

### **3.1. Limited Liability Companies (Amendment) Bill 2013 – Second Reading approved**

**The Speaker:** Item 3, Bill for Second Reading. We turn to the Limited Liability Companies (Amendment) Bill 2013.

I call on the mover, Mr Teare.

**Mr Teare:** Thank you, Mr Speaker.

This Bill is the Limited Liability Companies (Amendment) Bill 2013. The limited liability company originated in the USA. Each state within the USA has enacted its own version of the legislation, which is substantially similar in nature with some regional variations.

The concept of the limited liability company, the LLC, was introduced into the legislation of the Isle of Man with the Limited Liability Companies Act 1996. At the time that the Isle of Man's Act was brought into operation, the default position in respect of USA LLCs was that they were required to have two members. In the intervening period, all of the states have amended their legislation to allow for the creation of single member limited liability companies. The Bill proposes to amend the Limited Liability Companies Act 1996 to permit LLCs to be formed with either a single member or, as now, with two or more members.

An amendment to the Income Tax Act 1970 will ensure that the tax treatment of LLCs remains clear. The amendment will confirm that a single member LLC is subject to the same tax treatment as any other LLC. Profits and distributions are taxable in the hands of the member. The LLC itself is not taxed. The Income Tax Act 1970 considers LLCs to be transparent for tax purposes.

In the USA, some classes of assets, that are either located or registered in the USA, are regulated by the US State and Federal Authority. As a general rule, the US authorities require these types of assets to be owned by US citizens. It is common practice for these classes of US assets to be held in single member LLCs that are disregarded entities for tax purposes. A single member LLC that does not make the election to be treated as a corporation is treated as a disregarded entity. This achieves tax treatment consistent with that of the Isle of Man. It is the member that is taxed and not the LLC.

The amendments proposed in this Bill should enable a US citizen to satisfy the US authorities that the US asset held in a Manx LLC is indeed owned by a US citizen.

Mr Speaker and Hon. Members, this Bill, if enacted, will amend and update the Isle of Man's legislation to bring it into line with that of the USA, by providing for, and also recognising, single member limited liability companies.

Mr Speaker, I beg to move the Second Reading of the Limited Liability Companies (Amendment) Bill 2013.

**The Speaker:** Mr Quayle.

**Mr Quayle:** I beg to second and reserve my remarks.

**The Speaker:** Hon. Member for Onchan, Mr Karran.

**Mr Karran:** Vainstyr Loayreyder, could the Shirveishagh just say, as far as these companies are concerned... Obviously, we take it from the Second Reading debate that it is about a market that is potentially in the USA, but is it a potential facility for other nationalities, other than the USA?

I have no concerns about allowing a Second Reading, but I am just interested to know... for the Member to be a bit more detailed, as far as the Second Reading is concerned, on the rationale for this Bill.

**The Speaker:** Hon. Member for Douglas West, Mr Thomas.

**Mr Thomas:** Thank you, Mr Speaker.

Can the Minister confirm my understanding that a second Income Tax Bill this year or next year will be needed to implement what results from this Bill, if it goes through; and that, if so, perhaps that situation could have been avoided by the transformation of the order of the coming to this House of these two Bills?

**The Speaker:** I call on the mover to reply. Mr Teare.

**Mr Teare:** Thank you very much, sir.

In response to the Hon. Member for Onchan, Mr Karran, this will apply to other nationalities as well. This is to, in effect, deal with the competitive issue that has arisen and to recognise now that the original legislation, and the background in which it was framed and moved, has now changed; so we need to respond to a changing marketplace. That is the rationale behind it; and yes, it would help our marketing elsewhere in the world as well.

The Hon. Member for West Douglas, Mr Thomas, asked whether this would need to be included within a Second Reading of the Income Tax Bill. No, it would not; because, as I did say in my preliminary comments moving the Second Reading of this Bill, it also includes within this an amendment to the Income Tax Act. So, overall, this Bill will deal with the issue.

I would stress once again that a single member LLC will be transparent for tax purposes. So, in other words, the advantage to the owner of the company is that they retain their limited liability, but from a tax point of view it is regarded as being transparent.

**The Speaker:** I put the question, Hon. Members, that the Limited Liability Companies (Amendment) Bill be read for the second time. Those in favour, please say aye; against, no. The ayes have it. The ayes have it.