

PRIVATE EQUITY VAT MITIGATION

Background

Fund promoters, utilising the UK industry standard GP/LP structure with an LLP (or Ltd) Manager, typically suffer VAT 'leakage' from the group as a result of making partially exempt supplies. The recovery of input tax under a special partial exemption method varies widely from house to house but is rarely approaching 100% and can be as low as 5%.

For smaller organisations the resultant cash loss may not be significant, but for the mid-market and above there can be leakage of substantial numbers.

Solution

One possible solution to the problem is to place the General Partner ("GP") outside of the VAT group in a non-EU location such as Guernsey.

Provided that the group is correctly structured and there is clear and demonstrable management and control of this entity offshore, then input tax recovery of approaching 100% can be achieved. The remainder of the structure can remain onshore, in the standard way.

The Cost

There are two elements to the cost of placing the GP offshore. Firstly, its incorporation and set up; secondly, the ongoing administration of the entity.

Typical launch costs of the GP will be in the region of £20,000, including legal and administrative fees and obtaining the 'lightest touch' regulatory consent (usually the GP will not require formal regulation in Guernsey, unless it is raising money itself).

Ongoing administration costs will very much depend on the level of activity passing through the GP; a high level of investment activity (including calls, distributions and payments) will demand a greater degree of involvement from the offshore administrator and hence increase fees. As a minimum, fees in the region of £40,000 should be viewed as a starting point, but will rise as the level of work increases. Typical costs for a mid-sized private equity house, completing on average four deals a year will be around £75,000 per year.

Further details

To explore the concept further, please contact one of our directors:-

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