Partnering is a topic that arises for many business owners. If you are a micro business owner, small business owner or other entrepreneur, partnering can be an effective way to access and tap resources that do not currently exist within your business. Partnering can also be a means for growing a business. In addition, you may opt to partner with one or more founders to start a new business. Although business partners can provide numerous benefits, it is very important to be aware of and to understand the risks and pitfalls associated with partnerships to ensure you choose the best options to strengthen and grow your business.
As a business owner, you may wonder what the challenges associated with partnering are and how to mitigate the issues that arise. In addition, you may question whether partnering makes sense and, if so, when? This article will help you determine the answer most suitable to your situation and needs.

**Definition**

According to the IRS, a partnership is “a relationship between two or more persons who join to carry on a trade or business, with each person contributing money, property, labor or skill and each expecting to share in the profits and losses of the business whether or not a formal partnership agreement was made.” The Law Dictionary defines a business partner as “a commercial entity with which another commercial entity has some form of alliance.”

There are four types of partnerships:

- **General Partnership**: When you form and operate a business with another individual without organizing as a separate legal entity (i.e., a corporation or limited liability company), federal and state laws automatically classify your business as a general partnership. For example, you bring someone on board to handle administrative duties and agree to partner to avoid paying her upfront. You just formed a general partnership.

- **Joint Venture**: A joint venture results when two or more parties form a separate business but otherwise remain distinctly separate entities.

- **Limited Partnership**: This is a type of general partnership that provides limited partners with individual protection against personal liability. The general partner still has full liability.

- **Special Purpose**: This is a contractual relationship formed for a specific purpose such as the co-marketing arrangements that many technology companies enter into or the supplier relationships that often exist between distribution companies and retailers.

All partnerships can also be transactional – focused on a specific deal or transaction - or strategic – utilized to grow market share or to accomplish particular ongoing objectives.
BENEFITS
One key benefit that partnerships provide is access to the skills or capital you do not currently have. Through partnering, you can provide a more well-rounded knowledge base and skill set to your business and your customers, thus enabling you to better serve your target market’s needs. By combining financial resources, you can build a stronger business faster than you could alone. Partnering also enables you to reduce risks through sharing or through enhanced knowledge.

Additional benefits of partnering include:

- Access to new markets
- Introduction to new or expensive technology
- Navigate different paths to your existing market
- Creation of a new value proposition
- Offer new products or services through combining your respective products or services
- Generation of new or greater financial opportunities.

Percentage of partnerships believed to have been successful.

Example: 1% of companies believe that 100% of their partnerships have been successful. (Grow from the Right Intro study, September 2014, BPI Network and CMO Council)
Risks
Although partnering can provide your business with many benefits, you must be aware of the risks and how to mitigate them. Operating as a general partnership is one huge risk.

Key general partnership risk: Joint and several liability
- **EXPLANATION:** You and your partner are jointly responsible for any debt or liability that your business or either partner incurs. In addition, each partner can be held responsible for all the liabilities incurred.
- **EXAMPLE:** Your partner is at fault in an automotive accident. You own a house and other investments but your partner owns nothing but his car. In addition, your partner carries only the minimum liability insurance on his vehicle. The injured party’s attorney subsequently names both of you in the lawsuit but focuses his efforts on pursuing your assets.

Another significant risk is a break-up. As with marriages, many partnerships do not last. Poor communication, changing priorities, and shifting objectives all contribute to break-ups. If you did not work out an exit strategy in advance, then the “divorce” could be serious. If you have a special purpose partnership in which you only periodically engage, a break-up will typically be relatively minor. However, if you have worked together closely for a few years, the break-up could be emotionally and financially devastating.

Additional risks include the following:
- Different leadership styles. If you are a democratic leader (shared opinions and decision-making) but your business partner is autocratic (taking no account of other people’s wishes or opinions), your personalities could clash. In addition, the divergent leadership styles could send conflicting messages to employees or independent contractors.
- Different financial goals. If you want an income of $200,000 per year from the business and your partner wants $50,000, you may argue over money (profits, cash flow, or revenue) often.
- Shifting life goals (i.e., priorities)
- Changing time commitments
- Poorly defined leadership roles.
FREQUENTLY ASKED QUESTIONS

What is a partnership agreement or buy/sell agreement?

- This agreement is the document that governs your formal partnership. Excluding specific purpose partnerships, all partnerships should have one. This agreement clearly delineates what happens if you decide to disband, receive an offer to buy your company, become ill or disabled, and other similar scenarios. Also specify roles and responsibilities and who has the final say in each business function. Include a clear exit strategy.

- By fully completing this process, you will generate a legal document you can refer to when you have strong disagreements.

How do I avoid a messy break-up?

- Discuss in advance the scenarios that could lead to a break-up and determine how, if these occur, you will dissolve the partnership.

- Meet several times over a week or more to ensure you include everything in your buy/sell agreement. The more comprehensive the partnership, the more important this step is.

How do I protect myself in a general partnership?

- First, avoid legally operating as a general partnership. If you and another individual are jointly starting a business or building a business by merging your separate firms, consider structuring your business as a corporation or LLC. If you have multiple partners, consider a limited partnership.

- Second, create a clear and comprehensive buy/sell or partnership agreement.

How do I protect myself in marketing, vendor, or other partnerships?

A contract is only as good as the thought that went into it. Therefore, before engaging an attorney to document your marketing or other partnership in a contract:

- Discuss and clearly define the partnership’s goals and objectives, time line, each partner’s responsibilities, and the agreement’s duration. Also include a communication schedule you can adhere to. Finally, be sure to include dissolution and renewal clauses to ensure the smoothest possible exit or an easy renewal.
What are the IRS tax ramifications of a partnership?
Partnerships are taxed as pass-through entities - partnerships do not pay taxes on their income. Instead, the income (or losses) flow through the partnership and are paid by each separate partner. Partnerships must file Form 1065. LLCs that elect to be treated as partnerships for tax purposes must file Form 1065, U.S. Return of Partnership Income.

Should my partnership be 50 – 50?
- For general partnerships, the answer is usually no. It is better to have one person as majority partner and have that partner make executive decisions when disagreements cannot be resolved.
- However, if you fully complete a buy/sell agreement, a 50-50 partnership may work.

Do I really need a partner?
- If you need to fill vital gaps in the business - for example, a strong business network, critical business skills you lack, or funding to grow the business, you likely do need a partner.
- If you want a partner to perform duties you dislike, bounce ideas off of, hold you accountable or reduce your fear of flying solo, you do not need a partner. Instead, you should hire someone, get a coach, or build an advisory board.

I have a family business and my sister (or other family member) wants to get involved.
- Because failed partnerships within a family business can seriously damage or destroy personal relationships, it is vital that you spend even more time creating your partnership agreement. If you have divergent personal or financial goals, different management styles, or different work ethics, these will undermine your working relationship and potentially become fodder for personal attacks. By being very clear about who you are, what you want, and why you want it, you can determine if you should partner and, if so, how you should structure your intra-family partnership.

REFERENCES
- Eastern Illinois University: An Overview of Strategic Alliances
- University of Central Arkansas: Strategic Alliances: Are They Relational By Definition
- IRS: Partnership Returns 2012
- An Expanded Model of Business-to-Business Partnership Formation and Success
- Department of Energy: Structuring a Partnership for Success (Cummins MerCruiser partnership)
- SBA: Partnership
- BPI Network: Grow from the Right Intro

EXAMPLES
One example of a successful joint venture partnership is Cummins MerCruiser Diesel, a joint venture

Another example of a successful partnership that resolved difficulties is the Microsoft and Hewlett-Packard (HP) alliance
Answering these questions might help you to decide it is time to at least hire a bookkeeper or accountant.

How much time do you have in daily business operations to actually do all the things an accountant could do for you?
If you are spending a better part of the day doing the day to day creating invoices, following up on invoices and paying bills it might be time to hire a bookkeeper. By utilizing a bookkeeper a couple hours a week or a month this would free up time to focus on the core business.

How much time do you have to try and learn all the things that accountants already know?
An account can produce financial documents such as cash flow statements, profit and loss statements and balance sheets. Lenders typically require a financial statement review in order to accurately review and process a business loan request.

When to hire full time accountant or bookkeeper?
If you are calling your accountant often and wish he was in the office all the time it might be time to hire a staff accountant.

If your part timer is spending two to three days a week invoicing and paying bills but yet still falls behind, it might be time to hire a full time bookkeeper.

Know the difference between a bookkeeper, accountant and a CPA.
A bookkeeper does the day-to-day hands-on tasks submitting invoices (promptly) and following up on them, and paying the bills. The bookkeeper also tracks company expenses and can assure that every cost has been entered — and recorded correctly.

An accountant is a degreed professional who specializes in specific areas concerning finances, taxes, budgets, business operations, business equity, business management, money management, and so much more.

A certified public accountant (CPA) is an accounting professional who has a college degree, has passed a professional exam, and has met state licensing requirements.

The main difference between a regular degreed accountant and a CPA is that the CPA can perform financial statement audits and certify financial statements.
Member Benefits

Visit www.NASE.org to learn more about the following benefits!

NASE Health Savings Account

The NASE has partnered with The Bancorp Bank to offer a Health Savings Account, or HSA, a tax-exempt account to help you save money to pay for qualified medical expenses for the entire family. Most people who are covered under an IRS qualified High-Deductible Health Plan (HDHP) can open and contribute to an HSA.

HSA Advantages:

TAX DEDUCTIBLE CONTRIBUTIONS AND DISTRIBUTIONS
Deposits to your HSA will reduce your taxable income for the year, even if you don’t itemize your taxes. The money can be 100% tax deductible, up to the IRS maximum. Withdrawals made for qualified medical expenses are tax-free. Visit www.irs.gov for a complete list of qualified medical expenses.

UNUSED CONTRIBUTIONS ROLLOVER
Any unused contributions made in a given calendar year can remain in the account and earn interest until you need it – whether that’s next month, next year, or in 10 years. At the age of 65, the account can be used as retirement savings or continue to be used for medical expenses, you decide.

HOW TO ACCESS THIS BENEFIT:
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David Temkin is the Founder & CEO of The SoLa Look, a makeup line launched in December 2013 that targets the growing Latina and Spanish-speaking population. David was born and raised in Boston, MA and graduated from Umass-Amherst with a BA in Business Administration. He went on to earn his MA from Emerson College in Media Arts. He joined the NASE in 2012 and finds the NASE Member Directory of other NASE businesses one of the most valuable member benefits.
What inspired you to enter the field you are in?
We saw there was a void in the makeup industry of a brand that specifically targeted, appealed and marketed to Latinas. Coupling that with my passion for customer service, retail, marketing and learning about different cultures, The SoLa Look was born. It is also satisfying to have a business that provides a product that many women use to make themselves feel more beautiful.

When and where did you start your business?
I launched The SoLa Look in December 2013. While I live and work in the Boston area, we provide a brand of makeup to a segment of the population in the whole country, online sales allow us to not be limited by geography. You can also find me traveling to Florida, New York and other places spreading our brand.

Speaking of online sales, how do you market your business?
We have a presence on social media networks including Instagram, Facebook and Twitter. We promote all of our current products, sales and news on these channels. They’re all great platforms where we can speak to our customers and potential customers. When we release a new product we also send out an e-mail to everyone who signs up for our newsletter.

Most importantly, we use influencers on YouTube and Instagram to promote our products. They have dedicated fan bases that we’re able to tap into for free.

Sounds like you have had some great success, what challenges have you faced in your business?
One big challenge has been to keep up with the demand for our makeup. Because we’re a smaller company right now we’re unable to keep a large amount of inventory. We have learned to overcome this by giving ourselves proper lead-time. It’s hard to forecast sales because there are so many variables that go into it (such as receiving a popular review on YouTube, thus severely spiking sales that week). We also use an app where customers can leave their e-mail address to receive an automated message when the product they want to purchase comes back in stock.

Another challenge has been to make sure sales are steady and/or growing even if our products are not being promoted or reviewed by influencers on a certain day or week. We have tried to remedy this problem by spreading out our delivery of promotional lipsticks to the influencers. We used to send them packages at almost all the same time but now we know when to send what to whom.

That seems like a lot of work, do you have any employees?
Currently I am the only employee. However, I have a good friend, Yvette Camilo, who is a long time makeup artist and worked at Sephora. She helps out quite a bit with deciding on the makeup products, formulas and shades that we release. She’s an expert in her field and an invaluable asset. She’s also Dominican and fluent in Spanish. In the future I’d like to bring Yvette on full-time and also hire another person to solely be in charge of our social media presence.

You must keep pretty busy, what is your schedule like, what’s a typical day for you?
My schedule varies each day but the constants are: packaging and shipping orders to our customers, checking inventory levels, responding to e-mails, chatting with YouTube and Instagram influencers, updating and maintaining our social network pages and brainstorming future products. Because of how the makeup industry works it’s important to plan ahead at least 6-8 months (at the minimum) before releasing a new product.
Can you walk me through fulfilling an order?
We typically ship orders within two days of receiving them. Once we get an order, it is picked (grabbed out of storage) and packaged. We use stamps.com and a Dymo label writer as our postage software, it saves both time and money. Once the order is shipped we will then e-mail the customer their tracking number.

What’s the best thing about being self-employed?
At my previous job I was given almost no time off, employing myself allows me to be able to attend events that my daughter is involved in. Being in charge of my own schedule and mixing personal and work commitments has been very enjoyable thus far.

That does seem enjoyable, what’s the most important piece of advice you would give to someone looking to start their own business?
The most important piece of advice would be to follow your own path. There is not one universal way of achieving success in business. If there were, everybody would be doing it. Choose your own path and learn from your mistakes and your successes. What works for one person may not work for you. Be creative and be determined.
Last month the Senate Finance Committee unanimously approved S.335, To amend the Internal Revenue Code of 1986 to improve 529 plans, following the House Ways and Means committee which approved, H.R. 529, an identical measure in February.

WHAT ARE 529 COLLEGE SAVINGS PLANS
529 College Savings Plans were created in 1996 by the “Small Business Job Protection Act” and the plans further evolved in 2001, when then President Bush signed into law “The Tax Relief Act of 2001,” turning 529 plans from tax-deferred plans into tax-free college savings plans through 2010. In 2006, “The Pension Protection Act,” includes a provision making permanent the tax-free status of 529 plans. In 2013, 529 plan assets reached $204.5 billion, illustrating the importance and use of these tax-free plans as a way to help parents save for college.

529 plans can be used for both traditional four-year institutions, but also trade and vocational school, additionally; the plans have no time limit on usage and therefore, can be used at any time the beneficiary decides to explore higher education.

CURRENT LEGISLATION
The legislation would allow money from 529 college savings plans to be used to purchase a computer for the use by the student. Previously, the student could only use 529 money to purchase a computer if it was required by the college the student attends. Additionally, the legislation would allow a student to redeposit funds into the 529 account if they withdraw from college within 60 days and avoid a penalty and simplifies tax rules for distribution from multiple accounts.

The proposed changes to the 529 plans followed the President announcing that he was considering included in his FY 16 budget proposal the elimination of the tax-free treatment of 529 plans and taxing the plans earnings. Many argue that 529 plans are a key tool for middle-class families to save for college.

With strong bipartisan, bicameral support, there is significant confidence that this bill will reach the President’s desk for signature.

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