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IN BC

What to Include in a Partnership Agreement

AN INFORMATIVE GUIDE FOR CANADIAN ENTREPRENEURS

A written partnership agreement is an essential tool for building a strong and sustainable business relationship. It sets expectations, outlines responsibilities, and prepares you for challenges or changes down the road.

While it's always advisable to consult a legal professional, this guide outlines the key elements to discuss with your business partner(s) and why each one matters.

Legal Structures and Types of Partnerships

Before drafting a partnership agreement, it's important to understand how partnerships fit into the broader landscape of business structures in Canada.

In Canada, most businesses operate under one of three main legal forms:

- **Sole Proprietorship** – Owned and operated by one individual. Simple and inexpensive to set up but offers no separation between personal and business liabilities.
- **General Partnership** – A business owned by two or more individuals, often considered an extension of a sole proprietorship when shared among partners.
- C**orporation** – A separate legal entity that offers limited liability protection to its shareholders.

This guide focuses on **partnerships**, which can take a few distinct forms depending on your needs and provincial regulations.

Types of Partnerships in Canada

General Partnership (GP)

This is the most common form of partnership. All partners share equally in the business's profits, responsibilities, and liabilities. Partners are personally liable for business debts and legal obligations, so trust and clear agreements are essential.

Limited Partnership (LP)

An LP includes both general partners (who manage the business and assume liability) and limited partners (who invest but do not manage the business or assume personal liability beyond their investment). Useful when you have passive investors who want financial involvement without operational control.

Limited Liability Partnership (LLP)

LLPs offer liability protection for individual partners, shielding them from personal responsibility for another partner's professional errors or negligence. LLPs are typically used by professionals such as lawyers, accountants, or engineers. Available only in certain provinces and for regulated professions. It combines partnership flexibility with limited liability protection.

When deciding which form suits your business, consider liability exposure, investment needs, and whether partners will be active in day-to-day operations.

Key Elements of a Partnership Agreement

Once you've chosen the type of partnership that best fits your business structure, it's important to clearly define how the partnership will operate on a day-to-day basis, and how it will handle change. A written agreement helps protect each partner's interests, ensures mutual understanding, and reduces the risk of conflict or miscommunication.

The following key elements are designed to guide your discussions and ensure that critical areas are addressed before finalizing your agreement. While not every section will apply to all businesses, reviewing each one can help create a strong foundation for long-term success.

1. Business Overview

This section lays the legal and operational foundation of your partnership. It ensures all parties are aligned on the business's mission and jurisdiction.

- Business name and registration details
- Business purpose or nature of activities
- Start date and intended duration

- Jurisdiction (province/territory)

2. Roles and Responsibilities

Outline what each partner is responsible for, including operational tasks and decision-making authority. Clear roles help prevent overlaps, misunderstandings, and future disputes. It supports efficiency and accountability.

- Duties and operational responsibilities for each partner
- Time commitment expectations
- Decision-making roles (e.g., operations, hiring, financial approvals)

3. Ownership and Contributions

List each partner's ownership share and what they are contributing to the business. Contributions may include cash, assets, or services. Documenting this ensures transparency and protects each partner's stake.

- Percentage of ownership
- Initial capital or asset contributions
- Ongoing contribution expectations (if any)

4. Profits, Losses, and Compensation

Determine how profits and losses will be shared and how partners will be paid. Money is one of the most common sources of conflict in partnerships. Set clear expectations early on.

- Profit and loss distribution formula
- Payment or draw schedule for partners
- Reinvestment policies
- Fiscal year-end

5. Decision-Making Process

Agree on how decisions will be made, especially those that could significantly affect the business. A well-defined process for decision-making helps avoid deadlocks and keeps the business moving forward.

- Voting rights (equal or based on ownership)
- What requires unanimous consent vs. majority vote
- How disagreements will be resolved

6. Banking and Financial Management

Establish how financial matters will be managed, from bookkeeping to signing authority. Sound financial processes and shared visibility promote trust and reduce errors.

- Authorized signers on accounts
- Bookkeeping responsibilities
- Accounting method (cash or accrual)
- Use of accountants or external advisors

7. Conflict Resolution

Build in a process for resolving disputes when they arise. Having a predetermined resolution process reduces stress and maintains working relationships during difficult times.

- Informal resolution steps
- Use of mediation or arbitration
- Escalation process for unresolved issues

8. Partner Exit or Changes

Outline what happens if a partner leaves or if someone new joins the business. Exit and succession planning protects the business and remaining partners from instability.

- Buyout terms and valuation method
- Notice required for voluntary exit
- Policy for death, disability, or retirement
- Process for admitting new partners

9. Non-Compete, Confidentiality, and Intellectual Property

Protect your business assets and reputation by setting rules for competition, confidentiality, and IP ownership. These clauses prevent partners from misusing business knowledge or resources after leaving.

- Confidentiality expectations
- Non-compete terms (during and after partnership)
- Ownership of work or ideas created during the partnership

10. Dissolution of the Partnership

Plan for how the business will wind down if it ends. A clear process for dissolution helps avoid confusion or legal issues and ensures fair treatment for all partners.

- Conditions for dissolving the partnership
- Asset and liability distribution plan
- Notification and legal filing requirements

11. Amendments and Reviews

Define how and when the agreement can be reviewed or changed. Your business will evolve. This section ensures your agreement remains relevant and up to date.

- Process for making amendments
- Frequency of review (e.g., annually)

Summary & Next Steps

A strong partnership agreement is a key building block for a successful business. Use this guide as a checklist and conversation starter to align expectations with your partner(s) before committing anything to paper.

Before finalizing your agreement:

- Discuss each section openly with your partner(s)
- Document all decisions in writing
- **Consult a qualified legal or financial professional**

Helpful Resources

Government of Canada – Partnerships: https://www.canada.ca/en/revenue-agency/services/tax/businesses/small-businesses-self-employed-income/setting-your-business/partnership.html

BDC – Choosing a Business Structure: https://www.bdc.ca/en/articles-tools/start-buy-business/start-business/advantages-different-business-structures

Law Depot Partnership Agreement Template: https://www.lawdepot.ca/contracts/partnership-agreement/