

Legal Week

www.legalweek.com

GLOBAL

28 August 2008

£5.00

Sam Eastwood and Dorian Drew on the slow evolution of corruption law reform: page 23



More than half of the UK top 50 law firms push for changes after HM Revenue and Customs clampdown

Firms club together to lobby HMRC after clampdown on partner hire tax relief

claire.ruckin@legalweek.com

Some of the City's leading law firms have launched a lobbying drive after learning they will not be able to claim tax relief on costs relating to equity partner hires.

More than half of the UK top 50, including many of the top 10 City firms, are understood to be holding discussions with HM Revenue and Customs (HMRC), which has clamped down on firms seeking allowable expenses on lateral hires.

Recruitment costs can run to more than £100,000 per partner hire in the City as recruiters can charge up to 20% of a lateral's annual pay — making the HMRC stance a particular blow for those firms recruiting heavily — such as US law firms in London.



One group of around five firms have joined forces to seek advice from Deloitte and have also instructed a leading tax counsel to write to HMRC while many others are taking advice from accounting firms individually.

It is also at the forefront of debate

HMRC: clamped down on firms seeking allowable expenses on lateral hires

for bodies such as the Association of Partnership Practitioners.

A Deloitte spokesperson said: "HMRC's current stance is that such fees are not deductible against tax. We and most other advisers believe there is at least a case to answer to say that they could be tax deductible."

Law firms have previously claimed tax relief on fees paid to recruiters but they were told earlier this year that they would not be able to do this on expenses relating to the 2006-07 financial year.

The rules have not changed but, since internal changes within the HMRC in 2007, the organisation has been putting more emphasis on monitoring professional partnerships.

Partnership specialist Ronnie Fox told *Legal Week*: "It is very

disappointing that HMRC are so out of touch with the way in which law firms look at the lateral hiring exercise."

Another partner specialising in partnership work added: "To get tax relief on lateral hiring disallowed is a pain in the posterior at a time when cash-flow is tight due to the credit crunch. Big firms will be hit the hardest."

"Equity partners are not an acquisition of a new business but merely growing or securing an existing business, which ought to be allowable."

If the issue cannot be resolved between the firms and HMRC it will have to go before commissioners at the Inland Revenue.

Additional reporting by Charlotte Edmond.