

Press release

30 January 2014

Tax changes could cost HMRC, warns think tank

Proposed changes to the tax treatment of limited liability partnerships could represent a significant loss of revenue to HMRC and lead to an exodus of profitable, well-run investment management firms from the UK according to the latest research by think tank, New City Initiative.

The London and Paris based think tank, has warned that the proposed tax changes to limited liability partnerships (which would see some partners identified as employees for tax purposes unless they can demonstrate they have significant decision-making powers within the firm, are subject personally to the equity and capital risk of the firm and have their own remuneration bound up with the profits of the business) could cost HMRC in reduced revenue as investment management firms look to move away from the partnership structure and out of the UK.

The figures come on the back of a poll of NCI members which found that 50% of those structured as a limited liability partnership would consider incorporating their business as a result of the proposed changes, while one member firm has already taken this step. By incorporating, investment management firms which are currently structured as limited liability partnerships, could retain profits which would otherwise be subject to income tax and save approximately 14% of their current tax liability.

The think tank believes the partnership structure remains one of the most effective ways of aligning the interests of financial services providers with their clients, while promoting deeper employee engagement and ownership. It strongly welcomes any measures designed to preserve and enhance the reputation of the LLP structure and all the benefits this brings.

NCI's poll comes in response to recent media reports that the Treasury is looking at a 'tax crackdown' on partnerships, as well as comments in the Autumn Statement which noted that limited liability partnerships are sometimes used 'to disguise employment relationships and the tax-motivated allocation of business profits to corporate partners, which are generally taxed at lower rates than individuals'.

Magnus Spence, Chairman of the New City Initiative think tank and Managing Partner and CEO of Dalton Strategic Partnership, says:

"While we wholeheartedly support attempts by government to crack down on those that abuse the existing LLP structure, an unintended consequence would be that organisations with the right intentions could be discouraged from using it. Since 2007, the number of investment management firms structured as LLPs doubled from 325 before the crisis to over 750 today."

"The LLP structure has had a hugely positive impact on the City of London over many years. It is one of the most effective ways of fostering alignment and ownership and care must be taken to ensure its structure and brand are preserved as much as possible, so as to ensure the simplicity and flexibility that have been core to their success remains intact."

About the New City Initiative:

The New City Initiative is a think tank that offers an independent, expert voice in the debate over the future of financial regulation.

Founded in 2010 by Daniel Pinto, NCI counts amongst its members some of the leading independent asset management firms in the City of London and continental Europe. NCI gives a voice to independent, owner-managed firms that are entirely focused on and aligned with the interests of their clients and investors.

Over the last decade, an old fashioned “client-centric” approach has enabled entrepreneurial firms in the Square Mile and beyond to emerge as a growing force in a financial industry dominated by global financial giants. Now, more so than ever, these firms play a key role in preserving the stability and long-term focus of the financial sector, which is of benefit to society at large.

Today NCI is comprised of 43 leading independent asset management firms from the UK and continental Europe, managing approximately 350 billion and employing several thousand people.

NCI's core aims:

- To serve as an independent, expert voice in the debate over financial reform.
- To restore society's trust in the financial sector.
- To promote the values and practices of European owner-managed firms which align their interests with those of their clients.
- To raise awareness of the positive, stabilising contribution small entrepreneurial firms make to the economy and society as a whole.

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