

Starting a Business in DC:

What Type of Business is Right for You?



The General Partnership

One of the most important decisions for a businessman or businesswoman is determining the form of business organization to use for his or her enterprise. There are several forms of business organization that are available to you. Title 29 of the DC Code generally governs business organizations. These provisions create requirements, as well as establish flexible default rules, that will greatly affect your ability to tailor a specific type of business entity to suit your enterprise. As a result of the differing features, tax treatment and levels of flexibility associated with the different available types of business organization, each type will have advantages and disadvantages that should be considered in light of your individual circumstances. This information sheet will discuss the benefits and disadvantages of a general partnership. This information sheet reflects changes in the DC Code that went into effect on January 1, 2012.

- **What is a General Partnership?**

A partnership is defined as two or more persons operating a business for profit as co-owners. Generally, the partners contribute money, property or skill to start the business and engage in management of the general partnership. The general partnership is distinct from the individual partners. Thus, the general partnership can own its own property and engage in transactions independent from the partners.

- **What are the advantages of a General Partnership?**

- *Formation*

General partnerships are easily formed, require few formalities and allow for flexible management. Although it is recommended that general partnerships have a partnership agreement, a general partnership can be created by two or more people simply engaging in business together.

- *"Pass-Through" Taxation*

All partnerships have "pass-through" taxation. This means that the net income of a partnership is taxed only once, at the partner level. There is no taxation of a partnership's income at the entity level. This is different from the taxation of most corporations. A corporation would have to pay tax on its income as an entity, and when the remaining income is distributed to the shareholders, the shareholders would also have to pay tax on the income they received from the corporation.

- **What are the disadvantages of a General Partnership?**

General partners **do not** have limited liability for the wrongs and debts of the general partnership. This means that a general partner's personal assets, such as a home and personal banking accounts, may have to be used to pay off the debts or other liabilities incurred by the partnership. This is in contrast to limited liability. In an LLC, for example, a member's liability is limited to the amount he or she has invested into the company. Thus, the members' personal assets are not at risk.

In addition, when a general partner acts on behalf of the general partnership, his or her actions can create liability for other partners. For example, if two partners own a delivery

business operated as a general partnership and one partner gets into a car accident during a delivery, the other partner's personal assets may be at risk if the general partnership does not have enough money to cover its liabilities.

- **How are General Partnerships operated?**

General partnerships allow for flexible operation. Usually, all general partners share control and participate in managing the general partnership. However, the general partners can create a Partnership Agreement providing for a different management system, such as designating one partner as manager.

- **How do I form a General Partnership?**

- *Registration of the General Partnership*

No written document is required to form a general partnership. If two or more people carry on a business for profit as co-owners, then they have formed a general partnership and may be liable for the debts and wrongs of the business even though there is no formal agreement.

However, DC recommends that general partnerships file a "Statement of Partnership Authority" with the Department of Consumer and Regulatory Affairs ("DCRA") to register the business. The fee is \$220. The Statement is available at: <https://dcra.dc.gov/sites/default/files/dc/sites/dcra/publications/attachments/Statement%20of%20Authority%20for%20Domestic%20General%20Partnership%20DGP-1.pdf>

- *Registration of an Agent*

If the general partnership registers, it must also designate a "registered agent." The registered agent is the person who will receive official notices from the government for you. It can be either an individual person or business entity, provided that the registered agent has a street address in DC that is not a post office box. The agent need not be someone who is a part of the business; for a small fee, third-party services will act as a registered agent.

To change a previously designated registered agent, complete the form online at <https://corponline.dcra.dc.gov> or by mail by [downloading Form RA-1-Z](#).

- *Drafting a General Partnership Agreement*

Although no written form or contract is required to operate a general partnership, it is recommended that the partners draft a written Partnership Agreement. If no Partnership Agreement is created, the DC Uniform Partnership Act will govern the general partnership. The Partnership Agreement provides the rules governing the general partnership and can be crafted to meet the partners' needs. Partnership Agreements generally address issues such as the regulation of the internal affairs and conduct of the company business, the process for dividing profits or losses between partners, how the partners will manage the business, a partner's ability to sell or transfer his or her interest, and a process for terminating the partnership. It is recommended that partners consult a lawyer for assistance in drafting a Partnership Agreement.

- **What licenses and certificates must I obtain?**

DC requires many types of businesses to obtain specific licenses and permits. For example, the owner of a hair salon must have a cosmetology license. Even if a specific license is not required, a general basic business license often is. A list of business activities having special license and permit requirements and information about the general basic business license can be found at: <https://dcra.dc.gov/node/514522>

If a general partnership is operating under a trade name that is not its registered name, it must register that trade name with DCRA. This can be completed online at <https://corponline.dcra.dc.gov> or by mail by [downloading Form TN-1-4](#).

After determining your business' location, you will need to obtain either a Certificate of Occupancy (running the business from an office or storefront) or a Home Occupation Permit (running the business from your home). Generally, if you are leasing space and the owner of the building has a Certificate of Occupancy that covers your type of business, then you do not need to apply. Applications for these permits must be submitted in person at the DCRA Permit Center and can be downloaded from:

<https://eservices.dcra.dc.gov/DocumentManagementSystem/Home/retrieve?id=Certificate%20of%20Occupancy%20Application.pdf>

(Certificate of Occupancy)

<https://eservices.dcra.dc.gov/DocumentManagementSystem/Home/retrieve?id=Home%20Occupation%20Permit%20Application.pdf>

(Home Occupation Permit)

- **What tax-related requirements should I know about?**

Most general partnerships (for example, those with employees) must obtain a Federal Employment Identification Number (FEIN) for tax filing and reporting purposes. The FEIN Form SS-4 can be found at: <https://www.irs.gov/pub/irs-pdf/fss4.pdf>

Organizations can also apply for a FEIN online at: <https://sa.www4.irs.gov/modiein/individual/index.jsp>

DC businesses must also complete the Combined Business Tax Registration, Form FR-500. For FR-500 requirements and online registration information, visit:

<https://otr.cfo.dc.gov/page/new-business-registration>

General partnerships are required to report their income and expenses on IRS Form 1065. This is an informational return, meaning that the general partnership does not pay taxes. Instead, the 1065 informs the IRS of the general partnership's income and expenses. The general partnership then gives each general partner an IRS Form K-1. This informs each general partner of his or her share of the general partnership's income, deductions and tax credits. The general partner then reports the information from the K-1 on his or her individual 1040 tax form.

If the general partnership has employees, they are subject to federal withholding tax and the general partnership needs to submit W-2 and W-3 forms. In addition, a general partnership with employees needs to file an IRS Form 941 every quarter and IRS Form 940 annually. Copies of these and other forms, as well as additional information about federal taxes, can be obtained at:

<https://www.irs.gov/businesses/small-businesses-self-employed/small-business-forms-and-publications>

- **Where can I find more information?**

For general DC business information visit the DC Department of Consumer and Regulatory Affairs website at <http://www.dcra.dc.gov> or call at (202) 442-4400.

For DCRA documents and forms, visit: <https://eservices.dcra.dc.gov/DocumentManagementSystem>

For additional information on starting and maintaining a business, visit: <https://business.dc.gov>

For an overview of federal tax information, visit the IRS website at: <http://www.IRS.gov>

For more information about small businesses, you can visit the Small Business Administration website at: <http://www.SBA.gov>.

For the DC Uniform Partnership Act of 2010 (DC Code, Title 29, Chapter 6), visit: <https://code.dccouncil.us/dc/council/code/titles/29/chapters/6/>

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