

Tax implications of a partnership

A partnership is where two or more co-owners participating together in a business.

The matrix below illustrates the tax implications of a partnership as at 30 June 2006:

Asset protection benefit	Capital Gains Tax (CGT)	Rate of income tax	Flexibility of distribution of income and capital	Establishment and ongoing costs
Operation of a business through a partnership does not provide any asset protection or limitation of liability. Partners in a partnership are collectively and personally responsible for all of the business debts.	Partners of a partnership are entitled to a 50% discount of the amount of CGT payable in respect to CGT assets which have been held for more than 12 months.	The income of the partnership as well as its losses flows through to the partnership's partners. Partnerships are required to lodge a tax return showing the distributions that have been made to partners but the partnership does not actually pay any tax itself. Each partner has separate tax liabilities and pays tax on their share of the income of the partnership at their own personal marginal rates.	Partnerships may allow flexibility in the distribution of the partnership income between partners, however distributions are usually of an agreed percentage of profits.	This structure can be expensive to set up and maintain because the governing document of the partnership, the partnership agreement, should be negotiated and drafted by your legal advisor.

Further information

The above is only a general list of the generic tax implications of a partnership. There will be other tax implications and will depend on the specific nature of your business and other aspects of your financial affairs. For more personalised guidance about what structure is the best structure for your business, we recommend that you consult with your legal and taxation advisors.

The Australian Taxation Office www.ato.gov.au has further information related to tax implications for business.

The following fact sheets provide further information on these issues:

- Business name registration
- Legal aspects of succession planning
- Set up as a partnership