Opinion: final stage IA - EANCB validation
Origin: domestic
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Date of implementation: summer 2016

Simplifying the financial reporting requirements for limited liability partnerships, and introducing a new micro-entity accounting regime for them and qualifying partnerships

Department for Business, Innovation and Skills

RPC rating: validated

Description of proposal

The proposal is to align the financial reporting requirements for limited liability partnerships (LLPs) with those for companies, and to introduce a simplified accounting regime for micro LLPs and qualifying partnerships. This will enable LLPs to take advantage of the deregulatory opportunities and accounting flexibilities that are currently available to companies, and reduce regulatory burdens for micro LLPs and qualifying partnerships.

Impacts of proposal

The proposal will reduce the number of notes that small LLPs are required to prepare for their financial statements from 17 to 13. The IA explains that this will reduce administrative costs for the 56,600 LLPs that are classified as small entities under the current system. The IA uses a 50% take up rate and a cost saving of £19 per note to arrive at an estimated total annual saving of £0.54 million - the Department considers that the figure for take-up is a conservative estimate. The take-up rate is based on evidence from the Professional Oversight Board for Accountancy and Companies House, which suggests 50-70% of small companies file small company accounts.

The proposal will also raise the accounting size thresholds. As a result, some LLPs, previously classified as medium-sized, will now be classified as small. The IA assumes that 30% of the 370 medium-sized LLPs will take-up the associated easement. The Department estimates this will result in a further annual saving of £0.002 million.

The proposal will also increase the small LLP audit exemption threshold. Medium-sized LLPs that are now classified as small will no longer have to pay an annual audit fee nor use management time to prepare for the annual audit. The IA assumes that 40% of the eligible medium-sized LLPs will take-up the audit exemption and save on average £16,100 each. The total annual saving is estimated to be £2.27 million.

Introducing a simplified accounting regime will allow micro LLPs and qualifying partnerships to produce shorter and simpler accounts, leading to a reduction in costs. The Department explains that because there is no robust evidence on the number of qualifying partnerships and the rate of take-up, it is unable to monetise these cost savings.

The IA estimates that all 58,000 LLPs will incur costs from familiarising themselves with the changes to the accounting framework, and that medium-sized LLPs will consider whether or not they wish to take-up the small LLP audit exemption. The IA estimates this one-off administrative cost at £0.36 million.

Quality of submission

The IA provides sufficient analysis for the RPC to be able to validate the estimated equivalent annual net cost to business of -£2.3 million. The RPC expects that this will be a qualifying regulatory provision that will be scored under the business impact target.

The Department explains that it has not been able to quantify the cost savings or familiarisation costs associated with the micro-entity regime for micro LLPs and qualifying partnerships. This is because it is unable to quantify the number of qualifying partnerships and lacks robust evidence on the rate of take-up. However, the IA states (paragraph 93) that there are approximately 3,500 micro LLPs that would benefit from the micro-entity accounting regime.

Departmental assessment

Classification	Qualifying regulatory provision (OUT)
Equivalent annual net cost to business (EANCB)	-£2.3 million
Business net present value	£21.04 million

RPC assessment

Classification	Qualifying regulatory provision (OUT)
EANCB – RPC validated[1]	-£2.3 million
Small and micro business assessment	Not required (deregulatory)

[1] For reporting purposes, the RPC validates EANCB figures to the nearest £100,000.

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