THE CURIOUS INVESTOR'S GUIDE TO...

ANDERSON

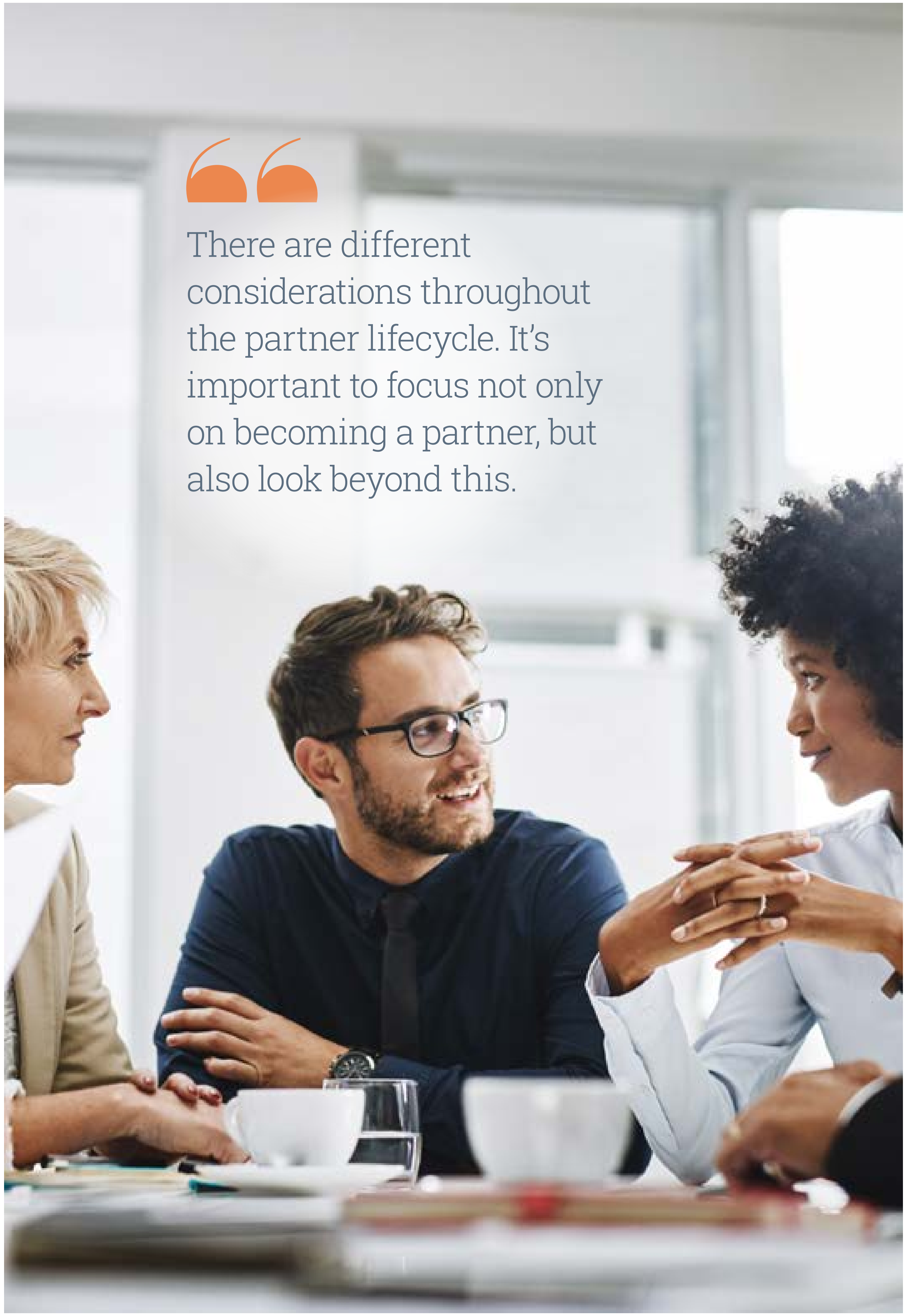
Partnership

case studies & expert advice

Experience
6 experienced business partners

Full lifecycle
Wherever you are in your career

Confidence
To ask the right questions



Welcome from Anderson Financial Management

When many of us think about businesses that are structured as Partnerships, Limited Liability Partnerships (LLPs) in the legal or financial sector are often the first to come to mind. But Partnership is one of the most common ways to run a business in the UK. And while law firms are frequently structured as LLPs – owned and run by more senior members of their team – a Partnership can exist in almost any sector.

There are different ways to structure a Partnership, and different types of partner within a Partnership. So entering into a Partnership is rarely straightforward. Through our work supporting current and future partners across many sectors, we have found that individuals will always have very different goals, ambitions, considerations and concerns throughout the partner lifecycle.

It's important to focus not only on becoming a partner, but to look beyond this. From managing your career, life and family commitments when you are in a Partnership, to considering what happens when a Partnership comes to an end – either when it's time to move on to pastures new or to retire.

My team and I have supported many clients throughout this Partnership lifecycle, and this guide aims to share our experience and knowledge to help and support others. At the same time as sharing some helpful tips and pointers from partners who have been there before. Because we find that the advice our clients most benefit from is about more than just taxation. And when it comes to Partnership there is so much more to consider.

Tony Anderson

Chartered Financial Planner & Managing Director
Anderson Financial Management Ltd.

DIFFERENT TYPES OF PARTNERSHIP

A business Partnership is a way of organising a company that is owned and sometimes run by two or more people. These people share in the business profits – and losses – as well as the decision making and leadership responsibilities.

ORDINARY PARTNERSHIP
Not a separate legal entity. Partners do not have any protection and are liable for the debts of the business.

LIMITED LIABILITY PARTNERSHIP
A separate legal entity. Partners' liability is limited to the amount they have invested in the business.

LIMITED PARTNERSHIP
A general partner has unlimited liability for the debts of the business, while any additional partners are liable for the amount they have invested.

Joining a Partnership

Understanding both the type of Partnership that you are entering into, and the type of partner that you will be, is important before entering into any Partnership agreement.

You can join a Partnership when it is first created (more on this later) or after it has been operating for a period of time. To join a business as an equity partner, you need to invest in the Partnership and bring capital into the business. The amount you invest, and the amount of liability you take on, will determine your share of the profit and loss of the business. As well as how much say you have in how the business is run.

As almost every Partnership is different, being clear on your remuneration structure and, particularly as an equity partner, what income you are likely to receive from the Partnership – in a best and worst case scenario – is fundamental. Equally important is a knowledge of the liability and potential risk that you are taking on. This will help your financial planning around different scenarios when it comes to income, expenses, savings and investment.

PAYING TO JOIN A PARTNERSHIP

As an equity partner, you will be required to make a capital contribution, which means that you are acquiring a share of the business. The size of capital contribution required varies from business to business. Sometimes this contribution is made in full on entry to a Partnership but it can also be built up over time.

As a new partner, you can often take out a Partnership capital loan, either from an approved financial institution or sometimes from the Partnership that you are joining. Tax relief is available on the interest of Partnership capital loans and there are tax implications to becoming a partner. So it's a good idea to seek specialist financial advice before borrowing money to enter into a Partnership.

PROS AND CONS OF BEING A PARTNER

We spoke to a number of people for this guide who are, or have been, partners in different businesses. They all said that there are positive and negative aspects to being a partner. And that it's important to consider these before making any decisions about your future.

6 QUESTIONS TO ASK BEFORE BECOMING A PARTNER...

1. What is my expected investment in the Partnership and how is this structured?
2. How are profits and rewards allocated in the Partnership?
3. What's the business model – what are my liabilities and risks?
4. How does the decision making process work and how much influence will I have?
5. What happens if a partner leaves (due to sickness, death, buyout, retirement)?
6. How are any disputes or disagreements resolved and is influence tied to capital investment?

HERE'S A LIST OF THE MOST COMMON PROS AND CONS THAT PEOPLE SHARED WITH US:

PROS

- Sense of ownership and influence, and the opportunity to build the business.
- More control over the type of work you do, and the direction and strategy of the business.
- More money and the potential to have a positive impact on your own future income.
- Being part of a team that benefits from mutual support and access to skills and experience.
- Being involved in group decisions about the business.
- Prestige and achieving a long term goal.
- Satisfying and fulfilling.

CONS

- Didn't fully consider whether it was the right goal!
- Long hours and hard work.
- More formal responsibility to win business and increased legal obligations, which can feel daunting.
- Not as much control as expected, particularly early on as a partner.
- Not as much impact on disposable income as expected, particularly early on.
- Some Partnership environments are more competitive, which can feel stressful.
- People don't always agree, so decision making can sometimes be challenging.

The offer of Partnership is a bit like a marriage proposal. It's difficult to say no without ending the relationship. But as with marriage, it's a huge decision. My advice is to accept that this is an adult to adult relationship and that you won't do yourself any harm by asking questions.

CAROLE O'NEIL
Partner, HR & Training, Cundall

WHAT IS YOUR WHY?

In any area of life it's easy to start down a certain path and continue without considering whether you, or your environment, have changed. Becoming a partner in a business is an ambition for many people. But before signing on the dotted line stop, take stock and consider if this really is the best step for you.

Partnership may well be the right choice, but remember that there are other routes. Take the time to think about your personal goals – why are you doing this? What do you want and need out of life? Don't feel rushed and if you have any questions always ask. It will help to talk to family, friends, colleagues, existing partners in your business, partners in similar businesses and an external advisor before making any final decisions.

If you are not sure about something it can be easier just to go with it and think you'll sort it out later. But later might not come. You don't have to go with what you're told and you don't have to make decisions on the spot. You never need to be rude, but it's always okay to go away and find out more information before making a decision.

BEVERLY KAY
Partner, Trojan Management Search

DIFFERENT TYPES OF PARTNER

As well as different types of Partnership, there are different levels of partner. In some businesses, there may also be levels in between:

SALARIED PARTNER
No capital invested, on the payroll at a fixed salary, few or no voting rights.

FIXED SHARE EQUITY PARTNER
Self-employed with capital invested, receives a fixed share of the profits, some voting rights.

FULL EQUITY PARTNER
Self-employed with a larger capital investment, receives a percentage share of the profits, full voting rights.

MANAGING PARTNER
Usually a full equity partner who is also responsible for the day to day running of the business.

COMMON VALUES

Perhaps most importantly, before entering into a Partnership with someone, make sure you share the same values.

You don't need to agree on everything, but do you have the same ethical standards for example?

Or agree on the overall purpose of your business?

What does success look like?

Take the time to discuss what your expectations of the Partnership are, both personally and for the future of the business.

Forming a Partnership

Most of the advice in the previous section about joining a Partnership is also relevant when forming a new Partnership. However, there are some additional considerations when you are teaming up with others to establish a new business. The most common clashes between partners come over money, goals and time. By talking openly about your individual expectations you will prevent problems down the line.

ARE YOU COMPATIBLE?

We often spend more time with our work colleagues than we do with our family and friends. You wouldn't marry someone, or even go on holiday with them, if you didn't know them well. And the same should apply to starting a business venture with a new partner.

Even if it feels awkward, do your due diligence by checking references and talking to individuals that your potential partner has worked with before. It's not prying to check their online presence on Google, LinkedIn or Twitter for example. It's just good sense. You would always do this for recruitment, so you should absolutely do it for a Partnership.

TALK ABOUT MONEY

It's cultural – we generally don't like to talk about money in this country. But in much the same way that you shouldn't feel awkward about doing a background check on your future business partner, it's vital that you have an understanding of their financial situation before entering into a Partnership with them. Do your research and have open honest conversations about money with any potential partners.

TALK ABOUT THE FUTURE

You might have a different timeline and plan to your partners when it comes to exiting the business, whether it's retirement or moving on to the next challenge. These differences are fine as long as you understand each other's potential plans for the future. Financial planning and succession planning will be a lot smoother and easier if everyone is clear about what they, and others in the business, want.

> I am really happy that I have set up my own partnership. It's a small business with just two partners. We're streamlined and get to do the day to day work we love but with less admin and employee overheads.
>
> **RACHEL SAINT** Partner, Property Elite

> One of the biggest challenges that new partners experience when they move to self-employed status is the lack of objective setting and feedback on your performance. There can be an assumption when you reach this level that you know what needs to be done and will just crack on with it. But not everyone works like that – and that's fine. Proactively ask for development opportunities and seek feedback more informally if you need it, for example a chat over coffee with a mentor. Also invite feedback from the people you're leading. Don't lose sight of you own professional development
>
> **CAROLE O'NEIL**
> Partner, HR & Training, Cundall

Being a partner

REMUNERATION AND TAX

As an equity partner your income can vary significantly from year to year, depending on the performance of the business. This can be stressful, so plan and prepare for these variations.

Tax planning is always important, and as the models for Partnership are so varied there isn't a one size fits all answer. If you are self-employed you will need to do your own tax planning and ensure you have made adequate provisions to cover your tax liabilities. Some firms offer in house tax support for partners. If not you'll need an accountant – unless you want to take the time and effort involved in doing your own tax returns.

PARTNER BENEFITS AND PROTECTION

The benefits you receive can change dramatically when you become a partner, particularly if you are moving from the protected status of an employee to being self-employed. If you are no longer an employee, you may well lose employee benefits such as death-in-service or sick pay. Many of the partners we spoke to stressed the importance of gaining complete clarity about the benefits that you have – or don't have – within your Partnership agreement.

Check whether you have protections such as health insurance, life insurance, and maternity or paternity cover. If you don't, you will need to make provisions yourself to ensure you have protection in these important areas. You should review your requirements with your financial adviser and, where necessary, look to replace lost benefits on a personal basis.

> When you become a partner, the way that people treat you changes overnight. The position brings a lot of respect, which is positive, but people often feel the need to be political with you. So you aren't always entirely sure if they are being honest, or just trying to say the right thing. That's a big change.
>
> **NATHAN PEACEY**
> Partner, Foot Anstey

RETIREMENT PLANNING

As an employee or salaried partner you will be accumulating a pension pot. But if you make the move to self-employed equity Partnership there will be no pension provision. And in many Partnerships you won't accrue value in the business that you will be able to release on retirement. Start your financial planning and investing in a pension early to help you reach your retirement goals.

As a partner, if you are no longer an employee, pension contributions will be your responsibility. This is a great, tax-efficient option. But as some partners can see higher levels of earning, it may be that pension planning is impacted by Annual Allowance tapering. In this instance, you may also need to look at alternative ways of investing in a tax-efficient manner for your retirement.

THE PSYCHOLOGICAL IMPACT

Partnership comes with responsibilities. Many of the partners we spoke to highlighted the challenges of achieving a work-life balance and struggling to switch-off. They also told us that the fast paced hard work of being a partner, while fun and exciting, can too easily turn into exhaustion and then burnout.

Notice what's going on with yourself – are you feeling overly stressed? Is this affecting your sleep, relationships, mood? If you are struggling it's okay to ask for help and get support when you need it. Ensure you are getting the training you need to stay current and upskill, and seek out mentors who can coach and advise you.

The value of an investment in equities may fall as well as rise. You may get back less than you invested. Taxation rules can change at any time and are dependent on individual circumstances.

MOVING UP

As a partner, you might be faced with a difficult decision as you progress in your career. Do you continue practicing in your field – whether it's law, property, accountancy or medicine – or do you move into the management side of the business? This can either be on the business management side or the client relationship management side.

The downside of staying where you are is that the salary can plateau. There might come a point where your remuneration doesn't continue to increase in line with your years of experience. And there can be pressure on individuals who are successful in their field to move into management. Which might be a difficult decision if you love practicing your profession.

When faced with this decision, you need to return to the question of what you want from life. Where do your interests lie? Discuss your options with colleagues, your mentor and family before you make a decision.

When I was made an equity partner in 2004 I wasn't initially clear on the need to build up a tax reserve. That was a shock! As a partner you also need to be alive to the risk that in hard times there can be a reduction in your monthly drawings. If I was becoming a partner now I would sit down with someone and asked them to take me through the financial implications in a bit of detail.

NATHAN PEACEY
Partner, Foot Anstey

Every Partnership is different and has different articles. As a woman entering into my previous all-male Partnership there were areas that my fellow partners hadn't even thought about, such as maternity benefit. Treat everything as up for discussion and negotiation. You need to know that your situation is as secure as it can be before signing on the dotted line.

RACHEL SAINT
Partner, Property Elite

I was keen to get involved in management but it's not for everyone. You don't receive management training to become a lawyer, so it can be a tricky transition, although I found it incredibly rewarding. Being part of a business is tremendously interesting and enjoyable.

RICHARD WALLER
Recently Retired Partner

Moving forward

Again, every Partnership is different when it comes to what happens when a Partnership is coming to an end. It's worth exploring options to get what you need from this big change.

Many companies have a hard cut off at the end of a Partnership, where long term partners retire to make space for new partners. This can be hard if you don't feel ready to retire and are still mentally and financially invested in a business that you have helped to build over 20 or 30 years.

OPTIONS POST-PARTNERSHIP

- Move to a part time Partnership or fixed share Partnership, for example a 9-day fortnight, or a 4-day week. This is becoming more common across many sectors.
- Stay with your business in a part time consultancy capacity to keep your hand in and stay involved. And your business won't lose out on your valuable talent and experience.
- Start your own business in an entirely new field or an area where you have expertise. You do need to be careful if your new business might be seen as in conflict with your previous Partnership.
- Fully retire and enjoy a hard earned rest! Many businesses provide a financial incentive for partners to retire early and make space for up and coming partners.

Whatever you decide, you will need to make sure your finances are in place, to support your existing lifestyle or any steps towards downsizing that you are happy to take. The most important consideration is the same as when you are joining a Partnership – what is it that you want from life?

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If you don't build up a pension pot you will find it hard to retire. It's important to remember this and put a plan in place as early as possible. You don't want to get stuck.

RICHARD WALLER
Recently Retired Partner

“

Moving on from a Partnership can be challenging. But by being prepared you will make the process less stressful.

TONY ANDERSON
Chartered Financial Planner & Managing Director, Anderson Financial Management Ltd.

ON LEAVING A PARTNERSHIP

As a partner you are an integral part of a business and, even more so than a salaried employee, your fortunes are inextricably linked with those of the Partnership. If you decide to leave a Partnership before retirement, or semi-retirement, this can be difficult. Many of the partners we spoke to have been through this and found it challenging.

If you are prepared for a potentially difficult transition, and you understand your Partnership agreement and the potential consequences of leaving, it will make the move easier. Speaking to others and getting external advice can be helpful here as well.

plans
schemes
Putting your dreams first
hopes
family
community
values
passions
loves

Conclusion

Becoming a partner in a business is a complex decision. All of the partners who generously shared their experience and advice in this guide said that it's a rewarding experience – exciting, enjoyable and incredibly interesting. The flip side is that being a partner can be stressful and place multiple demands on you and those around you – both mentally and financially.

The questions and challenges that people face don't stop when you become a partner. There are multiple considerations when it comes to planning for the future, whether you are on the Partnership track, a new partner, a senior partner or thinking about retirement.

Wherever you are in your career, at Anderson Financial Management we always start with finding out your why. What is it that you want from life? What are your priorities, goals and aspirations? This forms the starting point of all our client conversations.

You have heard from a number of different voices at varying stages of the Partnership lifecycle. Our priority is to support the life decisions you make with the best possible financial advice. So that you and your family are in the healthiest financial position you can be, both for the now and into a sustainable financial future.

About us

Anderson Financial Management (AFM) is a chartered financial planning firm based in Bristol, specialising in financial planning and wealth management services.

We support individuals, businesses, families, trusts and charities. Our clients take an active and positive interest in their future and are engaged with their financial planning. They truly value our expertise and we aim to give the very best advice we can.

We're a close-knit team with respect for others and a love of working closely together with our clients. Regular face to face advice is at the heart of what we do. We gain a complete understanding of your current circumstances, and develop a personal financial plan that helps achieve your goals.

Putting clients at the centre of everything we do is core to the AFM culture.

> Wherever you are in the Partnership lifecycle, when it comes to financial planning the most important consideration is the same. What is it that you want from life?

TONY ANDERSON
Chartered Financial Planner & Managing Director, Anderson Financial Management Ltd.

Being a partner is hard work. But that hard work comes with more freedom and latitude, to do the things you want to do in the way that you want to do them. You have more influence to set the tone in your organisation and bring about the change that you want to see in the business.

CAROLE O'NEIL
Partner, HR & Training, Cundall

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