## What Is a Partnership Agreement?

A partnership agreement is an internal business contract that outlines specific business practices for the partners of a company. This document helps establish rules for how the partners will manage business responsibilities, ownership and investments, profits and losses, and company management. While the word partners often refers to two people, in this context there's no limit to how many partners can form a business partnership.

Partnership agreements go by different names depending on the state and industry in which they're formed. You might know partnership agreements as:

* Articles of Partnership
* Business Partnership Agreement
* Creation of Partnership Agreement
* Formation of Partnership Agreement
* General Partnership Agreement
* Partnership Contract

Partnership agreements help answer, "What happens if..." questions before they come up in practice to ensure the company runs smoothly. The three main types of partnership agreements are:

* **General:**In a general partnership, all partners equally share liabilities, profits, and assets.
* **Limited:**Limited partnerships protect partners who do not contribute capital equally. This way, the partner or partners who contribute the most money or assets earn the most profit and take on the most liability, while partners who contribute less in capital or assets earn less in profits and carry less liability.
* **Limited liability:**Limited liability partnerships function much the same as general partnerships, but give the partners limited personal liability while maintaining equal shares of the company and its profits.

Partnership agreements help establish clear boundaries and expectations regardless of whether your partnership is general, limited, or limited liability.

## Benefits of a Partnership Agreement

Partnership agreements offer [a host of benefits](https://www.thebalancesmb.com/why-your-partnership-needs-a-written-agreement-398401)to those business owners who create one. A few of the most substantial benefits include:

* **Business outline:**The agreement delineates all the elements of the business and how the partners are to manage each, which helps reduce confusion once the business is running.
* **Clear responsibilities:**The partnership agreement clearly establishes personal responsibilities for each partner in terms of capital, profits, losses, and liabilities in addition to business management and oversight.
* **Form of mediation:**The primary benefit of a partnership agreement is in its ability to forestall future arguments. Since all expectations and responsibilities are outlined, all partners should know what they need to do to fulfill their duties.

## Potential Consequences

When you start your business, the division of labor and resources between partners might seem obvious, so you might not think it's worthwhile to create a partnership agreement. Unfortunately, your business might suffer negative consequences in the future without one.

* **State law:**Every state has different laws governing partnerships. If you don't create an agreement, state law will automatically govern the future of your company in the case of a partner's death or another change to the partnership, regardless of your wishes or intent.
* **Disputes:**Disputes regarding the operation of the company could arise in the future. With no documentation outlining the goals, responsibilities, and expectations of the partners, the company could suffer.
* **Tax implications:**For those limited or limited liability partnerships, without a clear description of each partner's contributions, the state could assume each partner owns the same share of the company and tax them accordingly.

## Elements of a Partnership Agreement

Most partnership agreements share some [common elements](https://www.investopedia.com/ask/answers/041015/which-terms-should-be-included-partnership-agreement.asp). When you're drafting yours, ensure you include the following categories:

* **Name:**Include the name of your business.
* **Purpose:**Explain what your business does.
* **Partners' information:**Provide all partner's names and contact information.
* **Capital contributions:**Describe the capital (money, assets, tangible items, property, etc.) that each partner provided.
* **Ownership interest:**Offer the specific percentage of the company that each partner owns.
* **Profit and loss distribution:**Explain the percentage of profit and loss assigned to each partner and how the company will distribute revenue.
* **Management and voting:**Outline how the partners will manage the company by delineating individual responsibilities in addition to explaining decision-making and voting between partners.
* **Adding or removing partners:**Create specific guidelines for adding new partners, removing partners who want to leave, and removing partners who don't want to leave.
* **Dissolution:**Describe how you'll liquidate the business and share out any profits should the company dissolve.
* **Partnership tax elections:**Assign a partnership representative to manage all tax communications.
* **Death or disability:**Provide clear instructions for how each partner's ownership in the company should be liquidated or redistributed in the unlikely event of their death or disability.

## When to Use a Partnership Agreement

Partnership agreements are for two or more people entering into a for-profit business relationship to use. Almost always, the partners establish a partnership agreement before going into business or just after establishing their company. In some cases, partners create partnership agreements after the fact to ensure everyone has a clear understanding of how the company operates, but it's best to have the agreement established and signed before opening your business's doors.

## How to Write a Partnership Agreement

You have several options when establishing a partnership agreement. Since every state has its own laws governing formal business partnerships, you could start by reviewing the state's rules through your Department of State. Another option is to look for templates you can use to simply fill in or guide you as you structure your own partnership agreement. Finally, you can consult an attorney who specializes in contract law. Contract lawyers can help you create a custom partnership agreement.

## Using an Attorney

[Contract lawyers](https://www.contractscounsel.com/contract-lawyers)are your best course of action for establishing an effective partnership agreement. They'll know what's necessary to include for your state and industry and can help ensure that you've thought of and described every possible scenario and element for your business for the smoothest management experience.

Additionally, the use of an attorney ensures a mediating third party who can help ease any initial disagreements and maintain fairness within the contract. Contract attorneys are well-versed in writing legal documents, so they'll use specific language that will offer clear guidance later if needed rather than vague statements that might have seemed sufficient when originally written but are unclear years later.

**SECTION 16 of Partnership Act.**

**16**. **Personal profits earned by partners**. Subject to contract between the **partners**,- ( ... (b) if a **partner** carries **on** any **business** of the same nature as and competing with that of the firm, he shall account **for** and pay to the firm all **profits** made by him **in** that **business**