

LIMITED LIABILITY PARTNERSHIPS

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Limited Liability Partnerships (LLP'S)

From 5 April 2001 businesses wanting to limit their liability have been able to arrange themselves as a limited liability partnership (LLP) as an alternative to forming a limited company. LLPs came into force as a result of pressure from professional firms who wanted the protection of limited liability whilst retaining the tax benefits and traditional structure of a partnership.

Legally LLP's are recognised as 'bodies corporate' and are subject to most aspects of company law. Unlike directors of a limited company, provided the partnership operates with a view to making a profit, the members of the LLP are treated as though they were carrying on a business **in partnership** for the purposes of Income Tax, Corporation Tax and Capital Gains Tax.

Requirements of an LLP

- To be registered at Companies House
- To complete an Incorporation Document and submit it to Companies House.
- To have at least two members.
- To appoint at least two designated members who will be responsible for a number of duties including the signing and filing of annual accounts with Companies House.
- To apply the same accounting and auditing requirements as apply to companies.
- Annual accounts must be audited if the turnover for a financial year exceeds £5.6 million.
- File an Annual Return and Annual Accounts with Companies House.



Tax Treatment

For those transferring from an existing partnership into an LLP the transfer is tax-neutral. It is not possible to convert an existing partnership into an LLP; instead, an LLP should be formed and the business and assets should be transferred from the old partnership as a going concern. The old partnership can then be dissolved if no longer required.

Unlike a limited company which is taxed in its own right, an LLP is taxed as though it were a non-limited liability partnership in that the members are taxed on their share of the partnership profits as set out by the partnership agreement. They are also subject to Class 2 and Class 4 NIC in the same way as a partner in a partnership.

Should an LLP cease to operate with the view to make a profit it is possible that it would become liable for tax in its own right as though it were a company.

This article has been produced for the general information of our clients. It is based on our understanding of the current legislation and is intended to give a brief summary thereof. It is in no way intended to represent professional advice and no action should be taken without referring to a professional advisor for advice specific to your circumstances.

Key Features

Main Features

- An LLP is a separate legal entity from its members and can contract in its own right.
- Members enjoy limited liability.
- An LLP enjoys the organisational flexibility of a partnership.
- Each of the members are taxed on their share of the profits.
- Accounting and Auditing requirements are similar to those of a limited company.
- Designated members are in office rather than directors.

For more information please visit: HMRC - <http://www.hmrc.gov.uk/bulletins/tb50.htm#2>

Companies House - <http://www.companieshouse.gov.uk/about/pdf/gbllp2.pdf>