

Limited Liability Partnerships (LLPs)

Introduction

LLPs are increasingly appearing as part of tax planning schemes and should be considered in the mix of business formats when you are setting up a company or looking to *restructure* an existing one for tax efficiency.

This particular hybrid of partnership and “corporate” format became a new form of legal entity in 2000. However, as a result of its legislation being bolted on to existing regulations, comprehensive and coherent information is not readily available from one source and can require some detective work to pull together on your own.

So with this article, we aim to give you an outline of the basics and provide links to key details for you to read on the main relevant websites.

Obviously, if you are considering the possibility of an LLP for your business model, we would be more than happy to discuss your individual circumstances and help you find the most appropriate solution.

Overview of an LLP – What Exactly is it?

A Limited Liability Partnership (LLP) shares many of the features of a normal partnership but being a distinct legal entity, it can:

- enter into contracts in its own name
- offer reduced personal responsibility for business debts
- sue (and be sued) in its own name
- hold property in its own right

Unlike members of ordinary partnerships, the LLP itself is responsible for any debts that it runs up, not the individual partners.

Also for VAT purposes, the LLP is viewed as a company, as opposed to a partnership.

Tax Advantages

Although the LLP enjoys corporate status, it is not taxed as a separate entity from its members. So members of an LLP will be treated as if they were partners in a standard partnership for the purposes of income tax, corporation tax and capital gains tax.

Members of LLPs therefore gain the benefits of limited liability whilst retaining the tax advantages of a partnership.

Who Are the Members?

A limited liability partnership must have at least two members. If membership falls to only one member and the limited liability partnership continues to carry on business for more than 6 months, then the benefits of limited liability are lost.

There is no maximum limit on membership and furthermore this is not limited to individuals: other incorporated bodies can be members of an LLP - as indeed, can other LLPs.

Having perpetual succession, an LLP's existence is not affected by:

- alterations in its membership
- the death or personal insolvency of any member

However, any such changes to membership must be notified to the Registrar of Companies within a specific time limit.

How Do You Set up an LLP?

As for a Limited Company, an LLP must register with the Registrar of Companies, using the appropriate form.

Once registered, the LLP will receive a certificate of incorporation.

Similarity to Limited Companies

An LLP must:

- clearly indicate its status in its name
- file properly audit accounts with the Registrar of Companies (and will be liable to penalties for late submission), giving a true and fair view of the affairs of the LLP - whether or not they are trading. However, an LLP does share the exemptions open to small and medium sized companies.
- file an annual return (again, liable to penalties for late submission)
- be aware that some of its affairs will be available for public scrutiny, through Companies House

Similarity to Partnerships

Members of an LLP retain the flexible and consensual internal regulation of standard partnerships and it is expected that LLPs will draw up their own specific agreements.

However, in the absence of any agreement, the default provisions of the Limited Liability Partnership Regulations 2001 apply. (These are generally based on the previous rules set out in the Partnership Act 1890.)