most importantly, they cannot [issue shares](https://www.informdirect.co.uk/shares/why-issue-shares/) or other securities in exchange for investment in the way a limited company can.

***5Potential for differences and conflict***

By going into business as a general partnership rather than a sole trader, you lose your autonomy. You probably won’t always get your own way, and each partner will need to demonstrate flexibility and the ability to compromise.

There will be the potential for differences, large or small, with other partners. These might relate to:

* The strategic direction in which the business should go (or how to get there)
* How to handle any number of discrete business issues that may arise
* Different views on how partners should be rewarded when they put different amounts of time, skills and level of investment into the business
* Ambition. Some may want to dedicate every waking moment to growing and developing the business, while others may want a quieter life

Differences might not be evident immediately. Over time, partners’ preferences, personal situations and expectations may change so the fact they are aligned at the start is far from a guarantee that cracks won’t appear later.

Disagreements and disputes can not only harm the business but also damage the relationship between the individuals involved. Conflict can be a major distraction, absorbing the partners’ time, energy and money.

That’s why is generally advisable to draft a partnership agreement (sometimes called a deed of partnership) when forming the business partnership. This document ensures the partners’ respective rights and responsibilities are enshrined, and that there is a common understanding of the procedures to be followed in the case of disputes. If the partnership needs to be dissolved, the partnership agreement will also detail what then happens.

***6Slower, more difficult decision making***

Compared to running a business as a sole trader, decision-making can be slower as you’ll need to consult and discuss matters with your partners. Where you disagree, time will be spent negotiating to build agreement or consensus. Sometimes this might mean opportunities are missed. More often, it will frustrate a partner who has been used to making all the decisions for their business.

***7Profits must be shared***

At a basic level, while a sole trader retains all the profits of their business, those of a partnership are shared amongst the partners. By default, under the Partnerships Act 1890, profits are shared equally, although that position can be amended by a partnership agreement.

Sharing profits equitably can raise difficult questions. How do you value different partners’ respective skills? What happens when one partner is seen to be putting in less time and effort into the partnership, but still taking their share of the profits? It’s easy for resentment to occur if there doesn’t appear to be a fair balance between effort and reward.

***8Personally demanding***

Although there’s at least one other person to share the worry and workload with, in a partnership business the partners still essentially are the business. It can absorb a lot of time and energy and disrupt your work/life balance, particularly where you end up covering for other partners who don’t have such a strong work ethic. By contrast, in a limited company it’s easier for the owners of the business – its shareholders – to [appoint directors](https://www.informdirect.co.uk/officers/who-to-appoint-as-a-director-of-your-company/) to manage the business, at least on a day to day basis.

***9Taxation***

Historically, if the business made more than a certain level of profit, individuals could incur less tax by withdrawing a combination of salary and dividends under a limited company than they could via partnership drawings. But since changes to the taxation of dividends, this difference is far less marked.

However, a limited company still often presents more tax planning opportunities than a business partnership. With the profits earned by the partnership translated to income on the individual partners, they’re subject to income tax in the financial year in which they are made. Profits can’t be retained in the partnership to be drawn as income in a later year, when a partner’s income (and potentially their marginal tax rate) may be lower.

The tax-efficiency of different business structures depends on your personal circumstances. You should always consult a tax professional, who can offer advice based on your personal circumstances.

***10Limits on business development***

Several of the other disadvantages we’ve looked at combine to restrain the growth of most partnerships. That won’t worry a lot of businesses with modest expansion expectations. But for any business looking to achieve massive growth, a combination of unlimited liability, lack of funding opportunities and a lack of commercial status in the eyes of the world is hardly the perfect recipe for success.

The lack of legal personality becomes important here too. Without it, the business cannot own property, enter into contracts or borrow in its own right, difficulties which will become harder to work around as the business grows.

Options for the partners eventually to exit the business and profit from it can be complicated, particularly if it’s possible for the departure of one partner at an earlier date to destroy the business. While it’s possible for one or more partners to sell their share of the partnership business, exit strategies can be easier to manage within a limited company structure.