

Limited Liability Partnership

For many law firms, Limited Liability Partnership (LLP) presents a viable alternative to the more conventional partnership route, providing protection for partners' personal assets while at the same time allowing partners to retain flexible working practices.

How LLP works

Since the introduction of the Partnership Act more than a century ago, partners in a business have been held personally liable for any insurance excess or negligence claims.

In today's litigious climate, this aspect of a partnership structure is now viewed as increasingly unworkable – particularly when attracting and retaining key personnel.

The financial risks involved in becoming a partner of a conventional partnership can be off-putting, so adopting a business structure that improves staff retention by limiting personal liability is seen as a positive move for many law firms.

With LLP, the assets and personal wealth of the members are safeguarded, except in the case of a major claim where individual negligent members will still become liable.

Unlike a partnership, an LLP is a separate legal entity and can enter into contracts, sue third parties and can be sued. However it retains the principles of a partnership from both a taxation and legal perspective, with LLPs generally treated as partnerships for tax purposes. In particular,

cessation of the partnership for tax purposes is not triggered by a move to LLP.

Financial and Administrative Implications of LLP

- **Income Tax and National Insurance Contributions**

The Limited Liability Partnership Act 2000 states that like members of a traditional partnership, members of LLPs must pay Class 4 National Insurance contributions and income tax under Schedule D on their shares of the profit.

- **Inheritance Tax**

For inheritance tax purposes members of an LLP are treated as if they were partners in a partnership.

- **Accounting standards**

Unlike conventional partnerships, UK accounting standards must be applied to the accounts of LLPs.

Administering an LLP

LLP carries a public disclosure element that does not apply to traditional partnerships. For example, an LLP must file accounts and annual returns and, where annual turnover is in excess of £1 million (shortly to increase to £5.6 million), an audit will be required. Although such accountability may be viewed as a drawback, a firm's willingness to disclose its personal and financial information can have a positive impact on public perception.

Converting to LLP

When converting to LLP status, solicitors' firms will face a number of practical and cost considerations.

These include:

- One-off costs incurred as a result of administrative and contract changes
- Annuities. To comply with accounting standards, any annuities paid to former partners must be recognised in full during the LLP's first year and charged to the profit and loss account.
- Contracts and property leases. These will need to be updated.
- Changes to existing client contracts may be necessary. It is also important to gauge client response to the change in structure.
- Timing. Although many law firms opt to convert to LLP at their year-end, this may not be the best time. The year-end often coincides with a partner's retirement, which can have tax implications for a smooth transition to LLP status based on continuing ownership.
- Law Society approval must be obtained prior to conversion to an LLP.

Conversion to LLP may be the best way forward for your practice and will provide protection for partners' personal assets.

Contact Details

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