

Partnership to LLP Conversions

LLP's have been available now since April 2001. Many professional partnerships have taken the opportunity since that time to convert to LLP status (Curwens having recently undergone such a conversion itself). There are many and diverse reasons for converting to an LLP, however, the clear advantages of running your business through an LLP are that the members are not liable for the negligence of the LLP or its employees and being its own legal entity, there is no need to transfer assets each time a member/partner retires or a new member/partner joins. The tax treatment of the members is similar to that for partners which may be beneficial.

What is an LLP?

A limited liability partnership (or LLP) is a hybrid between a traditional partnership and a limited liability company. It is its own legal entity and it offers both the tax regime available to partnerships and the limited liability available to company shareholders. The owners of the LLP are known as Members, which is similar to shareholders in a limited liability company.

Benefits of LLP Status

There are quite a number of perceived benefits:

- Limited liability of the members;
- The LLP can contract and hold assets in its own name;
- An LLP is perceived as a modern structure and an opportunity to re-brand and update existing systems;
- It may be easier for an LLP to recruit or retain staff.

The key to a smooth transition is planning

Clearly the process of converting to an LLP has to be thought through and planned in advance. The following are some of the issues to consider when planning to convert.

Branding

Do you take the opportunity to re-brand your business? If so you will need to update your website, letter headed paper and other business stationery.

Employees

You will need to consider the employee consultation process under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (the "**Regulations**"). It is highly advisable to seek the advice of your employment solicitor before undertaking this process. The costs of getting this wrong can be high.

Contracts

You will need to notify all of your suppliers, banks, clients and staff that their contract will be taken over by the LLP and that any invoices or bills outstanding will from the effective transfer date be owing to the LLP not the partnership. This notification process can be an opportunity to sell the benefits of your new business entity to your customers i.e. use it as a marketing exercise and promote your new website etc. You will need to stress to clients that the conversion to LLP will benefit them in terms of increased openness and an improved management structure.

Banking

You will need a new bank account setting up and this may be an opportune time to consider moving your account to another bank. You may wish to shop around to see what deal you can get. On the down side, as with any bank facility, the bank may require personal guarantees from the members.

Leases

Another expense will be the legal fees of the landlord in seeking their consent to the assignment of the lease to the LLP and related authorised guarantee agreement ("**AGA**"). Under an AGA the original partners will be liable under the lease if the LLP defaults until such time as the lease is assigned on again or the ends of the term, of the lease whichever occurs first.

Other Assets

All other assets of the partnership including goodwill will be transferred (and documented in an assets transfer agreement) and the LLP will give the partners an indemnity where any potential liability remains.

Registrations with professional bodies

Professional partnerships will usually be regulated by or registered with a professional body such as the Institute of Chartered Accountants in England & Wales. The registration of the LLP will need to be approved by such bodies before you go ahead with the transfer and in fact should be one of the first items to deal with on the agenda.

Members' Agreement

You will need to consider the current terms of your partnership agreement and see what elements of it will need to transfer to the members' agreement. Although a legal requirement, it is highly advisable to have such a written document in place to regulate the Members' relationship with each other and the LLP.

A Point to Note

One thing to note at the very start of considering a conversion to LLP is the financial transparency requirements. The LLP's accounts have to be made available at Companies House for the public record. This may put some partnerships off the idea of converting. Having said that if the turnover is less than £5.2 million and or it has less than 50 employees then abbreviated accounts can be submitted.

Other Matters to Consider

Other areas to consider when converting to an LLP are:

- Will all partners in the partnership become members of the LLP?
- Who will be the Designated Members?
- What classes of members (full, salaried, fixed share) will there be if any?
- What will be the capital put into the LLP?
- What management structure will there be?

And Finally...

Curwens has considerable experience of carrying out LLP conversions for traditional partnerships and has now worked to convert our own firm to LLP status.

**To discuss your particular situation on a confidential basis, please contact:
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