

# MAKING THE SWITCH TO LIMITED LIABILITY PARTNERSHIP STATUS

**Partly due to the fear of a rising litigious culture in the UK, and partly due to financial sense, more professional services firms are taking on limited liability partnership status (LLP).**

Since 6 April 2001 under the Limited Liability Partnerships Act 2000, businesses have been able to transfer to LLP status as a way of capping the financial and legal liabilities of individual partners if the partnership should become insolvent or face legal action. The legislation also came into force on 1 November 2004 for businesses operating in Northern Ireland.

An LLP incorporated in the UK is a corporate entity, separate from its members (or partners) with rights and liabilities in its own name, and has similar status to a UK company. However, unlike a conventional partnership, the members are not liable personally for the debts of the LLP beyond any sums they have contributed to the partnership in terms of capital, unless they have personally guaranteed a loan to the business.

The level of protection that an LLP affords members of a partnership is an important factor in why LLP is fast becoming the preferred structure for major professional services firms. Already, many large accountancy firms and lawyers have converted to LLP status.

Property consultant NAI Fuller Peiser has recently switched to LLP status from being a partnership, transferring all previous partners to the new regime. Martin Coles, the firm's managing director, says that "we took the decision last June because we recognised that LLP

status has become the preferred structure for major professional firms. We believe that becoming an LLP is the best vehicle for us to achieve our strategic aims."

## LLP benefits

Coles says that switching to an LLP from an ordinary partnership has a number of advantages. These include:

- Partners having greater protection from risk of creditors demanding money from them personally if the business should go bust
- Being easier to attract and retain the most talented people in the business because they will have a share in the profits of the LLP, but they will also have limited liability
- By registering as an LLP with Companies House, the firm will be more transparent because people can view its accounts.

Barry Stimpson, partner in the corporate department at solicitors Reynolds Porter Chamberlain, says that there are tax advantages for firms if they switch to LLP status. According to Stimpson, profits are shared among members of an LLP, and individual members – not the LLP – pay income tax on these profits. Unlike limited companies, LLPs do not have to pay corporation tax.

## Self assessment

In most cases, the members will be self-employed, so they must include details of any profits they get on their individual self assessment tax returns each year. Self-employed partners are also responsible for paying their own National Insurance contributions (NICs). It is important that each

member of the partnership should register as self-employed with the Inland Revenue.

It is also possible for LLP members to be companies or other LLPs rather than individuals. If so, they will have to pay corporation tax on their profits from the LLP, and should include details of these on their self assessment return for corporation tax.

Stimpson says that there can be some difficulties in transferring company status to an LLP, though there are few problems if a business wishes to set itself up as an LLP from the very beginning. Stimpson says that the main problems include:

- Informing customers, suppliers, banks, and landlords that the firm's company status is about to change. These people must be informed of the change before LLP status is finalised, otherwise the firm could be in breach of the law. It is also important that customers and suppliers are informed because they need to make a decision about whether they wish to supply goods and services to a corporate entity whose liability is limited if it should go insolvent or cease to trade.
- Banks and landlords may want a partner or all partners in the business to offer personal guarantees.

LLPs are more complicated to set up and run than ordinary partnerships, as they have to meet many of the same requirements as limited companies. LLPs are designed as a structure to be used by profit-making businesses. Non-profit making organisations, such as charities, are barred from using this business structure.

## LLP checklist

As well as registering the LLP with Companies House, it is also necessary to contact the Inland Revenue to notify it of the change in corporate entity. As well as making an annual tax return to the Inland Revenue, an LLP has to:

- Send a set of accounts to Companies House every year.
- Send Companies House an annual return (form LLP363) in order to keep its records up to date.
- Inform Companies House of any changes to its membership, the personal details of its members or the address of its registered office.

*Neil Hodge*

*A wide range of Briefings can be found at [www.financialdirector.co.uk/briefing](http://www.financialdirector.co.uk/briefing)*

## Useful links

- For further information, visit the Inland Revenue ([www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)) or the Department of Trade & Industry ([www.dti.gov.uk](http://www.dti.gov.uk)) or Companies House ([www.companieshouse.gov.uk](http://www.companieshouse.gov.uk))