

COMPANY TYPES & REGISTERS

Limited Liability Partnerships (LLPs): Structure, Members and Filings

How an LLP is formed and run, what designated members are responsible for, and how the LLP agreement and the tax rules shape the choice.

What an LLP is

A limited liability partnership is a body corporate created under the Limited Liability Partnerships Act 2000. It has a legal personality separate from its members, can own property and contract in its own name, and gives its members limited liability. It is run by its members under an LLP agreement, with the flexibility of a partnership and the formal registration of a company. Two or more people associate to carry on a lawful business with a view to profit, and an LLP is formed by registering at Companies House.

LLPs are common in professional practices, in property and investment holdings, and wherever the owners want to work together with their personal assets protected and without the rigid class structure of a company.

Members and designated members

An LLP has members, not directors or shareholders. At least two must be designated members, and where the LLP does not name any, every member is designated. Designated members carry the LLP's statutory responsibilities: signing the accounts, filing at Companies House, appointing auditors where needed, and delivering the annual confirmation. The other members share in the business but do not carry those duties personally.

The LLP agreement

The LLP agreement is the key document. It sets out who the members are, what each contributes, how profit is shared, who makes decisions, how a member joins or leaves, and what happens on a dispute. If the members do not agree anything, default rules apply under the LLP regulations, and those rules are often not what the members wanted. Under the defaults, profits are shared equally, every member may take part in management and no member is entitled to a salary. Our guide on LLP members' agreements covers what to put in one.

Key points

- An LLP is a separate legal person with limited liability for its members.
- It needs at least two members, and at least two designated members.
- The LLP agreement governs the relationship; defaults apply if there is none.
- Designated members carry the filing duties.
- Members are generally taxed as partners, with exceptions.
- Member withdrawals shortly before insolvency can be reclaimed.

Liability

Members are not personally liable for the LLP's debts, and their risk is generally limited to what they have put into the business. There are exceptions. A member who is personally at fault, for example through negligent advice, can be liable for that fault. And in an insolvent winding up, a liquidator can claw back money a member withdrew from the LLP in the two years before the winding up, where the member knew or ought to have concluded the LLP could not then pay its debts.

Tax

An LLP is generally treated as transparent for tax. Each individual member is taxed as if self-employed on their share of the profit, whether or not they draw it, and the LLP itself does not usually pay income tax or corporation tax on that profit. There are conditions. The salaried member rules can treat an individual as an employee for tax and National Insurance where the arrangement looks like employment. Anyone moving a business into an LLP should take tax advice on the transfer.

Filings and transparency

An LLP files annual accounts and a confirmation statement at Companies House, and keeps its registered information up to date, including its members and any people with significant control. The identity verification requirements that apply to directors of companies also apply to members of an LLP, with a transition period for existing members. Failing to meet them can block the LLP's filings.

LLP, company or partnership

FEATURE	LLP	COMPANY	GENERAL PARTNERSHIP
Legal personality	Yes	Yes	No
Liability	Limited	Limited	Unlimited
Governing document	LLP agreement	Articles	Partnership agreement
Profit	Shared by agreement	Dividends	Shared by agreement

Questions to ask the client

- Who will be the designated members?
- What does each member put in, and what do they take out?
- Is there an LLP agreement, and does it fit the business?
- How will members join, leave or be removed?
- Are the salaried member rules a risk?
- Is the business regulated, and does that restrict the form?

How MTM can help

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We form LLPs, prepare the LLP agreement with your client's lawyer, and look after the registers and filings: accounts, confirmation statements and changes of members. For accountancy practices, we can run the LLP secretarial work in the background.