

# Limited Partnerships Explained

A limited partnership is a special type of partnership established by the Limited Partnership Act 1907.

There are two types of partners in a limited partnership:

- general partners who are liable for all debts and obligation of the firm ; and
- limited partners who contribute money or property valued as a stated amount. Limited partners are not liable for the debts and obligations beyond the amount contributed.

There must be at least one general partner and one limited partner in a limited partnership. Generally, an individual or any legal entity such as a company may be a partner in a limited partnership. A person cannot be both a limited partner and general partner at the same time.

There are restrictions placed on the actions that limited partners can take. They can not:

- draw out or receive back any part of their contribution to the partnership during its lifetime: or
- take part in the management of the business or have power to bind the partnership.

Whilst partners may not take out their contribution to the partnership they can sell or assign their interests in the partnership. This will normally require the approval of the general partner(s).

Any limited partner who takes part in the management of the partnership business will lose the benefit of the limited liability and will be liable for the debts and obligations of the partnership whilst they take part in the management.

Unlike ordinary partnerships, a limited partnership must be registered. The registration of limited partnership under the Limited Partnership Act 1907 is managed by Companies House.

There is normally a limit of 20 persons within a limited partnership. However, there are a number of exceptions to this ruling. One important exemption is a partnership which is a collective investment scheme of which the operator is an authorised person under Part IV of the Financial Services and Markets Act 2000.

This makes a limited partnership a useful vehicle for investors who do not want to take part in the management of their invested funds. Limited partners are only liable for the amount of capital they contribute.

A limited partnership also provides the benefit of tax transparency. The income profits and capital gains of the partnership are assessable on the limited partners and not on the partnership itself.