Limited Liability Partnership Guide

the accountancy partnership

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What is a Limited Liability Partnership?

Limited Liability Partnerships (LLPs) are a type of business structure in the UK.

They're often adopted by businesses providing professional services, such as law firms and accountancy practices, but they can be useful for any type of business.

In a general partnership, partners are jointly liable for debts or third-party claims against any partner or the business itself.

Unlike a general partnership, an LLP is a separate legal entity to the people who own and run it.

As a result, the main difference between an LLP and a traditional partnership is the ability to limit the individual partners' (known as "members" in an LLP) liability for debts or third-party claims against the business.

In short, if an LLP runs into problems, the extent to which the partners are personally liable is limited – a bit like how it works in a limited company.

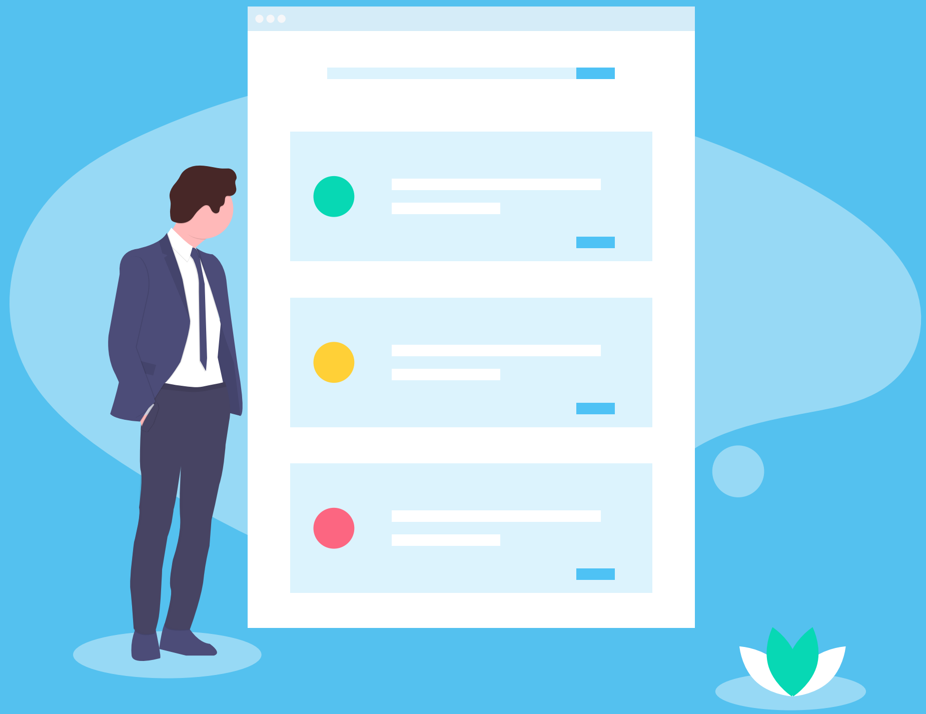
Setting up an LLP

LLPs register with Companies House, and receive a certificate of incorporation once they are set up.

You must also register the LLP for Self Assessment, as well as registering as an individual.

At least **two** "designated members" should be registered with Companies House. Their responsibilities are similar to those of a company secretary in a limited company such as filing accounts, and informing Companies House of any changes to membership.

Whilst it's not a requirement to have designated members, the Registrar of Companies will treat all the members as designated members in the absence of any being registered.



Who can be in an LLP?

An LLP consists of different partners, known as members. This type of business can have corporate members, such as a limited company or another partnership, as well as individuals.

The LLP must have at least two members, and it is a good idea to set up a members' agreement which deals with:

- The profit share for each member
- Each member's duties and obligations
- Who is responsible for managing the business

Why should an LLP have a members' agreement?

Although it's not a requirement, the absence of a members' agreement can mean that default provisions apply.

These might prevent the LLP from appointing or removing members without their consent. They also give each member equal rights to take part in managing the business. The default also apportions profit-share equally to all members.

Creating an agreement can also deal with matters such as leave entitlement, gardening leave, and restrictive covenants.

Can an LLP employ people?

As with a partnership or limited company, an LLP can have employees who are not members of the LLP.

They will be paid through the normal PAYE system.

Paying Tax in an LLP

Unlike most business structures, an LLP doesn't pay tax as a business, even though it must still submit a Self Assessment tax return.

Instead, members **receive their share of the profits and record it as income on their own tax return.**

For instance, a limited company will record it as income on the Company Tax Return and pay Corporation Tax, whereas a sole trader will include it as income on their Self Assessment return.

There are also provisions to allow a member to receive a salary, which will be subject to employer's and employee's NIC, and paid under PAYE. This might apply where an individual is to receive a fixed amount, rather than a share of the profits.

This is subject to a number of tests by HMRC which, if they cannot be passed, will mean the individual will continue being paid on a self-employed basis on their share of profits.

What are the pros and cons of an LLP?

LLPs submit public accounts, so the financial position is publicly available. This might be seen as a disadvantage or advantage, depending on your circumstances!

Pros:

- Members' personal liability for debts, third-party claims or insolvency is, in most situations, limited to their personal investment in the LLP. This protects their personal assets against claims or general business failure.
- The LLP is a separate legal entity with publicly available accounts. This can help with credibility and trust when it comes to supplying of goods and services, and gaining clients or customers.
- Flexibility in terms of how profits are distributed between members.
- Granting or disposing of shares in a limited company can have tax consequences, but appointing or removing members in an LLP doesn't.
- The ability to be a corporate member offers further flexibility in tax planning.

Cons:

- It can be slightly more costly to set up and register an LLP than a general partnership.
- Additional auditing, reporting, and filing requirements will generally be more costly than for a partnership.
- If the business retains profits rather than distributing it, the members still pay tax on it even though they haven't withdrawn the profit.

Looking for more help with Limited Liability Partnerships?

If you have any further questions simply phone us on 020 3355 4047 and one of our friendly accountancy advisors will be happy to help.

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www.theaccountancy.co.uk | info@theaccountancy.co.uk | 020 3355 4047