

# What is a Limited Liability Partnership?

If you're going into business with another person, there are important legal and economic aspects to consider before forming a partnership, and some entrepreneurs may even be tempted to forgo the hassle of setting up a formal partnership.

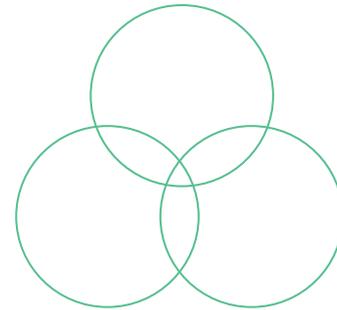
However, under the Partnership Act 1890, a general partnership is automatically formed when you carry out business with someone else with a view to making a profit. This means even if you haven't registered your partnership, you are legally considered as partners, with equal responsibilities for your business' assets and liabilities.

So rather than falling back on the default options of the Partnership Act, you should consider how to register your company as a limited liability partnership may benefit your business.

An LLP is a form of partnership in which partners are not personally liable for all of their business' debts, but only for the amount of capital they initially invested into the business.

The LLP agreement will specifically outline each partner's duties, responsibilities, and liabilities, as well as details on how profits will be allocated to each partner, the terms for the addition or removal of partners, and the terms for dissolving the partnership.

To form an LLP you must have two or more members. A member can either be a person or a company, known as a corporate member. Then, to register your LLP with Companies House, you only need a name for the LLP, a registered address, and your written LLP agreement. You can register your LLP electronically or you can download the relevant application forms to register by post. A formation agent or a lawyer can also be



engaged to register your LLP for you, but if opting to do it yourself, it's strongly advised that you consult a lawyer to draw up your LLP agreement and review your application forms.

The LLP will usually be registered within five days of receipt by Companies House, or for a fee of £100 you can request same-day registration.

In an LLP, partners must pay National Insurance contributions as well as income tax on their share of the business' profits. In addition, all partners must file a personal self-assessment tax return every year, while the LLP itself must file a partnership self-assessment tax return.

There are various benefits of setting up a business as an LLP, some of which include the following:-

- more protection for partners than a general partnership in terms of liability, as you cannot lose more than what you invested into the company if it runs into financial difficulty;
- greater flexibility than shareholders agreements in terms of the allocation of profits. Partners are considered self-employed, and therefore pay much lower National Insurance contributions than directors in a limited company, lowering the overall tax bill of the business and allowing partners to take home the same net salary as directors even if the business is earning less than its limited company equivalent.

**For more information, or for expert advice on business or personal legal issues, call us on 020 3475 6751 or via email at [info@carterbond.co.uk](mailto:info@carterbond.co.uk)**

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