

Starting a Partnership

Southeast Idaho Small Business Development Center

Benefits of Starting Business as a Partnership

- Partnerships are low cost to start and register, can be operated from home, have minimum legal requirements, and are easy to close.

Concerns About Starting a Partnership

- Since a partnership has no legal protection, you (as a partner) are held personally liable for any and all financial obligations for your business, including those created by your partner(s). This includes fees and any successful lawsuits against the business – your personal assets, such as your house or savings, can be used to satisfy any liabilities incurred. You will be required to personally guarantee any partnership debts or credit lines.
- As a partner, you are subject to federal income tax, state income tax, and self-employment tax on the same profit. These taxes are in addition to any sales tax, employment taxes, or excise taxes incurred by the business.

How Do I Put Money or Assets into the Business?

- Use personal funds or personal credit until the business is established. **Establish a business bank account.**
- Partnerships may borrow from a financial institution or a government agency – the owner's personal assets may be required to be used as collateral.

How Do I Take Money or Profit Out of the Business?

- Profits can be taken as earned by transferring from the business account to the personal account. You will need a tax professional to help you with this.

How Do I Report the Business on a Tax Return?

- Partnerships file a Form 1065 to report the income and expenses to arrive at the profit, and then a Form 1040/1040SR. K-1 forms issue annually to the partners. You will need a tax professional to help you with this.

Can the Business Have Employees?

- Any business may have employees, including family members. Request SBDC “Hiring Employees” guide.

How Do I Start a Partnership?

- 1) You can check to see if the name of your business has already been used on the [Idaho Secretary of State website](#).
- 2) If the business name is not registered with anyone else, you should file with the Idaho Secretary of Domestic Partnership, attaching the written agreement [here](#). The cost is \$100 and it allows you to have a unique name that cannot be used by anyone else.
- 3) You will need to obtain a free tax identification number (TIN or EIN) from the IRS by completing a SS-4 on the [IRS website](#) (only need one EIN for the partnership, but each partner will provide their individual SSN's to the partnership to receive their respective K-1's).
- 4) Once you have the TIN, you will complete a free registration for Idaho. This registration is a one-stop shop where you can obtain a sales permit, an income tax withholding permit, state unemployment number, and any other permits needed to do business in the State of Idaho. The registration is called an IBR-1 and is found [here](#).
- 5) Once you are registered, you can open the doors, start working, selling, manufacturing, or whatever else your business is.

How Do I Close a Partnership?

- Because the formation is so easy, it is also easy to close the business. You simply stop doing business. You file a final Form 1065 and issue final K-1's to the partners.