Date: 9 July 2013

Begbies Traynor

Tax changes for LLPs

While there seems to be improving news for the economy and the professional sector generally, there is further potential pressure around the corner for cash-strapped professional LLPs, particularly those already threatened with the reduction of legal aid fees, warns rescue and recovery specialist Begbies Traynor.

"The Government is going through a consultation period until the end of August this year, with the aim of reviewing how fixed profit share parties in LLPs are treated for taxation," explains Julian Pitts, managing partner for Begbies Traynor in Yorkshire and the North East.

"Presently, fixed profit share partners are generally treated as self employed. This gives benefits to the LLP as employers' NI is not payable and the tax due on fixed profit share partners is only due in the July and January of the following tax year.

"Generally, LLPs will deduct a 'tax reserve' from fixed partners' profit share and then pay over when the tax is due. As a result there is a considerable cash flow benefit to the LLP.

"While that tax reserve being held by the LLP puts at risk the liability for the individual partner, there are also benefits for the partner as the rules for allowable expenses are more generous.

"Throw into the mix the debate between the Solicitors Regulation Authority (SRA) and banks with debentures, over who may be entitled to the proceeds of debtors in the event of an intervention by the

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SRA and we could see even more legal practices having to merge out of necessity or in the worst cases, fail!"

- Ends –

Photo shows: Julian Pitts, managing partner for Begbies Traynor in Yorkshire and the North East.

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