

Business Guide: Forming a Limited Liability Partnership

A Limited Liability Partnership (LLP) is a partnership that limits the burden on individual partners in relation to business liabilities. Members of an LLP are not personally responsible for the business's debts save for those liabilities for which they have provided a personal guarantee, in which case their liability extends to the value of that guarantee.

Similar to ordinary partnerships an LLP must only be used for businesses that are intended to make a profit. Members usually remain self-employed and pay tax on the profits they receive, as well as being responsible for their own National Insurance contributions.

There must be at least two members in an LLP but there is no maximum limit to the number of members. A minimum of two members must be 'designated members' who have additional legal obligations such as reporting various matters and filing accounts with Companies House. If no members are specified as designated members on incorporation, all members will be deemed to be designated members. Members can be individuals or limited companies, although limited companies will be liable to pay corporation tax on their share of the LLP's profits. LLPs are not of themselves subject to corporation tax. If an LLP has employees,

Advantages of an LLP

Aside from protecting the personal assets of members through limited liability, an LLP allows members to organise the business's internal structure as a normal partnership. LLPs are commonly used in partnerships in which the other members may be at risk of another member's negligence or mistake, such as surveyors, solicitors and accountants. It is possible to buy and sell property in the name of the LLP.

Disadvantages to an LLP

Similar to the obligations that arise with incorporation of a limited company, it is necessary to register an LLP in England and Wales with Companies House. A set of accounts and a return must be sent to Companies House on an annual basis, and HMRC must be sent an annual tax return. The name of the LLP must be displayed on stationery and outside all its offices, and its registered office, registration number and place of registration (e.g. England) must be on all the LLP's order forms, letters and electronic communications such as emails, faxes and its website.

One member of the LLP should be nominated as being responsible for filling in the Partnership Tax Return and accompanying Partnership Statement, that shows how profit or losses have been apportioned amongst the members. Although this nominated member is responsible for and filing this information with HMRC, all members are liable for any mistakes or fines for incorrect or late filing.

Partnership Agreement

Although it is not a legal requirement of incorporation it is highly advisable to have an LLP Agreement that sets out the rights and obligations of each member. In the absence of a partnership agreement, the provisions of the Limited Liability

Partnerships Act 2000 will apply, which does not address many of the issues that arise in the management of an LLP, and may in fact conflict with the way in which you and the other members wish to run the partnership.

A partnership agreement typically covers how much capital each member puts into the business, the way that profits and losses are apportioned, whether any partners take a salary, working arrangements such as minimum hours, the attribution of tasks, how key decisions are made and how many partners are required to make them, and what happens if a partner joins, leaves or dies.

To discuss whether an LLP is right for your business, contact us today.

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