

Professional Practices Alliance

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What new and prospective partners need to know

Buzzacott
CHARTERED ACCOUNTANTS

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Introduction

- ⦿ What new and prospective partners need to know
- ⦿ In short, you will cease to be an employee and become an LLP member. You will have a profit share rather than a salary. As the LLP is tax transparent you will be taxed on your profit share, completing self-assessment returns and paying tax in January and July. You will have responsibilities for running the firm, and have access to more information to help you discharge those duties.

Assumptions

For the purposes of this presentation, we are assuming:

- ⦿ You are due to be appointed shortly
- ⦿ You will be appointed as an LLP Member (as opposed to partner of general partnership or a company director)

'Partner' means member, partner or director. If you continue as an employee but with the title partner, not everything will apply to you

Agenda - Legal implications

- ⦿ Ceasing to be an employee
- ⦿ Rights and duties under the LLP deed
- ⦿ Duties at law
- ⦿ What do you need to focus on?
 - admission and capital contributions
 - 'entitlement' to profits
 - retirement/expulsion
 - restrictive covenants
 - regulation and risk

Agenda – Accounts & Tax

- ⦿ What do the firm's accounts tell me?
- ⦿ What are the red flags to look out for?
- ⦿ Drawings and distributions
- ⦿ How are partners taxed?
- ⦿ What are tax reserves and how do they work?
- ⦿ What impact does the firm's year-end have on you?

Legal aspects

A decorative graphic consisting of a horizontal line that spans the width of the page. Above the line, there are several overlapping circles of varying sizes and shades of gray. The circles are arranged in a way that they appear to be part of a larger, abstract design, with some overlapping the line and others floating above it.

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Legal

What am I?

- ⦿ This depends on your agreement and the type of partner you are
- ⦿ Employee/worker/self-employed
- ⦿ Workers have certain rights
- ⦿ Disguised remuneration rules: how are you taxed – employed or self-employed?

Legal

What's in my LLP Agreement?

- ⦿ Can I object to anything?
- ⦿ Do I have to sign?
- ⦿ What should I see or ask for before signing?
- ⦿ Deed of adherence/offer letter
- ⦿ Contents of agreement
 - duties and obligations
 - powers
 - leaving provisions
 - return of monies on retirement
 - restrictive covenants
- ⦿ Legal Duties

Legal

Money, money, money

Capital

- ⦿ Do I need to contribute capital?
- ⦿ How much? Where from?

How will I be remunerated?

- ⦿ Drawings
- ⦿ Profit share
- ⦿ Fixed profit share
- ⦿ Timing of payments
- ⦿ Different remuneration structures

Legal

All good things must come to an end?

- ⦿ Can they get rid of me?
- ⦿ Do they need to go through a process?
- ⦿ What is my remedy if I am being unfairly treated?
- ⦿ Return of balances
 - Timing?
- ⦿ Restrictive covenants
 - Are they enforceable?

Legal

What else should I think about?

⦿ Regulation

⦿ Risk

- insolvency of the firm
- personal financial risk
- reputational risk



Accounting & tax aspects

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Cash Flow – where is the money coming from?

- ⦿ Fees from clients
- ⦿ External finance
- ⦿ Internal finance
- ⦿ Is there an emergency access point
- ⦿ How is the relationship with the bank?

Cash Flow – what is the firm's money being spent on

- ⦿ Fixed costs – little scope to reduce
- ⦿ Variable costs
- ⦿ Comparison against last year's budget
- ⦿ How close to the overdraft limit does the firm get?
- ⦿ When are the pinch points
- ⦿ Big spend coming up?

Blockages

- ⦿ Lock-up
- ⦿ More in lock-up than in cash?
- ⦿ Overtrading
- ⦿ Is billing happening promptly?
- ⦿ Is credit control rigorous enough?

Red Flags

- ⦿ Overdrawn partners
- ⦿ Covenants being breached
- ⦿ Accounts filed on time?
- ⦿ Speedy management accounts?
- ⦿ Close to budget?
- ⦿ Positive working capital snapshot
- ⦿ Client account breaches
- ⦿ Borrowing to fund VAT or tax

Remuneration

- ⦿ Profit share v. drawings
- ⦿ Accounting profit v. tax profit
- ⦿ Paid gross or net?
- ⦿ Tax reserving

Paying your tax

- ⦿ 1st inst – 31 Jan within tax year
- ⦿ 2nd inst – 31 July following the tax year
- ⦿ Balancing payment – 31 Jan following the tax year
- ⦿ Instalments are 50% of previous year's tax liability
- ⦿ New partners may not pay tax for up to 22 months after admission
- ⦿ Do not spend all your profits!

Overlap profits

- ⦿ Current year basis for established partners
- ⦿ Overlap profits if YE after 5 April
- ⦿ Early profits taxed twice



Overlap relief

- ⦿ Overlap profits (not the tax) are carried forward
- ⦿ Some partners paid tax at 40% but got relief at 50%
- ⦿ You may pay tax at 45% but get relief at lower rate
- ⦿ Be careful if changing firm

What should I ask before I agree to become a partner?

- ⦿ Ask for and review the LLP deed and the offer letter/deed of admission
- ⦿ Ask for and review the management accounts
- ⦿ Review the statutory accounts
- ⦿ Review terms of your partner loan (if any), and check for alignment with the LLP deed
- ⦿ Ask questions about firm's claims record
- ⦿ Ask questions about personal guarantees

Q&A

Any questions, comments or observations?

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