

PARTNERSHIP GUIDE

What is Partnership?

A “firm” is a relationship between two or more persons who have agreed to share profits of a business according to their participation. The partners are collectively called a “firm” and the name under which they do business is called the “firm name”. Any two or more persons (up to 20) can form a partnership to do any one or more businesses through an agreement in writing. It is not compulsory in law to register a partnership. However, a registered partnership has more advantages than an un-registered partnership.

Registration of a Partnership

The registration of partnerships is not compulsory by law. It is optional and there is no penalty for non-registration. However there are disadvantages for not registering. If any dispute arises among the partners or ex-partners they may not resolve the issue through the civil courts. An unregistered firm cannot institute a suit to settle these disagreements. Neither can an unregistered firm sue a third party for the enforcement of any rights arising from a contract, e.g. the recovery of the price of goods supplied. It must be noted however, that a third party may file suit against the partnership. Even in this case, the partnership cannot mention any monies that may be outstanding to them in court. There is no protection to the partners’ liability either. As there is no formal documentation stated that they are in partnership, if one decides to deny the existence of the partnership, there is not much that can be done about it legally. Registering during any suit cannot subsequently cure this effect. Prior registration is necessary.

Different Types of Partnerships

Ordinary Partnership

All information so far discussed is with regards to an ordinary partnership. Any variations would then lead to the following alternatives:-

Limited Partnership

In this kind of partnership one or more partners have limited liability and at least one of the partners has unlimited liability. The liability of the limited partner is limited to the extent of his investment in the business.

- a. It is formed under Limited Partnership Act 1907 (of England)
- b. One or more partners have limited liability
- c. There is at least one partner with unlimited liability
- d. The firm must be registered. Once this is done the rights and duties of the partners are also recognized.
- e. A limited partner has no right to take an active role in the management of the partnership.
- f. The capital invested by the limited partner will not be returned to him as long as he remains a limited partner on the firm.
- g. The limited partner can inspect the accounts of the firm at any time.
- h. A new partner can be introduced into the firm at any time without the consent of the limited partners.
- i. The partnership should not consist of more than 20 partners (whether limited or not) except in the case of banking where they should not exceed 10.
- j. The registrar of Joint Stock Companies shall be the registrar of Limited Partnerships.

Partnership at-will

The essence of a “partnership at-will” is that the partners do not limit the duration of their partnership, and are free to break their relationship at any time they see fit. It is a partnership for indefinite period. The partnership may be dissolved at any point as long as the partner.

Procedure for Registration of Partnership Firm under Partnership Act, 1932

Step 1: Opening of Office of the Firm (*must be in Commercial Area*). Copy of lease agreement/ ownership proof should be provided.

Step 2: Preparation of Partnership Deed on stamp paper worth Rs.1000/- (*must be signed by all the partners*)

The mutual rights and obligations of all partners must be documented in the shape of a “partnership deed”. This needs to be signed by all the partners and subsequent copies held by each partner. At the time of registration, a copy of the deed has to be submitted with an application to the Registrar of Firms in the concerned area. This document may also be referred to as an “Article of partnership”. A partnership deed usually contains the following format:

- a. The name of the firm
- b. The nature of business that is to be carried out by the firm
- c. The address at which the firm intends to conduct its business
- d. The amount of capital that each partner contributes. The form of capital whether that be cash or property needs to be documented. If the capital is property, a full description of the property and the valued amount should be given also.
- e. The names and addresses of each partner should be given
- f. The duration of the partnership if any
- g. The ratio of sharing profits and losses
- h. The amount or percentage of interest, if any, which is to be allowed on capital
- i. The amount of salary each partner is to receive
- j. The manner in which a partnership is to be dissolved and the subsequent distribution of property among the partners.
- k. In the case of insolvency the valuation and treatment of goodwill
- l. Provisions regarding the accounting system and the fiscal year to be used
- m. Rules to be followed in the case of retirement, death and admission of a Partner
- n. The method of settling disputes if any among partners. I.e. whether or not an arbitrator is to be appointed
- o. Method of calculating amount issued to a deceased partner, and whether this is to be paid in full or in installments to his legal representative.
- p. In the case of breach of duty by one partner, powers of other partners to expel him from the firm
- q. The keeping of proper books of accounts and periodical preparation of accounts.
- r. Any provisions to prevent any future misunderstanding and ill will.

Notes: A Partnership deed can be obtained in the form of judicial papers that cover all the points mentioned above. This in turn can be signed and submitted to the registrar as mentioned

Step 3: Fill in the Form No. 1 Partnership Act 1932. Must provide the following particulars:

- a. The name of the firm
- b. The place or principal place of business of the firm
- c. The names and addresses of other places where the firm may conduct business
- d. The partner's date of joining the firm
- e. The duration of the firm
- f. The name and address of the partners.

Step 4: Deposit registration fee Rs 1000/- through Challan Form No. 32-A in any branch of National Bank of Pakistan.

Step 5: An affidavit regarding accuracy of papers and existence of office would submit on stamp paper worth Rs. 5/-.

Step 6: Submit all documents in person to Registrar of Firms (*All the partners should be required to appear along-with original valid computerized N.I.C before the Director of Labour & Industries during 9.00 am to 11:00 am and after completion of papers and office visit*).

Step 7: Once the registrar is satisfied with the application, a certificate of registration is issued to the partners. (*Three Days Minimum Time*)

Note:

- Copies of computerized valid N.I.C of all partners & witnesses should be attached.
- All papers should also be attested from Notary Public.
- Registration of Partnership is not required to commence business

Contact address

Director (Labour & Industries)
2nd Floor, ICT Agriculture Complex, Mauve Area, G-11/4,
Islamabad.
Rs. 1000/- to be deposited in NBP

Flow chart of Partnership Registration Process

