

Tax changes loom for partnerships as consultation ends

by Calum Fuller

09 Aug 2013



THE WAY PARTNERSHIP PRACTICES are taxed could be overhauled after a [consultation](#) on ways to prevent abuse of the system drew to a close.

Current rules allow junior employees to be classified as a partner for tax purposes, when in reality their job is unchanged and they hold no decision-making power, equity or capital risk. Under the proposals, this will no longer be possible.

The review also aims to tackle is the manipulation of profit and loss to create a tax advantage, which is typically achieved by allocating profits to some partners and losses to others with a view to that partner obtaining a reduction in tax liability by way of income tax reliefs or capital gains relief.

The government proposes to address the loopholes in the 2014 Finance Bill and in a National Insurance Contributions Bill the following year.

While few advisers are surprised at the government's desire to crack down on the practices, there are concerns legitimate commercial objectives, such as the retention of profits for working capital purposes, could be inadvertently caught.

David Webster, corporate partner at law firm Russell-Cooke said: "The presumption of self-employment for LLP members has always seemed anomalous and it is not surprising that the government is seeking to place LLP members on the same footing as partners in a traditional partnership. That said, the changes will create considerable uncertainty as to the status of many LLP members, particularly in professional practices who often confer the status of partner or member on individuals to reflect their expertise or experience whilst continuing to remunerate them on a basis akin to an employee.

"The second area to be tackled by the proposed legislation is the artificial allocation of profits among partners. As we all know the government is committed to tackling tax avoidance and there are clearly some aggressive schemes around involving partnerships which seek to secure tax advantages.

"We await the draft legislation but I suspect it is likely to prompt a considerable amount of reorganisation by many partnerships and LLPs."

Published 9 August 2013
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