Disadvantages

- Partners are jointly and individually liable for the actions of the other partners.
- Profits must be shared with others.
- Since decisions are shared, disagreements can occur.
- Some employee benefits are not deductible from business income on tax returns.
- The partnership may have a limited life; it may end upon the withdrawal or death of a partner.

Types of Partnerships .

There are three relatively common partnership types: general partnership, limited partnership (LP) and limited liability partnership.

1. General Partnership:

General partnership is a simple partnership and many times referred as Partnership Firm. A general partnership is a business entity that is made up of two or more entities to carry on a trade or business. Each partner contributes money, property, labor, or special skills and each partner shares in the profits and losses from the business.

The law also allows the partners of a general partnership firm to sue or to be sued in the name of firm (only applicable for registered firms), though registration is optional.

2. Limited Partnership:

A limited partnership includes both general partners and limited partners. A limited partner does not participate in the day-to-day management of the partnership and his/her liability is limited. In many cases, the limited partners are merely investors who do not wish to participate in the partnership other than to provide an investment and to receive a share of the profits.

3. Limited Liability Partnership:

A limited liability partnership (LLP) is a form of partnership in which, Individual partners are not personally responsible for the wrongful acts of other partners, or for the debts or obligations of the business. Specifically, a limited liability partnership can only be sued for the total amount of assets in the business.

Owing to flexibility in its structure and operation, it would be useful for small and medium enterprises, in general, and for the enterprises in services sector, in particular. Internationally, LLPs are the preferred vehicle of business, particularly for service industry or for activities involving professionals. LLP is a separate legal entity; means LLP and Partners are distinct from each other. Minimum two partners are required for starting LLP but there is no limit for maximum numbers of partners.

Example:

If a customer slipped on a pickle in your grocery store and is suing for their injuries, they cannot receive more than the total value of your grocery store. This partnership is a popular choice for law firms and medical practices to ensure that customers cannot sue for assets such as the practitioner’s home.

Advantages of Limited Liability Partnership:

i. Low cost of Formation and Easy to establish.

ii. Easy to manage and run.

iii. No restrictions as to maximum number of partners.

iv. LLP and its partners are distinct from each other.

v. Partners are not liable for Act of partners.

vi. Less Government Intervention and Easy to dissolve or wind-up.

vii. Audit requirement only in case of contributions exceeding Rs 25 lakh or turnover exceeding Rs 40 lakh.

Disadvantages of Limited Liability Partnership:

i. Any act of the partner without the other partner, may bind the LLP.

ii. Under some cases, liability may extend to personal assets of partners.

iii. Cannot raise money from Public.

4. Public Private Partnership:

Public Private Partnership means an arrangement between a government/statutory entity/government owned entity on one side and a private sector entity on the other, for the provision of public assets and/or public services, through investments being made and/or management being undertaken by the private sector entity, for a specified period of time, where there is well defined allocation of risk between the private sector and the public entity and the private entity receives performance linked payments that conform (or are benchmarked) to specified and pre-determined performance standards, measurable by the public entity or its representative. These schemes are sometimes referred to as PPP, P3 or P3.

“Public Private Partnership (PPP) is a partnership between the public and private sector for the purpose of delivering a project or service traditionally provided by the public sector. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public. In addition to the sharing of resources, each party shares in the risks and rewards potential in the delivery of the service and/or facility”.

“Public Private Partnerships (PPPs) are arrangements between government and private sector entities for the purpose of providing public infrastructure, community facilities and related services. Such partnerships are characterized by the sharing of investment, risk, responsibility and reward between the partners. The reasons for establishing such partnerships vary but generally involve the financing, design, construction, operation and maintenance of public infrastructure and services.”