

6.1. Limited Liability Companies (Amendment) Bill 2013 – Third Reading approved

Mr Teare to move:

That the Limited Liability Companies (Amendment) Bill 2013 be read the third time.

The Speaker: Item 6 on our Order Paper is Bills for Third Reading.

First is the Limited Liability Companies (Amendment) Bill, and I call on the mover, Hon. Member for Ayre, Mr Teare.

Mr Teare: Thank you, Mr Speaker.

This Bill is the Limited Liability Companies (Amendment) Bill 2013. 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 their most basic, LLCs have traditionally been thought of as resembling partnerships, without protection against liability for the members. This is much the same as the protection afforded to members of any other limited company. The tax treatment of LLCs in the Isle of Man is consistent with their close resemblance to partnerships. It is the members themselves who are taxed, and not the LLC.

The limited liability company originated in the USA and each state within the USA has enacted its own version of the legislation, which is substantially similar in nature, with some regional variations. In the USA a single-member LLC can make the election to be treated as a corporation or do nothing and be treated as a disregarded entity. The latter achieves tax treatment consistent with that of the Isle of Man. It is the member who is taxed and not the LLC.

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 with two or more members. In addition to the Income Tax Act 1970, it will ensure that the tax treatment of single-member LLCs is clear. This will be broadly equivalent to the tax treatment of single member LLCs in the USA that opt to be treated as disregarded entities for tax purposes. At its most basic interpretation, this is equivalent to the Manx treatment which sees LLCs being treated as transparent for tax purposes.

Some classes of assets that are Island located in the USA or are registered in the USA are regulated by the US state and federal authorities. As a general rule, the US authorities require these types of assets to be owned by US citizens. It is common practice for some classes of US assets to be held in single-member LLCs that are disregarded entities for tax purposes.

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. This might be desirable where goods are to be imported into the European Union. Use of a Manx LLC is likely to go some way to meeting the European Union requirement that a company must be established in the EU in order to qualify for any reliefs available.

There are some basic requirements that must be met to ensure that companies established in the Isle of Man are eligible for the special reliefs and do not fall within the definition of an abusive practice. There is no change to the existing policy and this Bill does not seek to circumvent the existing requirements and conditions for qualification for the special reliefs.

Mr Speaker, and Hon. Members, this Bill, if enacted, will simply provide an additional alternative to achieving an outcome that is currently available.

Before formally moving the Third Reading, Mr Speaker, I would just like to thank my seconder and also my professional colleagues for the hard work that they have done. It is very much appreciated.

I beg to move the Third Reading of this Bill, sir.

The Speaker: Mr Watterson.

Mr Watterson: I beg to second, sir.

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