

Factsheet:

12 tax considerations when becoming a partner

Becoming a partner is an exciting milestone in any professional's career. However, there are several tax matters to consider, most notably, moving from employed to self-employed for the first time.

This article assumes that the promotion to partner is to equity partner rather than a salaried partner. In the latter case, although there is a change of title, they are still employed for tax purposes. Any discussion upon becoming a partner should make this distinction clear.

We also primarily focus on the tax considerations when becoming a partner. There may be other financial or commercial considerations to make to ensure the proposal is best for the individual and the firm.

The table on the following pages compares the main changes between being an employee and being a partner.

Matter	Employee	Partner
Tax Status	An employee is, quite naturally, classed as “employed” for tax purposes	A partner is, however, classed as self-employed for tax purposes
Pay	An employee’s pay is generally by way of a fixed salary, paid weekly or monthly	A partner’s pay is referred to as drawings, which are often akin to a fixed salary but will later be matched with a profit entitlement or percentage of profits for the firm
Bonus	Employee’s bonuses are mostly paid and accounted for in the month/year they are paid	Partner bonuses can often be backdated to the financial year in which the profit / performance relates
Benefits	Benefits in Kind are taxable as additional employment income, and either reported through payroll or via a form P11D	Partner benefits are disallowed within the firm’s tax computation, so no tax relief is obtained
Expenses	There is often very little scope to claim expenses as an employee –although one would expect to have most business expenses reimbursed by their employer	A partner has the ability to claim tax relief on most business expenses not reimbursed by firm
Pension	Employees would usually be part of the workplace pension and employee contributions are complemented by employer contributions	Partners are responsible for their own pension provisions and there are no employer contributions

Matter	Employee	Partner
Tax Withholding	Taxes are deducted automatically through payroll under the PAYE system	Partners are responsible for providing for their own tax liabilities through the Self-Assessment system
Payments on Account	Payments on account (due six monthly in January and July each year) are often not required unless the employee has other sources of income	Payments on account are likely to be required which can lead to a significant first tax payment
National Insurance	Class 1 National Insurance Contributions are deducted by employers automatically under the PAYE system and Employer's National Insurance is also accounted for	Class 2 and Class 4 National Insurance Contributions are paid through self-assessment and no Employer's National Insurance is due
Capital	There is typically no requirement for an employee to contribute capital to the business	Partners are often required to contribute capital to the business, not only as a gesture of commitment to the firm but also to comply with certain anti-avoidance tax rules. This capital can be funded by a loan
Basis Periods	N/A	Historically, the timing of drawings and profits for the firm's financial year may not align with tax year and so a basis period would dictate the profits chargeable. This is largely being unwound from 2023/24, however, as part of HMRC's basis period reform
Tax Return	Unless employees have other sources of income or their earnings exceed £100,000, there is typically not a requirement to complete annual self-assessment tax returns	Partners are obliged to file a tax return each year declaring profits realised and any other income and gains made during the year

Managing your finances effectively?

When becoming a partner, it is important to manage one's finances and investments effectively since this will now largely be the partner's individual responsibility. Lubbock Fine Wealth Management LLP (LFWM) is directly regulated by the Financial Conduct Authority with whom we work closely. Our chartered financial planners can assist with a full spectrum of financial and wealth management services, which may require careful consideration when becoming a partner. Most commonly, they can assist with pension management or ensuring financial protection through life insurance or critical illness cover, which may no longer be automatically provided as it may have been as an employee.

To find out more, get in touch with Director [Andrew Tricker](mailto:andrewtricker@lfwm.co.uk) (andrewtricker@lfwm.co.uk).

How we can help?

At Lubbock Fine, we are well placed to help you navigate this change to ensure your financial affairs are managed appropriately and that you are also being as tax efficient as possible.

To have a confidential chat, please get in touch with Tax Director [Matthew Spencer](mailto:matthewspencer@lubbockfine.co.uk) (matthewspencer@lubbockfine.co.uk) or Tax Partner [Phil Blackburn](mailto:philblackburn@lubbockfine.co.uk) (philblackburn@lubbockfine.co.uk).



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