

# Partnership Agreements

This issue was developed by **Gibraltar Group**, a Canadian-owned practice enhancement consulting firm specializing in chiropractic for the OCA.

If you are planning to enter into partnership with a partner, you should speak with a lawyer who will explain to you the intricacies of partnership law. A partnership is created automatically when two or more people carry on a practice in common with a view to a profit.

You must be aware of the law relating to partnerships and you must be very careful about your choice of partners.

A partnership is a serious legal relationship with potentially onerous legal consequences. For instance, the law states that each partner is individually 100 per cent personally liable to the creditors of the partnership for debts incurred by the partnership. That means that even if the debts were incurred by your partner and not by you, you are liable. So, should your partnership break up in the future after incurring significant debts, the partnership's creditors can pursue you under the law for the full amount of the partnerships' debts, rather than pursuing your former partner.

The Partnership Act is a piece of legislation that contains standard provisions governing the legal relationship of business partners. Some, but not all, of the statutory provisions in the Partnership Act can be varied by a partnership agreement, negotiated and signed by the partners.

If you and your partners do not sign a partnership agreement, you must be aware of your legal obligations and rights as a partner under the Partnership Act. You should become informed about the law and decide whether the standard terms in the Partnership Act are acceptable to you or whether to have some different or more comprehensive terms set out in a partnership agreement.

A partnership agreement can potentially save you money, aggravation and disappointment, and it can protect against failure of the partnership. Although most new partners believe they were meant for each other and they will get along, situations will almost always arise that the partners have never anticipated.

It is important for partners to realize that, with respect to ownership of profits, each partner is entitled to a division on an equal basis if there is no partnership agreement. Often, partners enter into a partnership agreement to divide the profits on a basis other than on an equal basis because of their particular circumstances. For example, if one partner is more active in the business, the partners may agree in a partnership agreement indicating that this person should have a greater portion of the profits.

It is recommended that you discuss numerous issues with your partner and enter into a partnership agreement at the outset of the relationship, when you are on amicable terms with each other. It will probably be too late when there is a significant disagreement. Entering into a partnership agreement at the outset of your business relationship can save you money and aggravation in the future.

Many people believe that lawyers are pessimistic because they seem to dwell on all the negative aspects of the client's matter, such as focusing on the potential break up of a partnership, even though the partners are just commencing their partnership relationship. A good lawyer's role is to highlight all of the realistic risks faced in a situation and, based on the law, to assist with assessing those risks realistically and implementing measures to reduce them.

Listen carefully to your lawyer's advice.



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