Argenta

Tax Newsletter

July 2014

Welcome to the July 2014 edition of the Argenta Tax & Corporate Services Limited ('ATCSL') Tax Newsletter. The purpose of this newsletter is to keep Members of Lloyd's informed of tax issues affecting the Lloyd's market. Please do write to us if you would like to see particular issues covered in the Newsletter or have any comments on the articles published. In this issue, we concentrate on issues raised by the 2014 Finance Act and the impact of changes to the Lloyd's conversion rules.

Breaking news

HMRC has confirmed that legislation will be introduced to enable members in Lloyd's LLPs and SLPs to qualify for a conversion relief if they wish to convert to a Nameco, a UK limited company. The conditions for obtaining the relief have not yet been drafted but we understand that the relief should enable any capital gains tax charge to be deferred into Nameco shares issued as part of the conversion process. Obviously, we will need to see the draft legislation before confirming how the relief will work in practice.

There are potential tax savings to be made by underwriting through a Nameco, but there are many issues to consider when contemplating conversion. We would be happy to discuss this with you in more detail.

Important tax issues for Limited Liability Partnerships and Scottish Limited Partnerships

In the 2014 Finance Act, there were important tax changes effective from 6 April 2014, which affect multi-member and mixed membership LLPs and SLPs. A mixed member partnership is one that has both individual and non-individual members, usually a company.

Those that should not be affected:

- ‘Single individual’ member partnerships (just one sole individual + the Members’ Agent designated member companies), because the corporate members have no economic interest in the LLP/SLP.
- Overseas members converting for 2015 by introducing a UK company as a partner in the LLP, on the basis there is a genuine commercial reason for the arrangement.

Those affected:

The new rules attack:

- mixed member partnerships where there is a tax motivated allocation; and
- multi-member partnerships where there are transfers of assets or income streams.

The tax motivation allocation of business profits & losses in a mixed membership partnership

Profit

Any tax advantage will be removed where an individual member derives a benefit, usually by paying a lower amount of tax by allocating a share of the partnership profits to a company member. Where this situation arises and there is no commercial reason for the inclusion of the corporate member, the profits of the LLP/SLP will be reallocated to the individual member who has the power to enjoy the profit.

This will affect profit allocations for the 2011 Year of Account and subsequent.

Losses

Loss relief will be denied to an individual member where excess losses are allocated to individual members, rather than to a company member.

Transfers of assets or income streams through multi-member partnerships

This change affects all SLP/LLPs. Where a person disposes of all or part of an asset, or income stream by or through a partnership (from 1 April 2014 for companies and 6 April 2014 for individuals) and the main purpose of the disposal is to secure a tax advantage in relation to the charge to income tax or corporation tax, then a tax charge on the income will arise on the person making the disposal.

For example if the transferor is a member in a LLP and sells his interest in the LLP for a capital sum to a person who becomes a member, this provision treats the amount received as income where the purpose or one of the main purposes is the obtaining of a tax advantage. No deduction is given to the transferee.

The legislation will not apply if the transferor and transferee are relatives.

Note:

The above is only a brief outline of the rules, and an individual's personal circumstances need to be considered.

If you believe you may be affected by these new proposals, please do not hesitate to contact us in the first instance.

For further details on the taxation services provided by ATCSL or any further information on the articles included in this newsletter please contact us:

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