




Is your structure right for you?



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INTRODUCTION

The Legal Services Act 2007 brought with it the possibility for Alternative Business Structures (ABS) to operate within the legal sector. In essence, it allowed non-lawyer managers to operate within and/or own law firms. Whilst this has been the case for some time now, the Jackson Reforms which came into force on the 1st of April 2013 have made some stop and have another look at their business structure.

In this article we summarise some of the key points to consider when comparing the existing partnerships model to a Limited Liability Partnership (LLP). We then move on to consider the idea of incorporating a corporate member into your structure.



“THE TAKE UP BY LAW FIRMS ADOPTING THE LLP MODEL IN THE UK IS IMPRESSIVE”

Over the last 12 years many law firms have transferred to the LLP model; at the time of writing there are just over 1,500 law firms classed as LLPs.

PARTNERSHIP OR LLP

Since the 6th April of 2013 LLPs have been a possibility for law firms wishing to reduce their liability, acting as a type of half-way house between partnership and limited company.

The LLP model was specifically designed in a manner that was attractive to existing partnerships in an attempt to minimise the disruption in the transfer from partnership to LLP.

Partnerships and LLPs share many of the same traits, with a couple of key exceptions:

- LLPs are registered with Companies House and have annual filing requirements just like a limited company. There is therefore an increased onus on openness and transparency when it comes to reporting.
- The traditional partnership model comes with unlimited liability. Given rising PI costs this can be a somewhat perilous position. An LLP by contrast is regarded in law as a separate legal entity from the individual members (partners) and so gives increased protection to its members, in most cases putting only the members capital and current accounts at risk (though there are exceptions). It should be stressed however that third parties such as banks often require personal guarantees from members within an LLP which can limit the effectiveness of reduced liability.

Although there are some very detailed tax issues to consider, in the main an LLP is taxed no differently from a traditional partnership. The members of the LLP are taxed as though they are self-employed; exactly as if they were partners in a partnership.

There are many other factors to consider in determining whether to become an LLP or not, including the impact on existing commercial arrangements, the increased administration burden, perception by clients and associated costs.

CORPORATE MEMBERS

One of the inherent limitations with both the partnership and, to a lesser extent, the LLP model, is that of being able to generate growth via external investment. The idea of a corporate member is a relatively new concept and is usually created by setting up a limited company and allowing it to take (in most cases) a controlling stake in an LLP. The members of the LLP would then have a stake in the LLP (no change there) and also a shareholding in the corporate member.

An attractive proposition

We mentioned above that this is a fairly new concept and for good reason. It is only now, post ABS, that anyone can hold shares in a corporate member of a legal practice and for this reason they become much more attractive as a means of attracting external investment.



**“THIS IS A ROUTE THAT CAN
LEAD TO FASTER GROWTH
FOR THE FIRM”**

Legal practices going down this route can use this as a means of generating external investment into the corporate member which can subsequently use the funds to acquire smaller legal practices thereby growing the business through acquisition at a faster rate than would otherwise be achievable via organic growth.

In addition to the investment opportunities, a corporate member also provides increased flexibility when it comes to rewarding employees through staff share schemes and can also allow provision to be made for retired partners. The latter is a particularly pertinent point given the difficulty that can sometimes be experienced when partners of an LLP retire. In a corporate structure where a retired partner retains a share in the corporate member only, they can be rewarded from the business that they helped to grow, even after retirement.

Structuring the ownership of the corporate member is something that must be given due care and attention and there are numerous tax implications which we will not go into in this article. There is also an added degree of flexibility with regards to tax on any profits which are taken by the corporate member with potential tax savings that can arise given the lower rates of corporation tax. It should be noted however that these savings can (in some cases) be eroded by the increased administration costs of setting up the structure and the ongoing administration costs of having a company within your group.

SUMMARY

Whether your structure works for you is something only you and your fellow partners can decide. In particular the idea of a setting up a corporate member is something that must be given considerable thought. Some argue that a corporate member is often the way to go for all legal practices as it will save them tax. However, this is not necessarily the case and will depend on the size of your firm and profit/drawing levels, amongst other things.

Contact our specialists

At Hawsons we have a wealth of experience in dealing with different legal structures of all sizes and the numerous tax pitfalls and we consider each case on its merits after reviewing the information provided. No two legal practices are the same and what works for one may not work for the other.

As members of HLB International, our expertise is not limited to UK operations and we have access to prompt and accurate advice on a worldwide basis.

Please visit www.hawsons.co.uk for details.

For more information on this or any other matter, please contact our specialist legal team.

Contact details are set out on page 5.

Not yet a Hawsons client?

We offer all new customers a free initial, no-obligation consultation.

This consultation will enable you to have a detailed discussion about your business and how Hawsons can help you with your legal structure.

**Please contact your local office
for more information.**

Contact details on page 5.



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