

Partnership Act, 2020 (1964)

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2020-11-16 (28 Feb. 1964)

Amendments

1. Judicial Administration Reform (Fourth Amendment) Act, 2043 (1986) 2043-7-24 (9 Nov. 1986)
2. Partnership (First Amendment) Act, 2044 (1987) 2044-7-11 (28 Oct. 1987)
3. Administration of Justice Act, 2048 (1991) 2048-2-16 (30 May 1991)
4. Republic Strengthening and Some Nepal Laws Amendment Act, 2066 (2010)¹ 2066-10-7 (21 Jan 2010)

Act Number 36 of the Year 2020 (1964)

An Act made to provide for provisions on partnership

Preamble: Whereas it is expedient to provide for legal provisions on partnership for the interest and convenience of general public;

Now, therefore be it enacted by His Majesty the King Mahendra Bir Bikram Shah Dev on the advice and with the consent of the *Rastriya Panchayat*.

Chapter-1

Preliminary

1. **Short Title, Extent and Commencement:** (1) This Act may be called "Partnership Act, 2020 (1964)".
 - (2) This Act shall be extended throughout Nepal.
 - (3) This Act shall come into force immediately.

¹ This Act came into force on 15 *Jestha* 2065 and "Prasasti" and the word "Kingdom" has been deleted.

2. **Definition:** Unless the subject or context otherwise requires; in this Act;
- (a) "Business" includes industry, commerce (trade) profession or occupation (*Briti*).
 - (b) "Prescribed" or "as prescribed" means prescribed or as prescribed in this Act or Rules framed hereunder.
 - (c) "Third Party" (*Unau bayakti*) means any other person other than partners in the partnership firm.
 - (d) "Notification" means an order published in the Nepal Gazette by the Government of Nepal.
 - ²(f) "Concerned Department" means Department of Commerce for commercial matter, Department of Cottage and Rural Industry for the matter related to cottage and rural industry and Department of Industry for any other industry.
3. **Definition of partnership:** (1) Any business registered in a record of the Government of Nepal by the persons who have agreed to share the profit of the business carried on by them in a single name under an agreement (*Kabuliat*) made with each other which entitles all partners to take part in all business for each partner or entitles any of them for the same on behalf of all others.
- (2) Persons who have entered into an agreement of partnership shall be called "partners" in relation to each partner and shall be called "firm" in a collective form and the name under which their business is carried on is called the "name of firm".
- (3) No partnership firm shall be a person except partners.
4. **Business carried on by joint family shall not be partnership:** If coparceners of a joint family carry on joint business without entering in to

² Amended by Partnership (First Amendment) Act, 2044.

an agreement, the joint business of such family shall not be deemed partnership for the purpose of this Act.

Chapter -2

The registration of a firm in the concerned Department and issuance of certificate

5. **Firm to be registered in the record of the concerned Department:**

A firm shall have to be registered in the record of the concerned Department within a period of Six months from the date when the partners enter in to the agreement of partnership pursuant to this Act;

Provided that, any act or business carried on by the partnership or for the partnership which is not registered pursuant to this Section shall not get legal validity pursuant to this Act.

6. **Matters to be set out in an application for the registration of a**

firm and fees for registration: In order to register a firm an application in the format as referred to in Schedule -1(a) shall be submitted before the concerned Department, stating the details as follows, along with the fees as prescribed in Schedule- 2(a) and a copy of the agreement concluded between partners, if any,

- (a) Full Name of the firm
- (b) The Principal place of business of the firm,
- (c) The objectives of the firm including the short description of the nature of the goods or services, as the case may be, which the firm intends to run the business,
- (d) The full name, surname and permanent address of the partners,
- (e) The matter of restriction imposed on the power of a partner, if any,
- (f) The types of partnership and the capital subscribed by each partner,
- (g) The name of a partner or partners, who represent the firm,
- (h) The mode to share the profit and loss between /among partners,

- (i) The mode to calculate the profit of a firm.
 - (j) Any other matters prescribed by the concerned Department stating which should be set out in the application.
7. **Name of the Firm:** A Firm shall not be given such name which resembles the name of any other firm which is already registered, or the name of any limited company which is already registered under Company Act.
- 8 **Issuance of a Certificate after registration of a firm:** If a firm fulfils the conditions as referred to in Sections 6 and 7, the concerned Department shall register such firm pursuant to this Act and after completing registration the said Department shall issue a certificate (*Nissa*) of registration in the format as referred to in schedule 3-(a) in the name of partners.
9. **No need to register previous firm:** It shall not be required to register the firm under this Act which has been already registered pursuant to Private Firm Registration Act, 2014. Provided that, in case any particulars as referred to in Section 6 was not mentioned in earlier registration, the concerned Department may seek such particulars and the partners shall submit such particulars to the concerned Department.
- ³10. **Approval required to change the particulars:** If it requires to make any change in the particulars of application and in the agreement submitted pursuant to Section 6, an application shall be submitted before the concerned Department for this purpose and such changes may only be made after the approval of the concerned Department.
- ⁴11 **Renewal:** An application shall be submitted before the concerned Department in the format as prescribed in Schedule 1(b) along with the

³ Amended by First Amendment.

⁴ Inserted by First Amendment.

prescribed fee as referred to in Schedule-2(b) for the renewal of a firm registered under this Act within a period of Thirty Five days of the expiry of fiscal year of the firm. If an application is submitted within such period, the concerned Department shall renew the firm and mention the fact of renewal in the registration inventory and the certificate of registration. No firm shall carry on any business by the same name without causing to effect renewal.

⁵11A. **Concerned Department may seek particulars:** (1) The concerned Department may seek particulars of accounts from the firm registered under this Act.

(2) It shall be the duty of such firm to submit the particulars of accounts sought pursuant to Sub-section (1) to the concerned Department.

⁶11B. **Power to cancel registration:** (1) The concerned Department may cancel registration of a firm which is registered under this Act in the following conditions;

- (a) If a firm registered for commercial business fails to cause to effect renewal of the firm within stipulated time.
- (b) If the partners submit an application to terminate the registration of the firm upon setting out reasonable reasons thereof to the concerned Department.
- (c) If a firm fails to submit the particulars sought by the concerned Department pursuant to Section 11a within prescribed period.
- (d) If an industry related firm closes down the operating industry, whether by providing notice thereof to the concerned Department or not.

⁵ Inserted by First Amendment.

⁶ Inserted by First Amendment.

- (e) If an industry related firm fails to cause to effect the renewal of the firm within the prescribed time from the expiry of validity period to renew the firm; or fails to submit the written progress report on the action as may be required to be taken for the construction of factory, purchase of machinery or tools or equipment and operation of the industry in order to establish and operate the industry as per the condition of the license despite the firm has been renewed.
- (f) If a firm commits an act in contravention of this Act or Rules framed hereunder.

(2) The concerned Department shall give a reasonable opportunity to the concerned firm to submit it's clarification before canceling the registration of that firm pursuant to Clauses (a), (c) (d) (e) or (f) of Sub-section 1.

(3) If the concerned Department cancels the registration of a firm pursuant to Clauses (a), (c), (d) (e) or (f) of Sub-section (1), no any other firm which carries the same objectives shall be registered in the name of such partners of that firm for a period of one year

Chapter - 3

Mutual relation of Partners

12. **Mutual relation of partners**: (1) The mutual rights and duties of the partners in partnership firm shall be determined by an agreement made between the partners. Such agreement may be in an express form or may be implied in the course of mutual dealing.

(2) The agreement of partnership, if any, governs the provisions of partnership and in a condition where there is no such agreement; the Sections from 13 to 26 shall be applied to the partnership.

13. **Assets of partnership**: The entire assets of the partnership shall be as follows;
- (a) The all assets originally brought in to the stock of the firm,
 - (b) Assets acquired by or for the firm or for the purpose or in the course of business of partnership,
 - (c) Property earned by the firm in the course of business; and
 - (d) Good will of the business carried on by the partnership.

Explanation: Except otherwise provided by the context, all property and rights and interest in property acquired with money belonging to the firm shall be deemed to have been acquired for the firm.

14. **Use of property of the partnership**: No Partners shall use or cause to use the property of the partnership firm for any other purpose other than the purpose of the partnership business.
15. **No compulsion for additional capital**: No partner shall be compelled to add more capital than the amount prescribed in the agreement of partnership deed despite the request of other partners.
16. **No substitution of partners**: No partner shall, without the consent of all other partners, make or keep to any other person as a partner in the firm instead of him/her.
17. **Every partner may participate in the business**: (1) Except a partner who is prohibited to take part in the management of partnership pursuant to

the agreement, every partner shall be entitled to participate in the management of the business of the firm unless other partner opposes it.

Provided that, without the consent of all the partners no act which is not related with the business of a firm shall be performed under the name of partnership.

(2) If the partners enter in to an agreement to perform all or any act of the partnership by all partners or by two or more than two partners jointly and if such partners are unable to perform the assigned task due to a reasonable reason, they may authorize to a partner among themselves.

18. **Entitlement to have access to and to copy of the account and books of the firm:** Every Partner shall be entitled to have access to the account and books of the firm and if a partner intends to get a copy of it the partner who holds such book and document shall prepare a copy of original document and provide to such partner upon putting his/her signature.
19. **Remuneration and interest:** (1) Every partner shall be entitled to receive remuneration as specified in the agreement for managing the business of the firm and if the partner has invested additional capital than he/she has agreed to subscribe, under the agreement he/she shall be entitled to receive an interest not exceeding Ten percent.
- (2) If a partner, knowingly or negligently causes any loss or damage, he/she shall be liable to pay back the values or amount of such loss or damage.
20. **Profit derived by the partner to be the property of firm:** If a partner derives any profit for him/her from any transaction of the firm, or from the use of the property or business connected with the firm or in the name of the firm he/she shall account for that profit and pay it to the firm.

21. **The amount paid by the partners shall be mentioned in the account:** The amount paid by the partners pursuant to Section 19 and 20, shall be clearly mentioned in the profit and loss account of the fiscal year of the firm.
22. **Share of profit and loss:** (1) In the course of sharing the profit and loss between/among partners it shall be shared in a manner as referred to in the agreement, if any and it shall be shared on the *prorata* basis if such provision does not exist in the agreement.
- (2) Where there is an agreement between/among partners in respect of interest on the capital subscribed by a partner in the course of promoting of the partnership, such an interest shall be paid only out of the profit.
23. **No entitlement to profit:** If a partner fails to pay the capital to be subscribed by him/her to the firm, he/she shall not be entitled to receive his/her profit until he/she pays the said capital.

Chapter– 4

Relations between firm and third party (*Unau byakti*)

24. **Partners are entitled to represent the firm:** Every partner may, subject to agreement as referred to in Section 17, represent the firm and the act of a partner which is done to carry on the business of the firm shall bind the firm. In the course of carrying on the business of the firm if a partner commits an act of fraud and any other partner brings the complaint in this regard a competent court may exclude such partner to represent the firm.
25. **An act done by the partner binds the firm:** The Partners shall have right to impose a restriction in connection with the representation of a firm by an agreement. Notwithstanding anything contained in such conditional (restriction) agreement, if the third party does not know the matter of such

restriction, an act done by every partner for carrying out the business of the firm shall bind the firm.

26. **Liability of a partner:** Every partner shall be liable jointly or personally with all the other partners for all the acts of the firm done while he/she was a partner.
27. **No new partner shall be liable:** (1) A person who is newly introduced as a partner into a firm shall not be liable for any act of the firm done before he/she became a partner.

(2) A retired partner (who excludes him/herself from the partnership) may be discharged from any liability to any third party for the acts of the firm done before his/her retirement (exclusion) by an agreement concluded between him/her and such third party and by the consent of remaining partners of the firm.

(3) If a third party knows that any partner is going for retirement from the partnership, the retired partner shall not be liable to any third party for the acts done by other partners in the name of the firm after his/her retirement.

28. **Partner may transfer his/her interest:** If any partner transfers his/her interest in the firm by a sale, mortgage or by any other method to someone else such person may be entitled to claim the profit or any other amount to be received by the said partner from the business of partnership within that period.

Provided that,

- (a) Such person shall not be considered to be a partner of the firm.

- (b) Such person shall not be entitled to access to the account of the firm without the consent of all the partners.

Chapter -5

Dissolution of the partnership

- 29. **Dissolution of a firm (partnership):** A Firm may be dissolved with the consent of all the partners or in accordance with an agreement concluded between/among the partners.
- 30. **Dissolution by notice:** If a firm was constituted not for the specific term, any partner may, at any time, cause to dissolve the firm by providing a notice in writing to all the other partners. Unless there is an otherwise consent between/among partners, the firm shall be deemed to have dissolved from the date as mentioned in the notice or, if such a date is not mentioned, from the date of the communication (service) of such a notice.
- 31. **Firm may be dissolved at any time:** Notwithstanding anything contained in the agreement between partners, any partner may cause to dissolve the firm for specific reasons and particularly in the following circumstances;
 - (a) If a partner has become incapable of performing his/her duties of the firm as referred to in the agreement; or
 - (b) If any other partner fails to pay the amount to be paid to the firm, or if he/she transfers his/her/ interest in the firm to a third party without the consent of all the other partners; or
 - (c) If the interest of any other partner is attached (*Bhari Bharau*) by the court; or

- (d) If a partner commits an act of fraud or an act of serious recklessness in the business of the firm; or
- (e) If a penalty of imprisonment is imposed to any other partner.

32. **After the expiry of the term the firm shall, ipso facto, be dissolved:**

Subject to the agreement between the partners a firm shall, *ipso facto*, be dissolved if it was constituted for a specific term, by the expiry of the term and if constituted to carry out one or more adventures or undertakings, upon the completion thereof.

33. **Firm shall be dissolved immediately:** A firm shall be dissolved immediately, upon the death of a partner or upon the adjudication of a partner as an insolvent for being unable to pay back the debt of the creditor.

34. **Liability to be fulfilled towards the third party:** In case where public notice of dissolution is not given or published, or a third party who is related to the firm does not know about such dissolution, all the partners shall be liable as such to the third party for any act or activity done by any of them in the name of the firm even after the dissolution of the firm

Provided that, the estate of a deceased partner or an insolvent partner shall not be liable for any act of the firm done after his/her death or after the date on which he/she is adjudicated an insolvent, as the case may be.

35. **Participation through attorney:** Subject to Section 32, every partner shall be entitled to take part in the process of dissolution of the firm, by himself/herself or through the attorney.

36. **Continuing authority of partners even after dissolution:** The authority of each partner to bind the firm for completing the function, as may be required of dissolution of the firm, the other mutual rights and obligations of the partners so far as it may be necessary to wind up the

affairs of the firm, the authority to complete transactions begun but unfinished at the time of dissolution and the authority to determine mutual right and obligation of each partners shall be continued even after the dissolution of the firm

37. **Mode of settlement of account between partners:** In the course of settling the accounts of a firm after dissolution, the following norms shall, subject to an agreement between partners and Section 32, be followed;
- (a) To convert the estate of a firm in to monetary value,
 - (b) Losses including deficiencies of capital shall be paid firstly out of profits secondly out of capital if it is not sufficient and lastly out of the individual assets of every partner.
 - (c) The assets of the firm including to make up deficiencies of capital shall be applied in the following manner and order;
 - (1) In paying the debts of the firm to the third parties;
 - (2) In paying to each partner proportionately (*Damasahi*) what is due to him/her from the firm for the debt as distinguished from capital;
 - (3) In paying to each partner proportionately (*Damasahi*) what is due to him/her on account of capital; and
 - (4) The residue, if any, shall be divided among the partners in the proportion which they were entitled to share profits.
38. **The assets of the firm shall not be divided:** Despite any agreement between partners no assets of the firm shall be divided between/among the partners without paying the debt of the firm.
39. **Appointment of liquidator:** If a partner lodges a complaint with the concerned Department along with the evidence stating that there is

unnecessary delay to settle the accounts of a firm, the concerned Departments may, in order to carry out the task for dissolution of the firm, appoint Liquidator or Liquidators. Liquidator or Liquidators, as the case may be, shall, subject to partnership agreement and this Act, fulfill the task of dissolution and settle the accounts of the firm. The act or activities of the liquidator shall be controlled by the concerned Department.

40. **Appeal**: A partner, who is not satisfied with the decision made by the concerned Department, may file an appeal before Court of Appeal⁷ within a period of Thirty Five days from receiving the notice of such decision.

Chapter-6

Miscellaneous

41. **Penalty**: The concerned Department may impose following penalty in the following matters;
- (a) If a firm carries on any business without registration in contravention of Section 5, every partner shall be liable to a fine not exceeding Fifty rupees;
 - (b) If it appears that false particulars has been provided in the application pursuant to Sections 6 , every partner of the firm shall be liable to a fine not exceeding One Hundred Rupees;
 - (c) A firm which fails to provide the notice pursuant to Section 10 shall be liable to a fine not exceeding One Hundred Rupees;
 - (d) A firm which contravenes Section 11 every partner of the firm shall be liable to a fine not exceeding Fifty Rupees;

⁷ Amended by Administration of Justice Act, 2048

42. **Appeal**: An appeal may be filed before Court of Appeal⁸ against the decision made by the concerned Department pursuant to Clauses of Section 41.
- ⁹42A. **Power to alter Schedule**: Government of Nepal may alter the schedule by publishing a Notification in Nepal Gazette.
43. **To be governed by this Act**: The matters set forth in this Act shall be governed by this Act and other matters shall be governed by the prevailing laws.
44. **Power to frame Rules**: The Government of Nepal may frame Rules to carry out the objectives of this Act.

⁸ Amended by Administration of Justice of Act, 2048.

⁹ Amended by First Amendment.

¹⁰**Schedule - 1 (a)**

**Format of an application to be submitted to the concerned Department
for the registration of a firm.**

To,

The Director-General

Ministry of Industry/Commerce

Department of Industry/Cottage and Rural Industry/Commerce

Dear sir/madam

Since we have agreed to constitute a partnership firm to carry on the business as mentioned below, therefore, hereby, submit this application along with the instrument of agreement. We hereby request to register the following firm as mentioned below in our name upon collecting necessary government fee. The contents mentioned in this application are true and correct and if found to be false we shall be liable according to law.

Following

1. Amount of share.....
2. Three generation name of partners and their address.....

Witness

Signature of the witness stating that

the above mentioned name, surname

and address of applicant is true and correct

Signature of the Applicant

¹⁰ Amended by First amendment and subsequently changed by a Notification published in Nepal Gazette in 2061-4-18 (2 August 2004).

¹¹**Schedule - 1(b)**

Format of the application to be submitted for the renewal of a firm

Date:

To,
The Director-General
Ministry of industry/commerce
Department of Industry/cottage and small industry/ Commerce Katmandu, Nepal.

Dear sir/madam,

As, this firm has received the certificate of registration under registration number from the Department to carry on the business of we, hereby submit this application for the renewal of the certificate. We, hereby request to renew the certificate.

The signature of the head
Partner in the firm
(Name of firm)

¹¹ Amended by First Amendment.

¹²Schedule -2(a)

Registration fees of the firm

To registration a Partnership Firm, having a Capital as mentioned hereunder, the registration fee shall be as follows:

- A firm having capital up to One Hundred Thousand Rupees - Six Hundred Rupees.
- A firm having capital more than One Hundred Thousand Rupees and up to Three Hundred Thousand Rupees -Two Thousand Rupees.
- A firm having capital more than Three Hundred Thousand Rupees and up to Five Hundred Thousand Rupees -Four Thousand Fifty Rupees.
- A firm having capital more than Five Hundred Thousand Rupees and up to One Million Rupees -Seven Thousand Five Hundreds Rupees.
- A firm having capital more than One Million Rupees and up to Five Million Rupees - Ten Thousand Rupees.
- A firm having capital more than Five Million Rupees -Fifteen Thousand Rupees

¹² Amended by First Amendment and subsequently changed by a Notification published in Nepal Gazette in 2061-4-18 (2 August 2004).

¹³**Schedule -2(b)**

Renew fee of a firm

- A firm having capital up to One Hundred Thousand Rupees - One Hundred Rupees
- A firm having capital more than One Hundred Thousand Rupees and up to Three Hundred Thousand Rupees - One Hundred Twenty Five Rupees.
- A firm having capital more than Three Hundred Thousand Rupees and up to Five Hundred Thousand Rupees -One Hundred Fifty Rupees.
- A firm having capital more than Five Hundred Thousand Rupees and up to One Million Rupees -Two Hundred Rupees.
- A firm having capital more than One Million Rupees and up to Five Million. - Two Hundred Fifty Rupees
- A firm having capital above Five Million Rupees -Three hundred Rupees.

¹³ Amended by Partnership (First amendment) Act, 2044 and subsequently changed by a Notification published in Nepal Gazette in 2061-4-18 (2 August 2004).

¹⁴**Schedule - 3(a)**

Format of the registration certificate of a firm

Government of Nepal

Ministry of Industry/ commerce

Department of Industry/cottage and small
industry/ Commerce
registration certificate

This certificate has been issued pursuant to Partnership Act, 2020 for the firm called..... Registered in this Department under the registration number.....

- Name of partners.....
- Address
- Total capital...
- Objectives...
- Address of the firm ...
- Date

Director General

Note: This certificate shall be renewed within Thirty Five days of the end of fiscal year. No any other acts other than mentioned in the objectives of the firm shall be carried on by the firm. Appear along with this certificate for its renewal. It shall be renewed by the concerned Department

¹⁴ Amended by First Amendment and subsequently changed by a Notification published in Nepal Gazette in 2061-4-18 (2 August 2004)

On the reverse side of Firm Registration Certificate

Renewed Date	Expiry Date of Renewal	Signature of Authority who renewed

NEPAL LAW COMMISSION

¹⁵Schedule 3 (b)

NEPAL LAW COMMISSION

¹⁵ Omitted by First Amendment.