



ABEL ON PROPERTY

Property Partnerships, Done Safely

by Harish Verma & Awais Jawaid, Chartered Accountants
40 years' experience, speaking plainly

A note from Harish & Awais Jawaid

In 40 years I have seen partnerships make people rich — and I have seen them tear families apart. The difference is almost never the property. It is the paperwork, or the lack of it.

Most people go into a property partnership on a handshake and a smile. Two brothers. A husband and wife. Two friends who trust each other completely. And for a while it works beautifully.

Then someone's circumstances change. A divorce. A death. A job offer abroad. Suddenly the questions nobody asked at the start become the only questions that matter: whose is it, who decides, and who gets what.

I wrote this short book so you ask those questions now, while everyone is still smiling. It is the cheapest insurance you will ever buy.

What a property partnership actually is

A property partnership is simply two or more people owning and running property together as a business. You might buy one flat together, or run a portfolio of twenty houses. Either way, in the eyes of the taxman it is a partnership: a business owned by people, not a company.

That is the first thing to get straight. The partnership itself does not pay tax like a company does. Instead, each partner is taxed personally on their own share of the profits — and their own share of any gain when a property is sold.

This surprises people. They assume the partnership is one thing and they are another. In tax terms, you are the business. Your share flows straight through to your own tax return, at your own tax rates.

And here is the part that catches people out: you can be a partner without meaning to be. If you and a friend buy a house together, split the rent and share the decisions, HMRC can treat you as partners whether or not you ever signed anything. The paperwork I describe later does not create the partnership. It protects you inside one.

How the tax works — each partner on their share

The rule is beautifully simple: the partnership works out its total profit for the year, and each partner pays tax on their agreed share of it. If the profits are split 50/50, you are each taxed on half.

So the profit split matters enormously. A partner who is a higher-rate taxpayer pays more on the same pound of profit than a partner who is a basic-rate taxpayer. I have seen families save serious money by thinking carefully about who takes what share — done openly, done in writing, done within the rules.



But beware of one trap. If you change the profit shares, the tax follows the new split. You cannot quietly decide that all the profit belongs to the lower-taxed partner this year unless the agreement genuinely says so. HMRC will look at what was actually agreed.

One more thing: partners are taxed on their share of the profit even if the money stays in the partnership. If your share is £20,000 but you only took £10,000 out, you are still taxed on £20,000. This is the single most common shock I see. Plan your drawings so the tax bill does not ambush you.

Put it in writing — the agreement

I cannot say this strongly enough: a property partnership without a written agreement is a disaster waiting for a date. I say this as someone who has watched good people spend more on solicitors than the property was worth, arguing over what was agreed around a kitchen table ten years ago.

The agreement does not need to be fifty pages of legal language. But it must say, in plain words: who owns what share, how profits are split, who can make decisions, what happens when someone wants to leave, and what happens if someone dies.

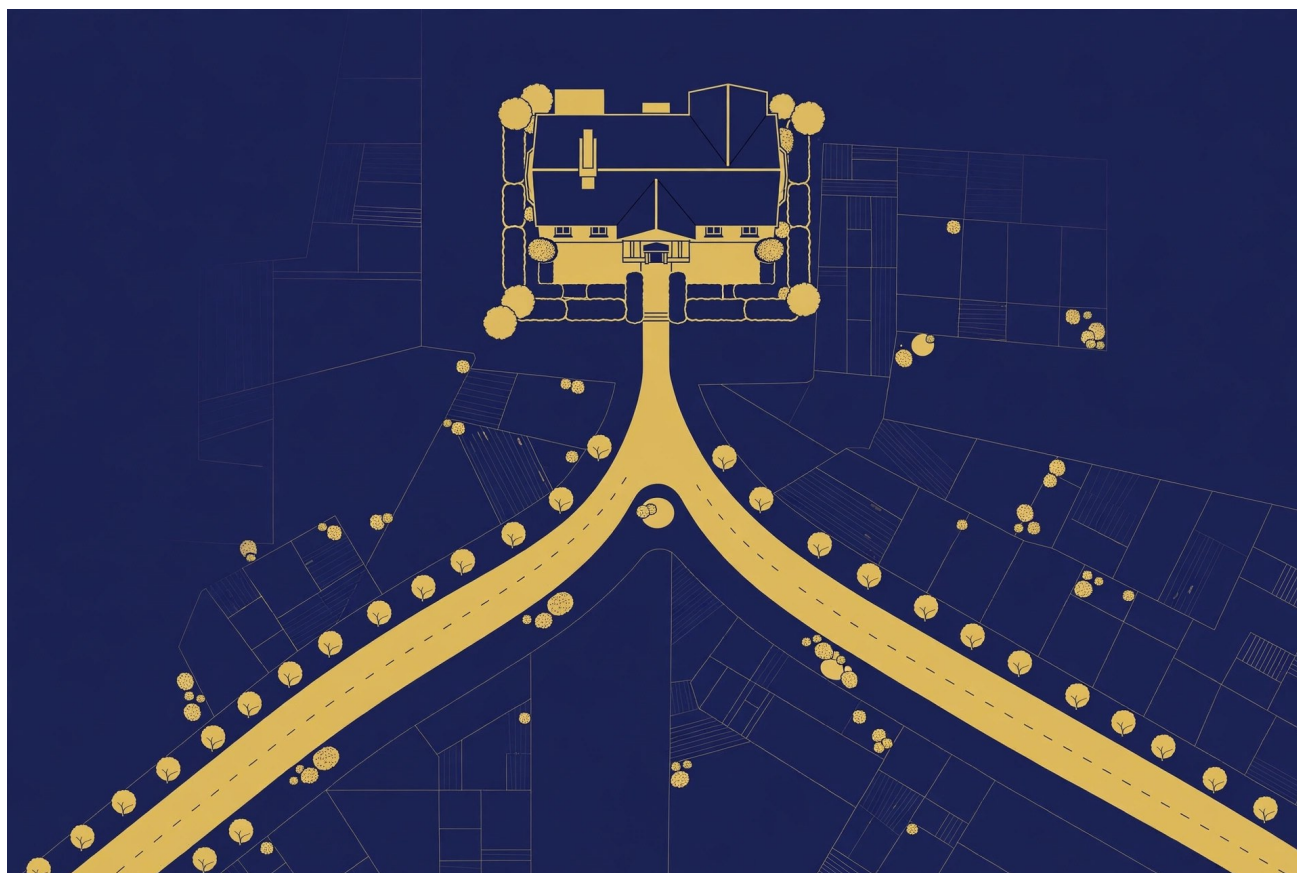
Get a solicitor to draw it up or at least check it. Yes, it costs money. A few hundred pounds now, or tens of thousands later — that is the real choice. In 40 years I have never once seen a written agreement that was a waste of money.

Review it every few years, too. Partnerships grow. New properties come in, children are born, people retire. An agreement written for one flat in 2015 may be dangerously out of date for a portfolio in 2026.

Money in, money out — splitting fairly

Money causes most partnership arguments, and almost all of them start with vagueness. Who paid the deposit? Who paid for the new boiler? Who spends Saturdays dealing with tenants? If it is not written down, every partner remembers it differently.

There are two kinds of money to keep separate in your head. Capital is what each partner put in — deposits, refurbishment costs, money left in the pot. Income is the rent profit you take out. The agreement should treat them separately, because partners often contribute different amounts and take different shares.



Keep one partnership bank account and run everything through it. Every deposit, every repair, every rent payment, every drawing. When I take on a partnership client, the first thing I ask for is the bank statements — and the ones in trouble are always the ones where partnership money flowed through someone's personal account.

And agree in advance how much each partner can take out, and when. A partner who helps themselves to the rent "because it was my turn" is how the arguments start. A monthly drawing, agreed and minuted, keeps everyone honest — including you.

When someone wants out

People leave partnerships. It is normal, and it should not be a catastrophe. What makes it a catastrophe is having no plan for it.

Your agreement should answer these questions before anyone asks them: how is the departing partner's share valued — by agreement, by independent valuation, or by a formula? How quickly must they be paid? Can the remaining partners buy them out, or can the share be sold to an outsider? What happens to the partnership's debts?

The valuation question is the big one. I have seen partners fall out bitterly over whether a property is worth what one of them claims. An independent valuer, named in the agreement, takes the argument out of it. Nobody loves the valuer's number, but everybody accepts it.

And think about the tax. When a partner leaves and takes their share of the properties' value, there can be a capital gains tax bill — even though no property was actually sold to the outside world. Warn your partners about this early. A tax bill nobody expected turns a friendly parting into a bitter one.

When partners disagree — and my checklist

Even good partners disagree. About whether to sell. About how much to spend on a refurbishment. About whether to take on a difficult tenant. The agreement should say who decides what — and what happens when you are deadlocked.

A simple approach that works: day-to-day decisions by majority, big decisions — buying, selling, borrowing — only by everyone agreeing. And a deadlock clause: if you cannot agree on something major within, say, three months, an independent mediator is brought in before anyone is allowed near a solicitor's office.

Here is my checklist before you enter any property partnership. One: written agreement, checked by a solicitor. Two: one bank account, everything through it. Three: agreed profit shares, reviewed yearly. Four: an exit plan with an independent valuation method. Five: life insurance where partners depend on each other — so a death does not force a fire sale. Six: an accountant who understands partnerships, from day one.

Do these six things and your partnership has every chance. Skip them and you are relying on luck — and luck, in my experience, is the most expensive partner of all.

Talk to me before you sign anything

If anything in this little book has made you think, do not sit on it. A short conversation now is worth more than a rescue job later. In 40 years I have seen how a ten-minute call saves people thousands of pounds and a great deal of worry.

Call me or send an email, and tell me what you are thinking of doing. I will tell you straight what I think — no jargon, no sales talk. If Abel is not the right firm for you, I will say so.

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Tax rules change. This guide is general information for landlords, not personal advice. Please take advice on your own situation before you act.

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**"Not all accountants
are the same."**

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