Title: Simplifying the financial reporting requirements for Limited Liability Partnerships (LLPs) and introducing a new micro-entity accounting regime for LLPs and Qualifying Partnerships	Impact Assessment (IA)
	Date: 04/03/2016
IA No: BIS 3254 (1)	**Stage:** Fast Track Validation
Lead department or agency:	**Source of intervention:** Domestic
Department for Business, Innovation and Skills	**Type of measure:** Secondary legislation
Other departments or agencies:	**Contact for enquiries:** John Conway, john.conway@bis.gsi.gov.uk, 020 7215 6402

Summary: Intervention and Options

RPC Opinion: Green

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (2014 prices)	**In scope of Business Impact Target?**	**Measure qualifies as**
£21.04m	£21.04m	£ - 2.32m	Yes	Out

What is the problem under consideration? Why is government intervention necessary?

The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 (the '2015 Regulations'), implement the Accounting Directive 2013/34/EU (the 'Accounting Directive'), updating and streamlining financial reporting requirements for companies. The 2015 Regulation do not apply to Limited Liability Partnerships (LLPs). Government intervention will mean financial reporting requirements for LLPs and companies remain aligned, avoiding complexity and reducing burdens on LLPs. Failure to intervene would result in parallel financial reporting frameworks, causing unnecessary burdens and complexity for producers of accounts (accountants) and confusion for users of accounts (LLP members, creditors). Very small, 'micro' LLPs and Qualifying Partnerships face disproportionate burdens preparing their accounts. Micro companies have their own simplified accounting regime. Intervention is necessary to similarly reduce burdens for micro LLPs and Qualifying Partnerships.

What are the policy objectives and the intended effects?

The primary objective is to ensure that the consistency between financial reporting requirements for LLPs and companies remains in place. This will avoid unnecessary complexity in the UK's accounting framework and allow LLPs to take advantage of the deregulatory opportunities and accounting flexibilities offered to companies by the 2015 Regulations. For account users, ensuring that the rules for LLPs mirror the reporting framework for companies, aids the comparability of financial information reported by different types of corporate entities. A micro-entity regime for LLPs and Qualifying Partnerships will reduce the regulatory burdens these very small entities face, and bring them into line with micro companies, who can access a micro-entity accounting regime.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

-**Option 1** - Do nothing: this would maintain the existing accounting regime for LLPs and would lead to significant differences in financial reporting regulatory requirements between companies and LLPs. A micro-entity accounting regime would not be introduced for LLPs and Qualifying Partnerships.
-**Option 2** - Legislate to reform LLPs' financial reporting requirements in line with the requirements for companies, but without introducing an equivalent micro-entity accounting regime for LLPs (or Qualifying Partnerships). Micro LLPs and Qualifying Partnerships would continue to be classified as small for accounting purposes.
-**Option 3** - Legislate to maintain LLPs' financial reporting requirements in line with those for companies and introduce a micro-entity accounting regime for LLPs and Qualifying Partnerships, as currently exists for micro companies. This is the preferred option given its potential to further reduce regulatory burdens compared to Option 2, and because it maximises the consistency between requirements for companies and other corporate entities, and minimises the complexity of the UK's accounting framework. Achieving the intended effects is only possible through changes to regulation, and therefore alternatives to regulation are not considered appropriate.

Will the policy be reviewed? Yes, Statutory review. **If applicable, set review date:** Within 5 years of coming into force.

Does implementation go beyond minimum EU requirements?			Yes		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** Yes	**< 20** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:**	**Non-traded:**	

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister: Neville-Rolfe Date: 7 March 2016

Summary: Analysis & Evidence

Policy Option 3

Description: Maintain the alignment between LLP and company financial reporting frameworks and introduce a micro-entity accounting regime for LLPs and Qualifying Partnerships.

FULL ECONOMIC ASSESSMENT

Price Base Year 2015	PV Base Year 2016	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 16.44	**High:** 35.69	**Best Estimate:** 21.04

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.1		0.0	**0.1**
High	0.6		0.0	**0.6**
Best Estimate	0.3		0.0	**0.3**

Description and scale of key monetised costs by 'main affected groups'

We estimate there will be one-off familiarisation costs, arising from becoming familiar with the accounting changes, for all 58,000 active UK LLPs. We estimate these costs at £335,000 (with a range of £120,000 to £616,000). We also expect that there will be familiarisation costs to the 350 LLPs previously classified as medium-sized, but due to the increase in audit size thresholds are now classified as small, that are eligible to take-up the small LLP audit exemption. We estimate these at £1,500 (with a range of £700 - £2,200).

Other key non-monetised costs by 'main affected groups'

The reduction in the reporting requirements for eligible LLPs and Qualifying Partnerships could mean a reduced transparency of financial information for users of accounts and external stakeholders. There could also be some loss of assurance for the external stakeholders of previously medium LLPs that are eligible, and take-up the small LLP audit exemption, after the increase in the small LLP audit exemption threshold.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0.0		2.0	**17.1**
High	0.0		4.2	**35.8**
Best Estimate	0.0		2.5	**21.4**

Description and scale of key monetised benefits by 'main affected groups'

We expect that there will be annual benefits to LLPs of £541,000 as a result of the changes to financial reporting for LLPs (e.g. the reduced requirements for notes to the accounts will mean that LLPs have to prepare 13 mandatory notes rather than an average of 17). There will be an estimated annual benefit of £2,269,000 for the estimated 140 previously medium-sized LLPs that are eligible for, and take-up, the small LLP audit exemption threshold after this threshold increases in line with the small LLP accounting threshold.

Other key non-monetised benefits by 'main affected groups'

Consistency and comparability of LLP and company accounting frameworks should avoid confusion and costs for LLPs (especially those in corporate groups that contain limited companies), preparers of accounts (in LLPs and working for external accountants) and users of LLP financial accounts, which could arise from having a different accounting regime for LLPs. The option gives LLPs greater flexibility in their choice of accounting methods. Benefits to micro LLPs and Qualifying Partnerships include reduced administrative, and financial, burdens and greater choice and flexibility preparing their accounts.

Key assumptions/sensitivities/risks — **Discount rate (%)** 3.5

We've assumed that the costs and benefits of extending the company accounting provisions to LLPs can be analysed with the same data/assumptions that were used when analysing the measures' impact on companies. That the costs and benefits arising to companies should also apply for LLPs was suggested by a number of stakeholders in our recent consultation. Where consultation responses suggested new evidence or differences between LLPs and companies we have revised our assumptions accordingly.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of B.I.T.?	Measure qualifies as
Costs: 0.0	**Benefits:** 2.4	**Net:** 2.3	Yes	Out

Evidence Base

A) Problem under consideration

1. UK financial reporting requirements should ensure an accounting framework that enables the financial performance of different types of corporate entities to be measured on a clear and comparable basis (and only differ where there is a good reason to do so). Comparability of accounts is beneficial for users of financial information reported in accounts, preparers of accounts, and for corporate groups that involve multiple types of corporate entity (e.g. a corporate group containing a company and a Limited Liability Partnership (LLP)[1]).

2. The financial reporting regime for LLPs has reflected the regime for companies since the LLP business structure became available in 2001. Legislation to maintain consistency between reporting requirements for the UK's approximately 58,000 LLPs[2] and the UK's approximately 3.6 million companies[3] will avoid an unnecessary level of complexity for preparers and users of LLP accounts.

3. Another issue is that the preparation of financial statements can be a burdensome obligation for business. We must ensure that smaller corporate entities, which make up the majority of both companies and LLPs, are not obliged to prepare accounts in compliance with more detailed financial reporting requirements that are more appropriate for larger corporate entities.

4. From 1 January 2016 The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 (the "2015 Regulations")[4] will apply to all incorporated limited companies and will establish the minimum legal requirement for the preparation and publication of their accounts. The 2015 Regulations implement EU Directive 2013/34/EU (the "Accounting Directive")[5], which consolidates and streamlines a wide range of existing EU legislation on financial reporting and provides some deregulatory opportunities, in particular for smaller companies. This legislation was broadly supported by stakeholders[6] who agreed that it offered the opportunity to reduce the burden of financial reporting and audit obligations[7], particularly for smaller companies, without harming the overall integrity of UK's financial reporting regime.

5. The Accounting Directive does not apply to LLPs and therefore without equivalent domestic legislation to reform the accounting requirements for LLPs, there will be inconsistency in financial reporting requirements between limited companies and LLPs. Bringing equivalent domestic legislation into force will enable LLPs to benefit from a similarly flexible and streamlined financial reporting regime that will provide greater simplification and reduce administrative burdens for small LLPs, without harming the integrity of the UK's accounting framework. Furthermore it raises the threshold for the definition of a small LLP so that these savings can be extended to LLPs currently classified as medium-sized. The change in the thresholds will also allow some large LLPs to access the less burdensome medium-sized accounting regime, and gain the option to prepare medium LLP abbreviated accounts. We expect this intervention to be net beneficial to LLPs (as the 2015 Regulations were to companies)[8].

---

[1]Annex A provides a description of what an LLP is.
[2] This figure was calculated using Bureau van Dijk's FAME database.
[3] This figure was calculated using Bureau van Dijk's FAME database.
[4] http://www.legislation.gov.uk/ukdsi/2015/9780111127896
[5] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013L0034
[6] https://www.gov.uk/government/consultations/eu-accounting-directive-smaller-companies-reporting
[7] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/398885/bis-15-36-uk-implementation-of-chapters-1-9-of-the-eu-accounting-directive-government-response-to-the-consultation2-final.pdf
[8] The IA for the 2015 regulations, which applied to limited companies in the UK, estimated a total net present value (to both society and business) of £392.1m (in 2014 prices) and an equivalent annual net cost to business of £ - 7.0m (in 2009 prices) from implementing the measures. For more information see - http://www.legislation.gov.uk/uksi/2015/980/impacts/2015/227

6. In addition to changes introduced for companies by the implementation of the Accounting Directive, one of the main differences between the accounting regulations for companies and LLPs is that the very smallest companies can access a micro-entity accounting regime, but LLPs cannot. The Government proposes to introduce such a regime for LLPs, which will enable the very smallest LLPs[9] in the UK the opportunity to access a much less burdensome accounting regime, whilst still meeting the needs of their members and other stakeholders to have a clear picture of their financial position. It is also proposed to extend the micro-entity accounting regime to Qualifying Partnerships (see Annex A for a description of what constitutes a Qualifying Partnership). This would be available to those general partnerships and limited partnerships that are Qualifying Partnerships under the Partnerships (Accounts) Regulations 2008 (SI 2008/569)[10] as amended by the Companies and Partnerships (Accounts and Audit) Regulations 2013 (SI 2013/2005)[11] and which meet the eligibility criteria.

B) Rationale for intervention

7. There are both economic efficiency and an equity (or ‘fairness’) rationales for government intervention to simplify the financial reporting requirements applying to LLPs (including the introduction of a micro-entity accounting regime for LLPs and Qualifying Partnerships).
8. In efficiency terms, the changes for LLPs introduced under Options 2 and 3 aim to address the disproportionate impact of regulatory failure by reducing the unnecessary administrative burdens on smaller entities arising from existing regulations; and to enable them to focus their resources on growing their businesses, and innovating products and services as part of wider economic growth. The new LLP financial reporting regime offers the opportunity to reduce burdens by increasing the size threshold criteria for the less demanding small and medium LLP accounting regimes and bring more LLPs within the scope of these regimes. The changes will also reduce the reporting requirements of both LLPs that are currently small and those that are newly small.
9. Several other measures in the package of changes also offer to reduce administrative burdens related to financial reporting for LLPs. Changes to the small LLP audit exemption threshold are expected to give rise to administrative and financial savings for LLPs that take up the exemption, freeing up human and financial resources to be put to alternative, more productive uses.
10. Audit of financial statements can also be viewed as a signal to lenders and others outside of the business about the trustworthiness of financial reports. Voluntary audits, rather than mandatory audits, could provide a more powerful signal to those outside the entity. Therefore an increase in the small LLP audit exemption thresholds increases the number of LLPs who are able to use audit as a signal in this manner, and thus could potentially reduce the cost of capital for these LLPs.
11. With respect to the introduction of the micro-entity accounting regime for LLPs and Qualifying Partnerships (under Option 3), the economic efficiency rationale is that detailed financial reporting induces a financial and administrative costs to micro-entities (in terms of the staff time, and/or fees to external professionals, necessary to ensure financial reports comply with UK accounting regulations), but does not deliver corresponding benefits. This is because many of the parties interested in the financial performance of micro-entities are likely to have a close relationship with the entity and consequently a fairly up-to-date, detailed knowledge of the entity’s performance. Greater flexibility is needed to allow the very small corporate entities the opportunity to produce simpler financial statements that better suit their business needs and do not result in unnecessary or disproportionate regulatory burdens or financial costs. It could also be argued placing disproportionate financial reporting requirements on the very small corporate entities represents a ‘government failure’. The Government’s General Election Manifesto commits the Government to reducing red tape on business by a further £10bn over the course of the 2015-2020 Parliament;

[9] Table 3 outlines the threshold used to define a micro-entity for accounting purposes.
[10] http://www.legislation.gov.uk/uksi/2008/569/pdfs/uksi_20080569_en.pdf
[11] http://www.legislation.gov.uk/uksi/2013/2005/pdfs/uksi_20132005_en.pdf

making Britain the best place in the world to start a business; and to supporting the UK's small businesses.[12]

12. In terms of equity or 'fairness' arguments, the UK has reduced the financial reporting obligations it places upon companies (through implementing the Accounting Directive and the introduction of a micro-entity accounting regime for limited companies). The proposed changes will bring LLP financial reporting requirements into line with those for limited companies (as far as it is reasonable to do so). This will mean that LLPs are not put at a competitive disadvantage by being subject to more burdensome accounting requirements. It will also avoid potential complexity in the UK's accounting framework for users (e.g. LLP members, creditors) and preparers of accounts (e.g. accountants, book-keepers, especially those who work for corporate groups that contain both LLPs and companies).

13. Evidence from stakeholders gathered from a consultation on the legislation supports the view that for preparers of accounts failure to align reporting requirements will cause mismatches in accounting between different types of entity within the same group and result in additional costs (e.g. training, software and time costs) and complexity in terms of understanding different accounting regimes.

C) Policy objectives

14. The primary objectives are to reduce administrative burdens and to avoid introducing complexity into the UK accounting framework by ensuring that consistency between reporting requirements for LLPs and companies is maintained. This legislation will also enable LLPs to take advantage of the deregulatory opportunities offered to companies by the 2015 Regulations.

15. Micro LLPs and Qualifying Partnerships will be able to access an accounting regime that is more proportionate and appropriate to their size, reducing administrative burdens.

16. Other changes in the proposed packages of reforms will make regulatory requirements less prescriptive and offer more flexibility in the preparation of LLP accounts (e.g. flexibility to use alternative layouts for profit and loss accounts and balance sheets).

D) Policy background

17. UK incorporated undertakings prepare and file statutory accounts in compliance with rules set down in the Companies Act 2006[13] (derived from EU Directives). The Accounting Directive updated and consolidated existing Directives for statutory annual accounts and reports into a single piece of legislation. The Directive enhanced and expanded the small company regime and provided many options and flexibilities to allow Member States deregulatory opportunities. It was implemented in July 2015 to apply to financial years beginning on or after 1 January 2015. The UK implemented the Accounting Directive through the Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 and related legislation.[14] With the support of stakeholders the Government used this as an opportunity to reduce unnecessary burdens arising from accounting and audit requirements, especially on smaller companies, while taking care to maintain confidence in the integrity of the UK's well-established accounting and audit frameworks.

18. LLPs are not subject to the Accounting Directive and their financial reporting regime is provided by wholly domestic legislation which largely mirrors that for companies. To ensure LLPs are able to benefit from a lighter touch reporting regime and to maintain consistency of financial reporting requirements, we intend to introduce similar changes to the LLPs' financial reporting framework as to that for the companies' framework. We also intend to create a new micro-entity accounting regime for LLPs and Qualifying Partnerships.

---

[12] https://www.conservatives.com/manifesto
[13] http://www.legislation.gov.uk/ukpga/2006/46/contents
[14] http://www.legislation.gov.uk/ukdsi/2015/9780111127896 and http://www.legislation.gov.uk/ukdsi/2013/9780111105207/contents

19. An LLP is a distinct legal entity as compared to a limited company or a partnership. LLPs were formed under the Limited Liability Partnerships Act 2000[15] in response to concerns amongst accountancy firms about the potential liability of partners for substantial damages awarded against them for the negligence of one partner. Like shareholders, the members of an LLP are not personally liable for debts the business cannot pay instead their liability is limited to the amount of money they invest in the business.

20. The LLP Act does not impose a structure for the management of an LLP. There are no statutory provisions for general meetings, directors, company secretaries or share allotments. These are matters for the LLP agreement. There is no statutory requirement to register (or even to have) a written LLP agreement, but such an agreement is essential in practice. Partners' responsibilities and share of the profits are set out in an LLP agreement. 'Designated members' have extra responsibilities.

21. However LLPs are similar to companies in many ways, for example they are subject to a very similar regime to that for limited companies in respect of registration of information at Companies House. LLPs must have at least two members, but there is no upper limit. At least two of the members must be named as 'designated members', who accept responsibility for sending information to Companies House for registration.

E) Policy option under consideration (including Do Nothing Option)

22. There are three options under consideration:

23. Option 1 – Do nothing: the LLP accounting regime would remain the same. A micro-entity accounting regime for LLPs or Qualifying Partnerships would not be introduced.[16] Under the Do Nothing option LLPs would not gain any deregulatory benefits although the costs of the other options (e.g. familiarisation costs) would be avoided. However there would be some non-monetised costs associated with failing to maintain consistency between LLPs' and companies' reporting requirements. This would add a level of complexity for users and preparers of accounts, including consolidated accounts where LLPs and companies are in the same group.

24. **Option 2 – Legislate to maintain LLP financial reporting requirements with those for companies but without an equivalent micro-entity accounting regime[17].** The following changes to the accounting regime for LLPs are proposed under this option:

- Adopt thresholds for defining the size of small LLPs (see table below) available to companies.[18] This will enable eligible LLPs (groups as well as individual entities) currently classified as medium-sized to access a less burdensome regime for financial reporting and audit[19]. This means that they can prepare and file less detailed accounts than those required from medium and large LLPs and are generally exempt from the audit requirement.

[15] http://www.legislation.gov.uk/ukpga/2000/12/contents
[16] Micro LLPs and Qualifying Partnerships would continue to classify as small for accounting purposes.
[17] Micro LLPs would again continue to use the small LLP accounting regime. Under this option no micro-entity accounting regime would be introduced for Qualifying Partnerships, as well as LLPs.
[18] We assume in the Impact Assessment analysis that the revised thresholds will remain constant through the appraisal period, as we have no information to suggest that the companies' size thresholds will be revised further by the European Union during the appraisal period.
[19] Annex C provides more detail on the audit exemption criteria. The small company audit exemption threshold is set to increase, in order to maintain its alignment with the small companies accounting thresholds. This impact of this change was outlined in the Accounting Directive Impact Assessment - http://www.legislation.gov.uk/uksi/2015/980/impacts/2015/227

Table 1: Old and new small LLP size accounting and audit thresholds

Criteria	Old Small-Size Threshold	New Small Size Threshold
Annual Turnover	£6.5 million or less annual turnover	£10.2 million or less annual turnover
Balance Sheet Total	£3.26 million or less balance sheet total	£ 5.1 million or less balance sheet total
Number of Employees	50 or fewer employees	50 or fewer employees

To be small for accounting and audit purposes at least two out of three of the criteria must be met[20]

- The thresholds for medium-sized LLPs (single entities and groups) will also be increased (see table below). This will also enable eligible large LLPs to access the medium-sized LLP regime if they wish. These LLPs may omit certain disclosures about compliance with accounting standards and related party transactions as well as a reduced version of the profit and loss account. Medium-sized LLPs are, however, required to provide an auditor's report.

Table 2: Old and new medium and large LLP accounting size thresholds

Criteria	Old Medium-Size Threshold	New Medium Size Threshold	Old Large-Size Threshold	New Large Size Threshold
Annual Turnover	Between £6.5 and £25.9 million	Between £10.2 and £36 million	Greater than £25.9 million	Greater than £36 million
Balance Sheet Total	Between £3.26 and £12.9 million	Between £5.1 and £18 million	Greater than £12.9 million	Greater than £18 million
Number of Employees	Between 50 and 250 employees	Between 50 and 250 employees	Greater than 250 employees	Greater than 250 employees

To be in a particular size category for accounting purposes an entity must meet at least two out of three of the criteria in the table above

- Permit small LLPs (groups and single entities) to prepare and publish abridged balance sheet and profit and loss accounts if approved by all members of the LLP. At the present time LLPs are only permitted to publish (more detailed) an abbreviated balance sheet. This strikes a balance between enabling simplification of financial reporting and protecting the interests of the partners and other stakeholders (e.g. creditors).
- Give LLPs in the same group as a public company, which is not a company whose securities are traded on a regulated market, access to small or medium-sized LLPs' accounting regime.
- Put in place reduced requirements for notes to the accounts that will mean LLPs have to prepare 13 mandatory notes (see Annex B for more details on these) rather than the current average of 17.
- Exempt parent LLPs of eligible small groups from the obligation to provide consolidation of accounts. Small groups with an LLP parent will be exempt from consolidation, unless a member of the small group: 1) has its securities admitted to trading on a regulated market in an EEA State; 2) is an authorised insurance company, a banking LLP, an e-money issuer, a MiFID (i.e. Markets in Financial Instruments Directive) investment firm or a UCITS (i.e.

[20] There are some exceptions to the small LLP audit exemption, where LLPs, despite meeting two out of the three small-size criteria, are not permitted to take up the audit exemption. Annex C provides more details of these exceptions to the exemption.

Undertaking for Collective Instruments in Transferable Securities) management company; or 3) carries on insurance market activity.

- Provide LLPs with the opportunity to use alternative layouts when preparing their profit and loss account and balance sheet.
- Permit participating interests to be accounted for using the 'equity method' in an investor's individual financial statements. The Government also intends to enable the proportion of the profit or loss attributable to the participating interest be recognised in the investor's profit and loss account only to the extent of the amount corresponding to dividends already received or the payment of which can be claimed.
- Change the approach in relation to writing off of goodwill and development costs of LLPs where the useful life of those items cannot be reliably estimated. We will require that the goodwill is written off over no more than 10 years, which will allow maximum flexibility. Additionally the value of goodwill which was previously impaired may no longer be reinstated.
- Require that information on subsidiaries included with the consolidated financial statements is only provided as a note to those statements instead of optionally allowing this information to be presented separately alongside the LLP's annual return.

25. **Option 3 (preferred option) – legislate to maintain LLP reporting requirements with those for companies with an equivalent micro-entity accounting regime.**

Table 3: micro-entity LLP size thresholds

LLPs that are to be classified as a micro-entity must meet two out of these three criteria

Criteria	Micro-Entity Thresholds
Annual Turnover	Less than or equal to £632,000
Balance Sheet Total	Less than or equal to £316,000
Number of Employees	Less than or equal to 10

- This option will introduce the changes described under Option 2 and introduce a micro-entity accounting regime for LLPs and Qualifying Partnerships.[21] Micro LLPs are defined as those who fulfil two of the three requirements detailed in the table above. In accounting terms the micro-entity regime consists of the following details and exemptions:
    - Exempt micro-entities from the obligation to publish annual accounts provided that the balance sheet is filed with a competent authority (Companies House).
    - Exempt micro-entities from the obligation to draw up notes on the accounts provided that commitments by way of guarantee of any kind, information on advances and credits to administrative, managerial or supervisory bodies are disclosed at the foot of the balance sheet.
    - Permit micro-entities to draw up a greatly abridged balance sheet and profit and loss account (see Annex D for more information).

[21] See Annex A for a description on what constitutes a qualifying partnership.

26. **Option 3** is the **preferred option** because it will maintain the alignment between the financial reporting regimes of LLPs and companies, which will reduce the complexity across the various legal structures and will introduce a micro-entity accounting regime for LLPs and Qualifying Partnerships. It will also has the potential to most reduce regulatory burdens on business of all the options, contributing to the Government's aim to further reduce red tape on business.

F) Monetised and non-monetised costs and benefits of each option

27. To gather qualitative and quantitative evidence on the impact of the legislation BIS officials:

- Ran an online consultation[22] on www.gov.uk from 20 November to 21 December 2015 that invited feedback on the costs and benefits of the proposed changes. Overall thirteen responses were received: four from accountancy representative bodies; one from a representative body not directly related to accountancy, and eight from businesses that provide accountancy and / or professional advisory services.

- Contacted stakeholders including accountancy firms and accountancy bodies known to have an interest in the proposals to draw their attention to the consultation and to ask for specific information on the impact of the regulations on business and the UK's accountancy framework. A link to the consultation was also tweeted on 20 November 2015 on the BIS Twitter account.

28. Several respondents to the consultation stated that they believed that the costs and benefits of the new financial reporting requirements for LLPs would be the same or similar to those that arose for companies when the 2015 Regulations and the micro-entity accounting regime were introduced for companies. Therefore our assessment of the monetised and non-monetised costs and benefits of the Options 2 and 3 draws upon the evidence used in these measures' Impact Assessments, as well as new, LLP-specific evidence gathered through the consultation period.

29. We have analysed the costs and benefits of the proposed options over a standard ten year appraisal period. Where appropriate, given uncertainty in the possible impact of the proposed options we conduct sensitivity analysis. Cost and benefit figures in the Impact Assessment are rounded to avoid spurious accuracy. We round cost and benefit figures of the magnitude of one thousand or below to the nearest hundred. We round cost and benefit figures of the magnitude of tens of thousands or above to the nearest thousand.

Option 1- Do nothing

Benefits

30. This option is not expected to give rise to any benefits, except for forgoing the costs (e.g. familiarisation costs) of implementing either Option 2 or the preferred option, Option 3.

Costs

31. Taking no action would lead to a disparity in financial reporting requirements for LLPs and companies. This would introduce a disparity, which results in added complexity for users and preparers of accounts, especially consolidated accounts where LLPs and companies are in the same corporate group.

32. For preparers of accounts (e.g. accountants and book-keepers) it is burdensome for financial reporting frameworks to differ by corporate form (company, LLP). Furthermore, allowing the

[22] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/480984/BIS-15-631-consultation-deregulatory-changes-for-LLP-and-qualifying-partnerships.pdf

consistency in financial reporting frameworks between companies and LLPs to be removed would put LLPs at a competitive disadvantage, as they would not be able to benefit from the same reduction in administrative costs (the Accounting Directive proposals are overall deregulatory) made available to companies. Differing financial reporting frameworks could also create complexity for parent organisations preparing accounts in groups of corporate entities, where the group includes both LLPs and companies. For users of the accounts (investors, creditors etc.) differing reporting standards would reduce the comparability of financial information reported by different types of corporate entity. Therefore government intervention is now required to ensure the financial reporting requirements for LLPs continue to mirror those for limited companies.

Option 2- Legislate to maintain LLP reporting requirements with those for companies but without an equivalent micro-entity accounting regime

Benefits

Monetised benefits

Reduced administrative burdens arising from financial reporting requirements

33. The reduction in mandatory notes is expected to bring about cost savings for small LLPs. Also because of the raising of the accounting size thresholds, more LLPs are expected to encounter this saving, because some LLPs that were previously classified as medium-sized will now be classified as small. Savings are therefore expected to arise for approximately 57,000 of the UK's 58,000 active LLPs, who classify as small in size under the increased small size threshold.

34. The consultation, and separate discussions with accountancy stakeholders during the consultation period, provided no new or LLP-specific evidence on the impact of the reduction of mandatory notes to the accounts. Therefore we quantify the impact of this change using a similar approach and evidence that we used to quantify the impact on companies in the Accounting Directive Final Stage Impact Assessment. This decision is supported by the fact that several consultation respondents stated that they believed that the costs and benefits of introducing the accounting reforms for LLPs would be the same as those that arose when the changes were introduced for limited companies.

35. Notes to the accounts can be time consuming where they are descriptive and require additional analysis not possible to obtain directly from accounting software.[23] Therefore there are expected to be savings to LLPs – either in reduced time spent in-house, or through reduced time spent by their external accountants or book-keepers, preparing mandatory notes to the LLPs' financial statements.

36. The Accounting Directive Impact Assessment utilised evidence from the European Commission consultation[24] to quantify the savings from the reduction in the number of mandatory notes. Two respondents provided a range of estimates of the cost of preparing a full set of notes to the accounts of between £81 and £200 per company. To estimate the impact of a partial reduction in the number of notes to the accounts the UK Impact Assessment used these figures to calculate the saving per note no longer prepared. It was assumed that the preparation of each note accounted for the same proportion of the total cost of preparing a full set of notes to the accounts. These formulae and calculations are shown below.

[23] It was noted in the responses to the Accounting Directive and recent LLP consultations that some notes can be easily produced using accountancy software standard settings. The cost savings in the Accounting Directive Impact Assessment and this Impact Assessment arise because of the reduction in notes to the accounts that are thought to require additional analysis to produce.

[24] European Commission summary report on the responses received to the consultation paper on review of the accounting directive. http://ec.europa.eu/internal_market/accounting/docs/200910_accounting_review_consultation_report_en.pdf

Table 4: Saving per reduced mandatory note to the accounts

Formulae to calculate saving per mandatory note		
((Current number of notes – reduced number of notes) / current number of notes) * cost of preparing full set of notes		
Estimate	**Calculation**	**Saving per mandatory note no longer produced**
Low	((17 – 13)/17) * £81	£19
Best	((17 – 13)/17) * £81	£19
High	((17 – 13)/17) * £200	£47

37. The benefits for medium-sized entities that become small are estimated slightly differently to the benefits for those entities that were small under the old threshold. This is because those medium-sized entities that move into the small regime as a result of the revised threshold are larger, more complicated entities than those currently classified as small in size. Therefore, while it is considered appropriate to offer these entities the ability not to file full accounts, it is expected that more of these entities are likely to voluntarily file full accounts, despite the opportunity not to do so, compared to those LLPs that were already classified as small under the old threshold.

38. Firstly with respect to entities that were small before and after the increase in the thresholds, the past Impact Assessment analysis cited evidence from Professional Oversight Board for Accountancy (POBA) and Companies House which suggested that between 50-70%[25] of small companies file small company accounts. Based on this evidence 50% was used as a low and best (and conservative) estimate, and 70% was used as the high estimate. We utilise these assumptions for our analysis of the impact of the changes on LLPs that were classified as small under both old and new accounting regime size thresholds.

39. This paragraph describes the Accounting Directive Impact Assessment's assumptions for calculating the savings to medium-sized companies that became small, which we re-use for analysis of the impact the proposed changes on medium-sized LLPs that become small under the new thresholds. The Impact Assessment cited data from the FAME database, which suggested that 20% of medium-sized companies file abbreviated accounts. BERR (2008) research[26] indicates that over 70% of medium-sized companies would voluntarily audit their accounts; companies who choose to undertake a voluntary audit are also likely to file full accounts. Based on this, and assuming that those medium-sized entities who currently choose to file abbreviated accounts will take up the option to abbreviate further as a small entity, and that those who file full accounts will continue to do so under the small accounting regime, it was estimated that between 20% and 50%[27] of eligible medium-sized companies will file abbreviated accounts under the small company regime, with a best estimate of 30%.

40. Table 6 below shows the estimated savings from the removal of four mandatory notes to the accounts for LLPs that prepare their own accounts. These savings, as just discussed, are the sum of savings for small LLPs and those for previously medium-sized LLPs that are now classified as small LLPs under the increased thresholds.

41. The savings are based upon the following calculation: (number of LLPs that were small under the old and new thresholds * percentage that take up exemption and file small entity abbreviated accounts * proportionate cost saving per entity from reduced number of notes) + (number of LLPs that were previously medium-sized and now classify as small under the revised threshold *

[25] The Professional Oversight Board for Accountancy (POBA) reported that research it commissioned to examine 355 sets of accounts at Companies House in 2006 found approximately 60% were abbreviated, which was comparable with the findings of its questionnaire survey of 600 small and medium-sized companies, where just over 50% reported they had filed abbreviated. Collis (2012) finds that in 2006 49% of those surveyed had filed abbreviated accounts. Companies' house data suggests that around 70% of small companies file small company accounts.

[26] BERR (2008), 'Directors' Views on Accounting and Auditing Requirements for SMEs', prepared by Jill Collis.

[27] The high estimate was based upon the best estimate for companies that were small under the old threshold.

percentage that takes up exemption and file small entity abbreviated accounts * proportionate cost saving per entity from reduced number of notes).

Table 5: Data used to calculated the saving from reduced mandatory notes for small LLPs

Type of LLP	Estimate	No. of LLPs[28]	Percentage that takes up exemption and file small entity abbreviated accounts	Cost of preparing the 4 no longer necessary notes to the accounts (£)
Small LLP under old and new thresholds	Low	56,600	50%	£19
	Best	56,600	50%	£19
	High	56,600	70%	£47
Medium LLP under old threshold, small LLP under the new threshold	Low	370	20%	£19
	Best	370	30%	£19
	High	370	50%	£47

42. The estimated savings from the reduction in mandatory notes to the accounts for all LLPs under the increased small LLP accounting threshold is calculated in the table below. The best estimate of these annual savings is £541,000 – with a range of £540,000 to £1,872,000.

Table 6: Estimated savings from reduced mandatory notes for small LLPs

Estimate	Calculation	Estimated annual saving
Low	(56,600 LLPs * 50% * £19) + (370 LLPs * 20% * £19)	£540,000
Best	(56,600 LLPs * 50% * £19) + (370 LLPs * 30% * £19)	£541,000
High	(56,600 LLPs * 70% * £47) + (370 LLPs * 50% * £47)	£1,872,000

Increase in small LLP audit exemption threshold

43. Under Option 2 the small LLP audit exemption threshold is set to increase in line with the increase in the small company audit exemption threshold. This will enable eligible LLPs currently classified as medium-sized, but under the new thresholds will be classified as small, to gain an exemption from audit. Quantified, annual savings from not having an annual audit are two-fold for eligible LLPs that take-up the exemption: 1) these LLPs will no longer have to pay the auditor an annual audit fee for their audit services; and 2) for these LLPs there will be a saving of management time spent preparing for the annual audit. We estimate these savings following the approach used in the Green-rated Accounting Directive Impact Assessment.

44. Analysis of the FAME database suggests that 350 previously medium-sized LLPs are now small in size under the new audit exemption thresholds described earlier, and are eligible to take-up the audit exemption. We have no LLP-specific evidence – either from published research or gathered through stakeholder consultation – on the take-up rate of the exemption from audit by newly classified as small LLPs. Therefore, we assume that take-up of the audit exemption by LLPs who newly qualify for it will be the same as estimated for companies. In the Accounting Directive Impact Assessment we estimated that 40% of newly classified as small companies would take-up the audit exemption threshold. This assumption is based upon a 2014 ICAEW business survey[29], which found that approximately 60% of medium-sized businesses would still use audit services even if they were no longer mandatory. Given uncertainty about take-up we conduct a sensitivity

[28] Our analysis assumes that the number of LLPs remains constant throughout the appraisal period, in line with the analysis for companies in the Accounting Directive Impact Assessment.
[29] ICAEW (2014), 'The 99.9%: small and medium-sized businesses; Who are they and what do they need?'

analysis on take-up of the small LLP exemption by previously classified as medium-sized LLPs, varying the take-up rate by plus and minus ten percentage points for our high and low estimates – and therefore giving us high and low estimates of take-up of 50% and 30% respectively.

45. From the FAME database we are able to obtain information on the newly small LLPs annual fees that they pay to their auditors for audit services. The average fee is £16,100. We remove one very large outlier from the data (an LLP with an annual audit fee of £135,000), which reduces the average audit fee from £16,500.

46. The table below shows the financial savings arising from the increase in the small audit exemption thresholds for LLPs. We estimate that previously medium LLPs taking up the small LLP audit exemption experience total annual financial savings of £2,262,000 – with a low estimate of £1,696,000 and a high estimate of £2,827,000.

Table 7: Annual benefit from increase in small LLP audit exemption threshold

Component	Low estimate	Best estimate	High estimate
A) Number of eligible LLPs[30]	350 LLPs	350 LLPs	350 LLPs
B) Take-up rate of exemption	30%	40%	50%
C) Number of LLPs taking up the audit exemption threshold	110 LLPs	140 LLPs	180 LLPs
D) Average audit fee	£16,100	£16,100	£16,100
E) Total annual financial saving from increased small LLP audit exemption threshold (A) * B) * C) * D))	£1,696,000	£2,262,000	£2,827,000

47. We also expect there to be administrative savings arising from the increase in the small LLP audit exemption threshold. Again, in the absence of LLP-specific evidence, we assume that LLPs qualifying for the exemption will be affected in the same way as companies were. We assume that preparing for an audit takes two hours a year of time for a member of staff who is the equivalent of a corporate manager or director within an LLP. Using the ASHE 2014 data these staff are paid a median hourly wage excluding overtime of £20.83 an hour. Uprating this wage by 19.8% for non-wage labour costs (based on Eurostat data[31]) gives an hourly value of time of £24.95. Our best estimate is that across the 140 LLPs taking up the audit exemption the saving is expected to be £7,000 a year. Our low estimate is that this cost will be £5,300 a year over 110 LLPs. Our high estimate is £8,800 a year across 180 LLPs.

[30] Again our analysis assumes that the number of LLPs remains constant throughout the appraisal period, in line with the analysis for companies in the Accounting Directive Impact Assessment.

[31] 19.8% non-wage cost uplift calculated from Eurostat data on non-wage costs for the UK in 2014. Non-wage labour costs include National Insurance, pension contributions, other payroll taxes and other non-statutory employee services such as transport and canteen provision. http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Labour_costs_per_hour_in_EUR.

Total monetised benefits of Option2

Table 8: Total monetised annual benefits of Option 2

Estimate	Reduced annual administrative burdens arising from financial reporting requirements (e.g. reduced mandatory notes, increased accounting thresholds)	Annual savings from increase in small LLP audit exemption threshold	Total annual savings
Low	£540,000	£1,702,000	£2,242,000
Best	£541,000	£2,269,000	£2,810,000
High	£1,872,000	£2,836,000	£4,708,000

48. The best estimate of the total annual, ongoing monetised benefits of Option 2 is £2,810,000 - with a low estimate of £2,242,000 and a high estimate of £4,708,000.

Non-monetised benefits

Consistency of financial reporting frameworks between LLPs and companies

49. There was unanimous support from thirteen respondents for maintaining the consistency between the frameworks. Whilst some respondents highlighted particular issues that might result from this policy, most agreed that in the long run several benefits of the changes will outweigh these issues. Also, almost all of the stakeholders who replied to the consultation encouraged the Government to introduce the revised framework as soon as possible.

50. The move to maintain the alignment of the accountancy frameworks should result in the comparability of LLP and company financial reports and avoid confusion when reading accounts, compared to a situation with two sets of different accounting requirements for companies and LLPs. Maintaining the alignment should also help account users make assessments of LLP's financial performance when making economic decisions (e.g. whether to trade with or lend to an LLP).

51. A few consultation respondents and accountancy stakeholders we contacted in the consultation period highlighted consistency of financial reporting requirements would be beneficial within corporate groups that contain both LLPs and companies. The alignment was thought to be useful to avoid unnecessary costs and complexity from different parts of the group operating under different regulatory requirements. For example three respondents thought that alignment would reduce the corporate groups' costs of training in-house account preparers.

52. Maintaining the alignment should additionally produce benefits to professional advisors to LLPs, such as accountants and auditors. One provider of accountancy/professional advisory services suggested in their response to the consultation that 'ongoing alignments (in accounting requirements between LLPs and companies) mean that professional advisors do not need to have two sets of specialists, training and resources, the costs of which would ultimately be passed on to customers'.

53. One representative body stated that one set of accountancy rules would simplify preparing and checking accounting data. Outside of the consultation one stakeholder from an accountancy/professional advisory firm suggested that having two sets of financial reporting requirements in use could increase the risk of errors being made in account preparation.

54. However, respondents to the consultation, and the stakeholders we talked to outside of the consultation, were not able to provide suitable evidence to allow BIS to robustly quantify and monetise these benefits.

Maintaining the alignment of accounting and audit thresholds

55. Maintaining the longstanding alignment in accounting and audit thresholds for LLPs (as exists for companies) will avoid unnecessary confusion and complexity for LLPs and their professional advisors, which could arise if these thresholds were not aligned.

Large LLPs able to access the medium LLP accounting regime

56. As a result of the threshold changes it is expected that some LLPs that were previously classified as large will, under the increased size thresholds, be classified as medium LLPs for accounting purposes. Under this new size classification these LLPs will now have the option to take up medium entity abbreviated accounts, and thus save time and money from not having to produce as detailed financial reports. From the FAME database we estimate that approximately 40 LLPs fall into this category.

57. The Accounting Directive Impact Assessment did not estimate these benefits to companies, due to lack of evidence on the size of the savings, and how many previously large, now medium-sized LLPs would take up the option of abbreviated accounts. We have not been able to gather any new evidence to allow us to quantify these savings.

Benefits to small groups arising from the exemption to produce consolidated accounts

58. Small groups with an LLP parent will be exempt from consolidation, unless a member of the small group meets certain conditions described earlier in the Impact Assessment (under the Policy Options heading). This is expected to save resources (e.g. accountant fees or in-house accountant time) for parent LLPs that can be put to other uses. However, the consultation and separate discussions with accountancy profession stakeholders during the consultation period, has not provided sufficient evidence to allow us to quantify and monetise the size of this potential benefit to business arising from this option.

Greater flexibility for LLPs and their accountants

59. Several provisions within the proposed package of changes under Option 2 should give preparers of accounts (either accountancy staff working within LLPs or the external accountants and book-keepers employed by accountants) greater flexibility and choice when preparing their accounts. This flexibility should help make LLPs' accounts more useful to internal and external users of the accounts. For example one option gives LLPs the opportunity to use alternative layouts when preparing their profit and loss account and balance sheet, provided that the information given is at least equivalent to the information otherwise required by the standard formats. This is particularly useful for LLPs who are subsidiaries in a group which uses international accounting standards for consolidation purposes.

Costs

Monetised costs

One-off familiarisation cost – accounting changes

60. Several consultation respondents stated that the costs LLPs will incur in adopting the new regulatory requirements would be similar to those that companies incurred. Based on the feedback we have used the same assumptions in terms of familiarisation costs for LLPs as previously done for companies in the Accounting Directive Impact Assessment.[32] This Impact Assessment estimated that familiarisation would take between 5 and 15 minutes, with a best estimate of 10 minutes.

61. We conservatively assume that all of the UK's approximately 58,000 LLPs will familiarise themselves with the changes to the accounting framework, to avoid underestimating the cost to

[32] http://www.legislation.gov.uk/uksi/2015/980/impacts/2015/227

business of the proposed change. It is possible that some LLPs who use external accountants may not familiarise themselves with the changes, leaving this task to their accountants.

62. One respondent to the consultation did provide new information on which member of staff would undertake the familiarisation within an LLP, stating they believed that the Head of Finance Reporting would undertake the familiarisation. Annual Survey of Hours and Earnings (ASHE) data for 2014[33] shows that the median wage excluding overtime of a finance director or manager is £29.00. Uplifting this for non-wage labour costs using Eurostat data gives a wage rate of £34.73. As a high estimate we use the uprated mean wage rate for finance directors (£35.61) uplifted for non-wage labour costs £42.65. As a low estimate we use the median wage rate for corporate managers and owners (£20.83) uplifted for non-wage labour costs £24.95.

63. Our estimated familiarisation costs and the calculations for deriving them are shown in the table below.

Table 9: Familiarisation costs for LLPs affecting by accounting changes

Estimate	Calculation	Total one-off familiarisation cost (£)
Low	58,000 LLPs * (5/60 minutes) * £24.95	£120,000
Best	58,000 LLPs * (10/60 minutes) * £34.73	£335,000
High	58,000 LLPs * (15/60 minutes) * £42.65	£616,000

Familiarisation costs relating to increase in small LLP audit exemption threshold

64. The small company audit exemption threshold is set to increase, in order to maintain its alignment with the small companies accounting thresholds. Therefore under Option 2 the small LLP audit exemption threshold is set to increase in line with the increase in the small company audit exemption threshold. In the absence of LLP-specific evidence we estimate this cost in the same way we did for companies. We expect that all of the previously medium-sized LLPs who now classify as small, and need to consider whether or not they need to take-up the small LLP audit exemption, will familiarise themselves with the new regulations.

65. Analysis using the FAME database suggests that 350 LLPs that were previously classified as medium in size are now classified as small in size (based on two out of three of their annual turnover, total assets on balance sheet, and number of employees) and qualify for the small LLP audit exemption threshold.

66. As for companies we assume that the equivalent of corporate director or manager within an LLP would undertake the preparation for the audit. The value of an hour of their time, as previously discussed is £24.95.

67. The table below shows the calculation of the total annual familiarisation cost administrative saving from the increase in the audit exemption threshold for LLPs. Our best estimate of these familiarisation costs is £1,500 – with a range of £700 - £2,200.

[33] Office for National Statistics (2015), 'Annual Survey of Hours and Earnings Revised Results 2014', Table 14.6a, Gross Hourly Pay Excluding Overtime, by Occupation (4-digit SOC 2010) http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2014-revised-results/index.html

Table 10: Familiarisation costs for LLPs affecting by audit exemption threshold increase

Estimate	Calculation	Total one-off familiarisation cost (£)
Low	350 LLPs * (5/60 minutes) * £24.95	£700
Best	350 LLPs * (10/60 minutes) * £24.95	£1,500
High	350 LLPs * (15/60 minutes) * £24.95	£2,200

Total monetised costs

68. The table below shows the total costs arising from the introduction of Option 2.

Table 11: Total monetised costs of Option 2

Estimate	Total one-off familiarisation cost for LLPs related to accounting changes (£)	Total one-off familiarisation cost for LLPs related to audit changes (£)	Total one-off costs of Option 2
Low	£120,000	£700	£121,000
Best	£335,000	£1,500	£336,000
High	£616,000	£2,200	£618,000

69. The best estimate of the total costs of Option 2 is £336,000 - with a low estimate of £121,000 and a high estimate of £618,000.

Non-monetised costs

Familiarisation costs for accountants and book-keepers

70. We expect the familiarisation costs for accountants and book-keepers to be minimal if not zero, as they will already have become aware of the changes when they were introduced for companies, and therefore will require minimal time, if any, to familiarise themselves with the new financial reporting regime for LLPs. This is supported by the consultation responses, where several respondents believed that accountants were already up to speed with the changes previously applied to companies. This point is further supported because in reality it is unlikely that there are accountants and book-keepers that work exclusively with LLPs, given their relatively small number compared to companies, and thus be unaware of the introduction of a micro-entity accounting regime for companies that is now being applied to LLPs and Qualifying Partnerships.

71. Other respondents to the consultation noted that any familiarisation that accountants or book-keepers had to do with the new LLP regulations would not be additional, and would be undertaken as part of normal on-going Continuous Professional Development (CPD), that these professional are required to do as part of their membership of a professional body. For example, one accountancy body stated that becoming familiar with the LLP changes 'would form part of the ongoing CPD requirements for professional staff in practice and industry'. Two of the accounting representative bodies that responded to the consultation told us that they would produce guidance for their members that will help them come quickly up to speed with the new regulations for LLPs, should their members require it. Therefore, overall, we have not quantified or monetised any familiarisation cost for accountants and book-keepers because the available evidence suggests they are expected to be close to, if not, zero.

Potential loss of transparency

72. There is a potential loss of transparency for LLP stakeholders, for example for small LLPs who produce only the reduced number of mandatory notes to their accounts and medium-sized LLPs that become small under the increased thresholds. The reduced disclosures could lead to a loss of financial information for stakeholders of LLPs, and possibly the LLPs themselves. This could reduce the financial information available for decision-making.

73. Business information providers, such as credit rating agencies, may use information contained in the annual accounts to supply credit information on LLPs to the market. Such providers may find it more difficult to provide information on small LLPs if they have to rely on requests for additional information rather than published accounts. However it is not certain that the removal of mandatory notes will impact on the data used in the scoring models in the credit granting process. One possible impact from reduced information provision is that it could result in slower credit decisions and potentially raise the cost of capital for the LLPs where uncertainty over the financial health of the company remains. This could affect credit availability and cost for the small LLP.

Software costs

74. A few respondents to the consultation noted that the change in requirements for LLPs could mean LLPs or their accountants or book-keepers need to update their accounting software packages (e.g. accounts preparation and accounts disclosure checklist software). However, these consultation respondents were not able to quantify any software costs that may arise, as a result of these options. If updated software is required, it is unclear: 1) whether any updated software packages post-regulatory change would be provided as part of existing contracts from software providers or requires a new purchase. Accountancy software provision is a competitive industry, with many providers (20 according to data in the 2013[34] Micro-Entity Impact Assessment[35]), which may mean that software providers absorb any increased costs from updating software rather than passing it on to their customers; and 2) whether software currently in use has settings that allow the production of accounts in line with the new regulations. Some software packages may already contain settings that allow accounts to be produced in line with new accounting rules, because the software's settings may have been updated when the Accounting Directive was implemented for companies. If software companies charge LLPs and their accountants and book-keepers to buy new software as a result of a change in the regulations, it could be argued that this is an indirect cost of the regulatory change that LLPs and their accountants and book-keepers will only incur because they perceive the benefits will outweigh their costs. Therefore, given there are a number of uncertainties and evidence gaps we have not quantified any software costs arising from the proposed option.

75. Accountancy software providers could also face some software development costs as a result of the regulatory change. However it is also possible that there is no development cost, because new or updated software was developed in response to the implementation of the Accounting Directive for companies, and it is now possible for LLPs or their accountants or book-keepers are now to use this software in future. Furthermore these costs would be outweighed by the need to for software companies to accommodate financial reporting requirements for LLPs and companies that were not aligned.

Lose of assurance of financial reports

76. There will potentially be non-monetised costs due to a loss of independent assurance for third parties of LLP financial reports that fall into scope, and take up, the small LLP audit exemption. However, because these undertakings are smaller, the consequences of misstatements in their

[34] http://www.legislation.gov.uk/uksi/2013/3008/pdfs/uksi_20133008_en.pdf
[35] http://www.legislation.gov.uk/ukia/2013/243/pdfs/ukia_20130243_en.pdf

accounts would not be as severe as the consequences for large undertakings and public interest entities. With regards to third parties, banks will be able to request, from undertakings to which they lend, additional information or verification as a condition of their lending. The small LLP audit exemption threshold is voluntary, rather than mandatory. As discussed earlier we expect some LLPs who qualify for the exemption will choose not to take it up. We would expect any LLP classified as small will only take up the audit exemption if they believed the benefits (financial and administrative savings) outweigh the costs (loss of assurance of financial reports from independent auditors and any potential impacts arising from this).

Public sector costs

77. As part of our analysis we have not estimated any costs to the public sector. Companies House could potentially incur some additional costs updating their systems for filing LLP accounts. However, given the relatively small number of LLPs and potentially because Companies House has already incurred development costs updating its interfaces for companies, any costs updating its systems in response to the new regulations could be small. Furthermore any costs would however be outweighed by the need to accommodate difference financial reporting regimes for LLPs and companies if these were no longer aligned.

Net present value of Option 2

78. The table below outlines the low, best and high estimates of the total one-off costs and total annual, on-going benefits of Option 2, and the net present value of the difference between the costs and benefits. Overall the changes introduced under Option 2 are expected to be net beneficial to business/society.

Table 12: Net present value of the difference between the costs and benefits of Option 2

Estimate	Total one-off costs	Total annual benefits	Total net present value of difference between costs and benefits over a ten year appraisal period
Low	£121,000	£2,242,000	£16,440,000
Best	£336,000	£2,810,000	£21,040,000
High	£618,000	£4,708,000	£35,690,000

79. Overall the changes introduced under Option 2 are expected to be net beneficial to business/society.

Option 3 (preferred option) - legislate to maintain LLP reporting requirements in line with those for companies with an equivalent micro-entity accounting regime.

80. We estimate that there are approximately 3,500 micro LLPs currently active in the UK. However we have been unable to quantify the number of micro Qualifying Partnerships. Data collected by Companies House and their official published statistics[36] do not quantify the number of Qualifying Partnerships in the UK or contain sufficient coverage or data to allow the number to be quantified in a bottom-up manner.[37] Databases[38] on the number and type of business available to BIS do

[36] See https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-20142015 and https://www.gov.uk/government/statistics/incorporated-companies-in-the-united-kingdom-november-2015

[37] Companies House statistics contain information on the number of limited partnerships in the UK (approximately 32,000 in 2015), but does not contain information on the number of either general partnerships or Scottish Partnerships (as these latter two types of partnerships are not required to register with the Registrar of Companies at Companies House). Any one of these type of partnership can be a Qualifying Partnership for accounting purposes, as described in more detail in Annex A.

[38] The FAME and MINT databases, and the Office for National Statistics' Inter-Departmental Business Register.

not have the coverage[39] and variables[40] within them to allow us to identify the total population of Qualifying Partnerships, and thus we cannot go one step further and attempt a more sophisticated analysis to determine how many Qualifying Partnerships are micro Qualifying Partnerships (using information on annual turnover, balance sheet total assets and number of employees). Separately we have searched published academic research and published reports from accountancy and business representative bodies, but through this method have also been unable to find information on the total number of Qualifying Partnerships and the number of Qualifying Partnerships that are micro in size.

Benefits

Monetised Benefits

81. The same benefits that arose under Option 2 will arise under this option. We have not monetised any additional benefits from Option 3. The reasons for this are set out below, in the non-monetised benefit section.

82. Therefore the total, ongoing annual benefits of Option 3 are the same as Option 2. The best estimate of the total annual, ongoing monetised benefits is therefore £2,810,000 - with a low estimate of £2,242,000 and a high estimate of £4,708,000.

Non-Monetised Benefit

83. To attempt to gather evidence from stakeholders and external experts on the impact of the introduction of the micro-entity accounting regime for LLPs and Qualifying Partnerships we:

- asked for evidence through questions in the formal consultation on the policy;
- approached members of an expert working group advising the Department for Business, Innovation and Skills on accountancy regulatory changes, which contains senior representatives of the accountancy and audit profession, with questions about the costs and benefits of the micro-entity accounting regime; and
- reviewed analysis from the last parliament on the introduction of a micro-entity accounting regime for limited companies. The Impact Assessment for the introduction of micro-entity accounting regime for limited companies received a Green Opinion from the Regulatory Policy Committee in August 2013.[41] Many of the consultation respondents stated that they believe that the benefits of introducing the micro-entity accounting regime for LLPs and Qualifying Partnerships will be similar to the benefits that arose for micro limited companies, who took up the regime. Therefore we discuss the benefits outlined in the 2013 Impact Assessment on the understanding that they we and stakeholders expect that they are likely to apply to micro LLPs and Qualifying Partnerships who take-up the flexibilities offered by the micro-entity accounting regime.

84. This section of the Impact Assessment summarises the findings of this evidence gathering on the benefits of extending the micro-entity accounting regime to LLPs and Qualifying Partnerships. To attempt to quantify and monetise the benefits of the micro-entity regime we asked for evidence through the consultation and directly from stakeholders. However, no new evidence to allow the quantification and monetisation of the savings was available, and therefore the discussion of the benefits of the extension of the micro-entity accounting regime to LLPs and Qualifying Partnerships is qualitative. The Green-rated 2013 Impact Assessment was also unable to quantify and monetise the expected benefits of the micro-entity accounting regime.

---

[39] The databases only contain information on limited partnerships and not general partnerships and Scottish Partnerships.
[40] The databases do not contain variables to allow us to identify the partners and whether they are limited companies.
[41] http://www.legislation.gov.uk/ukia/2013/243/pdfs/ukia_20130243_en.pdf

85. The majority of the thirteen respondents to the LLP consultation supported the introduction of a micro-entity accounting regime for LLPs and Qualifying Partnerships (eleven were in favour, one was not sure/had no opinion and one respondent to the consultation did not answer the relevant questions in the consultation).

86. Many consultation respondents supported the introduction of the micro-entity accounting regime because they believed that there was no good reason why the smallest LLPs and Qualifying Partnerships should be treated differently from companies, or each other. Other respondents, although in principle not in favour of reduced financial information being made available, believed a micro-entity regime should be introduced for LLPs and Qualifying Partnerships to maximise consistency with the accounting regime for companies.

87. Another benefit of extending the micro-entity regime to LLPs and Qualifying Partnerships was that 'additional accounting framework choices conferred on micro-entities', according to one accountancy firm that responded to the consultation. See Annex D, for examples of choices the micro-entity accounting regime will confer on those eligible entities that take it up.

88. A number of consultation respondents noted that the introduction of a micro-entity accounting regime would be deregulatory and reduce the burden of regulation on the smallest LLPs and Qualifying Partnerships. For example, one accounting firm responding to the consultation stated that entities 'that meet the definition of a micro-entity will clearly benefit from a significant reduced cost in financial reporting when choosing to apply the micro-regulations'. The respondents suggested the reduced burden arose from having to prepare much shorter, simpler accounts than they otherwise would have to. Similarly the 2013 Impact Assessment described how the micro-entity accounting regime is expected to reduce the amount of time in future in-house account preparers spend complying with financial reporting requirements, which could be used for other tasks, such as focussing on growth on the business. However, the 2013 Impact Assessment, and some respondents to the recent consultation, also noted that where corporate entities utilise accounting software to produce in-house accounts, this could limited time-savings arising from the micro-entity regime and entities would still gather and hold much financial data that they previously inputted into the software to produce more detailed accounts.

89. The 2013 Micro-Entity Impact Assessment noted that another benefit of the simpler reporting requirements was that micro-entities may 'no longer need external accountancy/book-keeping services' because 'the owners and managers of micro-entity businesses may feel increased confidence in the understanding and use of financial statements due to their reduced complexity and increased certainty that their legal obligations have been met' when accounts have been prepared in-house. No longer engaging the services of an accountant or book-keeper would mean that micro-entities would no longer have to spend money on these services, which again could be put to other uses that improve and grow the business. Based on research by Collis (2012)[42], it was noted that the majority of micro-entity companies (77%) employed the services of an external accountant or book-keeper to develop their accountants. Therefore potential savings from avoided accountancy fees could be more significant than time savings. However, we lack evidence on the size of fees that LLPs and Qualifying Partnerships, which will become eligible for the micro-entity accounting regime are currently paying, and precise evidence on how many would in future choose to no longer employ an external accountant or book-keeper to prepare their accounts, hampering quantification of this benefit.

90. The 2013 Impact Assessment also suggested that the micro-entity regime's simpler financial reporting requirements could have economic benefits, if it removed a legal 'barrier to entry' to

[42] Collis, J. (2012) 'Determinants of voluntary audit and voluntary full accounts in micro and non-micro small companies in the UK' found that 77% of small companies used an external accountant.

starting a new business and lead to more entrepreneurship and more corporate entities entering the marketplace to supply services.

91. The 2013 Impact Assessment noted that simpler accounts could be more easily understandable to account users than longer, more complicated accounts produced under the previous accounting regime.

92. Our LLP consultation respondents were not able to provide us with any specific, up-to-date information to quantify the take-up of the micro entity regime by eligible LLPs and Qualifying Partnerships, which further hampers attempts to quantify the impact of Option 3. Respondents differed in views on the level and speed of take-up of the micro-entity accounting regime amongst LLPs and Qualifying Partnerships – though they generally agreed, that based on companies' experience of a micro-entity regime, that a number of entities would take-up the deregulatory option available. On the speed of take-up some respondents noted that the take-up rate for companies has grown over time as the new regime became an accepted part of the UK's accounting framework. Four respondents suggested that from 2016 eligible corporate entities would have to choose between relatively complex Financial Reporting Standard (FRS) 102[43] or the much simpler requirements of FRS 105 (i.e. the micro-entity accounting regime). They believed that the micro-entity accounting regime was more attractive than following FRS102 and that the relative complexity / burden associated with following FRS102 would increase the incentive to take-up the micro accounting regime (FRS 105) for LLPs and Qualifying Partnerships, compared to the past experience of companies. Views on the likely level of take-up ranged from one respondent stating that take-up would be 'low', one respondent suggesting 'we would expect the majority of eligible LLPs and Qualifying Partnerships to take advantage of the micro—entity regime'. However, of those respondents that provided a view on take-up amongst micro LLPs and Qualifying Partnerships, slightly more suggested that they would expect a sizable number of eligible entities to take-up the flexibility to use the micro-entity accounting regime. The 2013 Impact Assessment assumed that take-up of the micro-entity accounting regime by companies would be 50% of eligible companies – however this was a pure assumption, not based on firm data or evidence, so we do not utilise it in this Impact Assessment.

93. We estimate, using the FAME database, that there are approximately 3,500 micro LLPs that would benefit from the micro-entity accounting regime.

<u>Costs</u>

<u>Monetised costs</u>

94. The same costs that arose under Option 2 would also arise under Option 3.

95. We have not monetised any additional costs arising from the introduction of the micro-entity accounting regime for LLPs and Qualifying Partnerships. In the following section on the non-monetised costs of Option 3, we identify the potential costs of this option, and explain why it has not been possible to quantify and monetise these costs.

96. Therefore the best estimate of the total, monetised one-off costs of Option 3 is £336,000 - with a low estimate of £121,000 and a high estimate of £618,000.

[43] As opposed to previous UK Generally Accepted Accounting Principles (GAAP) and Financial Reporting Standards for Smaller Entities (FRSSE).

Non-Monetised Costs

Familiarisation costs for LLPs and Qualifying Partnerships

97. Through the consultation we sought to gather evidence on how affected LLPs and Qualifying Partnerships on the costs of the introduction of a micro-entities accounting regime. Several consultation respondents noted that they believed that the costs to LLPs and Qualifying Partnerships would be similar to those that arose for micro companies. Under the preferred option in the 2013 Impact Assessment it was estimated that familiarisation for micro companies would take 30 minutes (with a low estimate of 15 minutes and a best estimate of 45 minutes) and be done by the owner of the micro entity. Therefore we expect there will be some familiarisation costs as a result of Option 3 for micro LLPs and Qualifying Partnerships that take-up the new accounting regime, though we do not expect these to be significantly burdensome.

98. We have not quantified these costs due to a number of evidence gaps:
    - We have been unable to quantify the number of micro Qualifying Partnerships.
    - We lack any robust quantitative data on how many affected entities will take-up the micro-entity accounting regime.

Familiarisation costs for accountants and book-keepers

99. We expect the costs related to accountants and book-keepers becoming familiar with the extension of the micro-entity accounting regime to LLPs and Qualifying Partnerships to be minimal, if not zero. They will already have become aware of the changes when they were introduced for companies, and therefore will require minimal time, if any, to familiarise themselves with the extension of the micro-entity regime to LLPs and Qualifying Partnerships. One accountancy firm, in response to a consultation question on the impact on business of the micro-entity accounting regime, stated that 'given preparers have been familiarising themselves with the requirements of the micro-entity regime for limited companies, having aligned regimes for LLPs should not result in any excessive additional burden' related to familiarisation. This point is further supported because, as previously stated, we believe that it is unlikely that there are accountants and book-keepers that work exclusively with LLPs and thus be unaware of the introduction of a micro-entity accounting regime for companies that is now being applied to LLPs and Qualifying Partnerships.

100. The same points raised under accountant and book-keeper familiarisation costs for Option 2 also apply here. That is: 1) familiarisation would form part of normal, on-going Continuous Professional Development (CPD) that these professional are required to do as part of their membership of a professional body; and 2) accounting representative bodies are likely to produce guidance for their members that will help them come quickly up to speed with the new regulations.

101. Therefore, because of these points we have not quantified or monetised any familiarisation cost for accountants and book-keepers because the available evidence suggests they are expected to be close to, if not, zero.

Reduced transparency of financial information

102. However, there would be an additional loss of transparency, as eligible micro LLPs and Qualifying Partnerships may take-up the micro-entity accounting regime and as a result make available less financial information to stakeholders and the public. The 2013 Micro-Entity Impact Assessment discusses the possibility that information in published accounts could be used by credit rating agencies, as part of their credit scoring assessments, and thus the loss of transparency could affect micro-entities' ability to access external financing. However banks and credit institutions have the ability to ask businesses applying for finance for detailed financial

information as part of their applications for finance, and are unlikely to rely on either publicly available financial reports or external credit ratings, so their lending and credit decisions may not be significantly affected by the reduced transparency of financial information amongst eligible micro LLPs and Qualifying Partnerships that take-up the micro-entity accounting regime.

Public sector costs

103. As part of our analysis we have not estimated any costs to the public sector. Companies House could potentially incur some additional costs updating their systems for filing LLP accounts. However, given the relatively small number of LLPs and potentially because Companies House has already incurred development costs updating its interfaces for companies, any costs updating its systems in response to the new regulations could be small.

Net present value of Option 3

104. As discussed the table below outlines the low, best and high estimates of the total one-off costs and total annual, on-going benefits of Option 3, and the net present value of the difference between the costs and benefits. Overall the changes introduced under Option 3 are expected to be net beneficial to business/society.

Table 13: Net present value of the difference between the costs and benefits of Option 3

Estimate	Total one-off costs	Total annual benefits	Total net present value of difference between costs and benefits over a ten year appraisal period
Low	£121,000	£2,242,000	£16,440,000
Best	£336,000	£2,810,000	£21,040,000
High	£618,000	£4,708,000	£35,690,000

G) Direct costs and benefits to business calculations

105. The proposed options are domestic in origin, will directly affect business and be deregulatory in nature. Therefore they are in scope of the Government's One-In, Three-Out (OITO) Business Impact Target (BIT).

106. We have calculated the direct costs and benefits to business of Options 2 and 3. Option 2 and 3 both have an equivalent annual net cost to business (EANCB) of £ - 2.32m, and be net beneficial, deregulatory 'OUT' for business.

H) Risks and assumptions

107. We have assumed that the costs and benefits of extending the company accounting reforms to LLPs can be analysed with the same data/assumptions that were used when analysing the measures' impact on companies. That the costs and benefits arising to companies should also apply for LLPs was suggested by a number of stakeholders in our recent consultation.

108. Where consultation responses suggested newer evidence or differences between LLPs and companies we have revised our assumptions accordingly.

I) Wider impacts

Statutory equality duties

109. The policy is not expected to give rise to any negative impacts on individuals with protected characteristics (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex or sexual orientation).

Economic impacts

Competition Impact Test:

110. The regulations are not expected to give rise to any negative impact on competition. By maintaining consistency financial reporting requirements.

Small and Micro-Business Assessment:

111. The Better Regulation Framework Manual[44] states that 'you must apply the SaMBA for all domestic measures that regulate business, except if they qualify for the fast track'.

112. However we expect that both Option 2 and Option 3 will be net beneficial to small and micro businesses. As outlined earlier in the IA the majority of the benefits of the options arise to small LLPs. The accounting and audit changes introduced under Option 2 give rise to monetised net benefits to small LLPs. Option 3 – the preferred option – gives rise to the same net benefits to small LLPs. However, additionally it gives rise to unmonetised benefits to micro LLPs and Qualifying Partnerships, through the introduction of a micro-entity accounting regime for these entities. These unmonetised benefits to micro LLPs and Qualifying Partnerships are expected to outweigh any unmonetised costs (e.g. familiarisation costs) to these entities.

Environmental Impacts

113. The regulations are not expected to give rise to any environmental impacts.

Social Impacts

Health and Well-Being:

114. The regulations are not expected to give rise to any health and well-being impacts.

Human Rights:

115. The regulations are not expected to give rise to any human rights impacts.

Justice System:

116. The regulations are not expected to give rise to any justice system impacts.

Rural proofing:

117. The regulations are not expected to give rise to any differential impact for rural areas.

Sustainable Development:

118. The regulations are not expected to give rise to any sustainable development impact.

---

[44] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/468831/bis-13-1038-Better-regulation-framework-manual.pdf

Family Test:

119. The DWP Family Test[45] sets out the following questions from officials to consider during policy-development.

- What kinds of impact might the policy have on family formation?
- What kind of impact will the policy have on families going through key transitions such as becoming parents, getting married, fostering or adopting, bereavement, redundancy, new caring responsibilities or the onset of a long-term health condition?
- What impacts will the policy have on all family members' ability to play a full role in family life, including with respect to parenting and other caring responsibilities?
- How does the policy impact families before, during and after couple separation?
- How does the policy impact those families most at risk of deterioration of relationship quality and breakdown?

120. The regulations outlined in this Impact Assessment do not give rise to any direct or indirect impacts for families relating to any of the above questions.

J) Summary and preferred option with description of implementation plan.

121. Overall costs and benefits to LLPs arising from updating the financial reporting regime will be similar to those experienced by limited companies. Both Options 2 and the preferred option, Option 3, are expected to be net beneficial to business (especially to small and micro size businesses). We have not been able to robustly quantify and monetise the expected additional savings to business arising under Option 3 from the introduction of a micro-entity accounting regime for LLPs and Qualifying Partnerships.

122. The best estimate of the NPV of Options 2 and 3 is £21.04 million, with a low-high range of £16.44 million and £35.69 million.

123. Our best estimate of the EANCB of Options 2 and 3 are £ - 2.32m. Both options are expected to be 'OUTs', which are net beneficial to affected businesses.

124. It is anticipated that the regulations will come into force in the summer of 2016.

[45] DWP (2014), The Family Test: Guidance for Government Departments, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/368894/family-test-guidance.pdf

Annex A) Description of Limited Liability Partnerships and Qualifying Partnerships and Background Information on their Financial Reporting Requirements

What is a Limited Liability Partnership (LLP?

1. An LLP is a distinct legal entity as compared to a limited company or a partnership. LLPs were formed under the Limited Liability Partnerships Act 2000[46] in response to pressure from accountancy firms concerned by the potential liability of partners for substantial damages awarded against them for the negligence of one partner. Like shareholders, the members of an LLP are not personally liable for debts the business cannot pay, and instead their liability is limited to the amount of money they invest in the business. The Act does not however impose a structure for the management of an LLP and subsequent legislation which applies the LLP regime is tailored to reflect the less stringent structure of LLPs. For instance there are no statutory provisions for general meetings, directors or share allotments. Other modifications include changes to the balance sheet formats to include items such as “loans and debts to other members”.

What is a Qualifying Partnership?

2. The Partnerships (Accounts) Regulations 2008[47] introduced the concept of a ‘qualifying partnership’ for accounting purposes. The definition was revised in the Companies and Partnerships (Accounts and Audit) Regulations 2013[48]. Under these Regulations a Qualifying Partnership is a partnership formed between companies under the law of any part of the United Kingdom if each of the members (or, in the case of a limited partnership, each of its general partners) is:

    - a limited company; or
    - an unlimited company each of whose members is a limited company; or
    - a Scottish partnership[49], which is not a limited partnership, each of whose members is a limited company; or
    - a Scottish partnership, which is a limited partnership, each of whose general partners is a limited company.

How will the changes to Financial Reporting Requirements be applied to LLPs and Qualifying Partnerships?

How will the changes be applied to LLPs?

3. In 2015 BIS introduced regulations which implemented provisions of the Accounting Directive and made changes to the financial reporting framework for companies and Qualifying Partnerships. These changes were largely de-regulatory and reduced administrative burdens on companies and Qualifying Partnerships.

4. LLPs are not subject to the EU Accounting Directive and their financial reporting regime is governed solely by domestic legislation which largely mirrors that for companies. However to ensure LLPs are able to benefit from a proportionate reporting regime and to maintain consistency the 2015 Regulations (described and analysed in this Impact Assessment) introduce similar changes to the LLPs’ financial reporting framework.

5. In 2013 BIS made regulations introducing a micro-entity accounting regime for companies (The Small Companies (Micro-Entities’ Accounts) Regulations 2013 (SI 2013/3008)[50]). The micro-entity accounting regime was an option under the Directive which the department introduced in advance of the wider changes to companies. LLPs do not currently have an equivalent micro-entity

[46] http://www.legislation.gov.uk/ukpga/2000/12/contents
[47] http://www.legislation.gov.uk/uksi/2008/569/pdfs/uksi_20080569_en.pdf
[48] http://www.legislation.gov.uk/uksi/2013/2005/pdfs/uksi_20132005_en.pdf
[49] See here for more detail on Scottish Partnerships http://www.brodies.com/node/1614
[50] http://www.legislation.gov.uk/uksi/2013/3008/pdfs/uksi_20133008_en.pdf

accounting regime. The 2015 Regulations will introduce a micro-entity accounting regime for LLPs.

How will the changes be applied to Qualifying Partnerships?

6. Financial reporting obligations imposed on a Qualifying Partnership are imposed on its “members”. In the case of a limited partnership, its “members” will usually be its general partners, but for Qualifying Partnerships the definition is broader and would include, for example, limited companies which are the members of an unlimited company which is a general partner.

7. The “members” of a Qualifying Partnership must, in respect of each financial year of the partnership, prepare the same annual accounts and reports together with an auditors’ report as would be required if the partnership were a company.

8. Each UK limited company which is a “member” of a Qualifying Partnership at the end of any financial year of the partnership must attach a copy of the partnership accounts for that year to the copy of its own accounts and reports it delivers to the Registrar of Companies.

9. As previously stated, in 2015 BIS introduced regulations which implemented provisions of the Accounting Directive and made changes to the financial reporting framework for companies and Qualifying Partnerships. These changes were largely de-regulatory and reduced administrative burdens on companies and Qualifying Partnerships.

10. The 2013 Micro-Entity Regulations exempted very small companies from certain financial reporting requirements (a “micros exemption”). This effectively created a micro-entities regime for small companies by amending the Companies Act 2006 with reduced reporting requirements (as provided for by the Accounting Directive 2013/34/EU). We had intended that the 2013 Micro-Entities Regulations would apply to Qualifying Partnerships but we were advised that consideration of this issue would delay the drafting process.

11. Consequently, the 2013 Micro-Entities Regulations included a provision, (regulation 3(1)(a)), which dis-applied the micro-entities regime for Qualifying Partnerships. We now need to amend or revoke the provision in such a way as to ensure that the micro-entities regime is available to Qualifying Partnerships.

Annex B) Proposed mandatory notes to small LLP accounts

1. Small LLPs will be required to provide the following 13 disclosure notes:

    - Accounting policies adopted;
    - Fixed assets revaluation table;
    - Fair valuation note;
    - Financial commitments, guarantees or contingencies not included in the balance sheet;
    - The amount of advances and credits granted to members of the administrative, managerial and supervisory bodies (with supporting information);
    - Exceptional items;
    - Amounts due or payable after more than 5 years and entire debts covered by valuable security;
    - Average number of employees during the financial year;
    - Fixed asset note (in addition to the mandatory revaluation table);
    - Name and registered office of the undertaking drawing up the consolidated financial statements of the smallest body of undertakings of which the undertaking forms part;
    - Nature and business purpose of arrangements not included in the balance sheet;
    - Nature and effect of post balance sheet events; and
    - (Limited) related party transactions.

Annex C) Small LLP audit exemption eligibility criteria

1. The Government proposes to set the audit exemption thresholds for the small LLPs in line with the thresholds applicable to small companies. The table below shows how the small size criteria are set to change for LLPs.

Criteria	Old Small-Size Threshold	New Small Size Threshold
Annual Turnover	£6.5 million or less annual turnover	£10.2 million or less annual turnover
Balance Sheet Total	£3.26 million or less balance sheet total	£ 5.1 million or less balance sheet total
Number of Employees	50 or fewer employees	50 or fewer employees

2. In relation to financial years beginning on or after 1 January 2016, all small LLPs under the new small threshold will be able to become exempt from statutory audit, except in cases where an LLP:

- has its securities admitted to trading on a regulated market in an EEA State;
- is an authorised insurance company, a banking LLP, an e-money issuer, a MiFID investment firm or a UCITS management company;
- carries on insurance market activity;
- is an employers' association as defined in section 122 of the Trade Union and Labour Relations (Consolidation) Act 1992 or Article 4 of the Industrial Relations(Northern Ireland) Order 1992;
- is a parent LLP or subsidiary undertaking (unless dormant for the period during which it was a subsidiary undertaking) except where:
    - the group also qualifies as a small group (treating all the bodies corporate in the group, including non-UK bodies corporate as if they were LLPs or companies) and was not at any time in the year an ineligible group.

Annex D) Micro-entity balance sheet and profit and loss accounts

1. The micro-entity exemption will permit micro LLPs to use greatly abridged balance sheet, and profit and loss account.

2. There would be a choice of balance sheet formats. For example, the balance sheet must consist of at least the following items:

Format 1	Format 2
A. Fixed assets; B. Current assets; C. Prepayments and accrued income; D. Creditors: amounts falling due within one year; E. Net current assets (liabilities); F. Total assets less current liabilities; G. Creditors: amounts falling due after more than one year; H. Provisions for liabilities; I. Accruals and deferred income J. Loans and other debts due to members; and K. Members' other interests.	Assets A. Fixed assets; B. Current assets C. Prepayments and accrued income Capital, Reserves and Liabilities A. Loans and other debts due to members; B. Members' other interests; C. Provisions for liabilities; D. Creditors; and E. Accruals and deferred income.

3. The practical effect of these changes is a shorter, less detailed balance sheet, which focuses on high-level financial information relating to the undertaking's financial position.

4. Similarly, the micro- entity profit and loss account is greatly shortened to present high-level financial data. The micro-entity profit and loss account will show separately at least the following items, where applicable:

   (i) turnover
   (ii) other income
   (iii) cost of raw materials and consumables
   (iv) staff costs
   (v) depreciation and other amounts written off assets
   (vi) other charges
   (vii) tax
   (viii) profit or loss for the financial year before members' remuneration and profit shares

5. Accounts prepared in accordance with the requirements for micro LLPs will be presumed to give a true and fair view of an LLP's financial position.