Today's Budget includes changes which will have a potentially significant impact on the investment funds industry. We expect to see more detail emerge as the Government publishes consultation documents over the next few weeks.

Changes to LLPs

HMRC is to remove its current presumption that all members of limited liability partnerships are self-employed. The Government says it wants to 'tackle the disguising of employment relationships through LLPs'. A consultation document will be published in the Spring and the proposals will be legislated for in 2014.

This consultation will also look at the 'manipulation' of profits and losses in LLPs and other partnerships to secure tax advantages: again no detail is available yet.

Investment managers structured as LLPs should take time to review the rights and obligations of their members to ensure that their position is as robust as possible against HMRC challenge.

UK Investment Management Strategy

HM Treasury has published a set of proposals to help the investment management industry and to ensure that the UK is an attractive jurisdiction for investment funds. The key tax announcements include:

- the abolition of SDRT on surrenders of units in UK funds;
- consultation on legislation to ensure that the presence and activity of UK-based fund managers (particularly those operating under the AIFM directive) does not result in an non-UCITs overseas fund becoming UK tax resident (similar provisions already apply to UCITs funds); and
- proposals to enable UK bond funds to pay interest without withholding tax to foreign investors.

Other changes intended to boost the investment management industry include:

- consulting on legislation to enable UK limited partnerships to elect to have legal personality; and
- increased marketing of UK funds overseas, including a 'one-stop shop' for fund managers wanting to know more about establishing their businesses in the UK.

Tax technical changes

HMRC has announced a number of other technical measures (some anti-avoidance, some intended to be helpful) which impact on the funds industry. These are:

- A tightening of the loans-to-participators rules to ensure that loans made by close companies via intermediaries (including partnerships and trusts) are caught and to prevent businesses from 'refreshing' such loans year-on-year. HMRC also intends to extend the rules to cover other extractions of cash (not just loans) which come directly or indirectly from a close company. LLP and partnership structures with individual and corporate members will need to look closely at these new rules.
- Amendments to enable investment trusts to carry on 'ancillary activity' in addition to their primary investment objectives without such activity jeopardising their investment trust status.

Previously announced changes

The following changes were previously announced and will take effect in the next few months:

- Two new authorised contractual tax transparent fund vehicles (a limited partnership and a co-ownership scheme) will be available for fund managers to establish in the UK by the end of Spring.
- The proposed changes to the taxation of unauthorised unit trusts are to go ahead as planned, without amendment.
- A general anti-abuse rule (GAAR) will apply from this Summer. The GAAR will catch "abusive tax arrangements", i.e. arrangements which have a main purpose of obtaining a tax advantage and which cannot reasonably be regarded as a reasonable course of action. Where the GAAR applies, HMRC may take steps to counteract the tax advantage.

Further consultation

The Office of Tax Simplification will review how to simplify the taxation of partnerships. The first step is a scoping exercise to identify the areas of partnership taxation which are most complex for taxpayers.

How to find out more

If you have any questions or would like to know more about how these issues may be relevant to you, please contact any of the contacts below.

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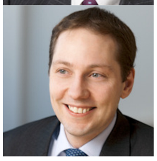

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