HMRC - STSM091030 - Different Types Of Partnership

The most common form of partnership is one established by two or more individuals under the terms of the Partnership Act 1890. This sort of partnership has been particularly popular amongst professionals such as solicitors, doctors, accountants as well as being used for ordinary trading businesses.

A less frequently encountered entity is a ‘limited partnership’ constituted under the Limited Partnership Act 1907. A limited partnership must have at least one partner with unlimited liability (the ‘general partner’). The other partners are the ‘limited partners’, contributing funds to the partnership assets and enjoying immunity from liability beyond the amount of their contribution. A limited partner must not take part in the business and has no authority to bind the firm. Like a normal partnership, a limited partnership does not have separate legal personality.

The Limited Liability Partnership Act 2000 created the ‘limited liability partnership’ (‘LLP’). Individual partners are able to shed unlimited liability status without having to incorporate the business as a limited company. LLPs thus combine the organisational flexibility and general tax status of an ordinary partnership with limited liability for their members. An LLP is regarded in law as a body corporate with separate legal personality from its members. But for tax purposes an LLP is generally regarded as transparent, with members being assessed to tax on their respective shares of the LLP’s income and gains. LLPs can carry on any trade, profession or business, including investment business.

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