ART MARKET

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Where do all the profits go?

The spotlight on how much corporation tax is paid by UK companies is turning towards art dealers

INTERNATIONAL BUSINESS

London. As companies including Starbucks, Amazon and Google face daily scrutiny of their UK corporation tax bills, how do commercial galleries with businesses juggle their tax payments? The answer, as ever in the art market, is clear as mud, but shines a light on how easily profits could be moved between countries now that art galleries have expanded and moved away from the sole-proprietor models of the past.

Hauser & Wirth, whose parent company is in Switzerland, made UK sales of £33m in 2011 (more than four times its 2010 turnover of £7.7m) but paid no corporation tax in the UK, according to the most recent accounts filed at Companies House. These show a loss of £534,006 in the gallery's British business last year.

In its director's report, Hauser & Wirth says its losses stem from a £40m increase in overheads due to the launch of its 15,000 sq. ft space on Savile Row in October 2010. A spokesman for the company adds that UK staff numbers have since increased from 35 to 76.

Another reason that Hauser & Wirth's British wing is running at a loss in the tax year in question is that its "cost of sales"—essentially the direct cost of all art to the gallery—was £25.4m. The bulk of this cost (£23.9m) was for art bought by the UK subsidiary from its parent company, Galerie Hauser & Wirth AG, based in Switzerland. This is a legal transaction, but if the art cost the UK group more than its Swiss parent company originally paid, any profits accrued would be liable to lower corporation tax rates, while also limiting the UK business's profits. In the UK, the effective 2011 corporation tax rate was 26.5%, while in Zurich, it was 21%, according to the accountancy firm KPMG. A spokesman for the gallery says the corporation tax rates of the UK and Switzerland are "broadly similar" and that "there would be little tax advantage arising out of the UK company purchasing the works that it sells from its Swiss parent company".

Profitability, and thus tax paid, varies depending on deals with offshore ventures

> *Galleries regularly sell to their international counterparts*

He did not comment on whether the £23.9m paid to Galerie Hauser & Wirth moved profit to Switzerland, or on the overall profitability of its Swiss branch, but a spokesman says that for "historical reasons, as well as issues concerning inventory, storage, archive[s], the publishing department, photography and artist relations, works are consigned centrally through Zurich as the gallery's longstanding hub". He says that "Hauser & Wirth's London gallery is fully compliant with UK tax law and takes its tax obligations very seriously", adding that these accounts look at just one year in isolation, whereas the company paid £1.7m in corporation tax between 2009 and 2011.

Meanwhile, another company that appears from its Companies House accounts not to have paid UK corporation tax is Blain Southern, whose controlling company, BBB Capital Investments Ltd, is registered offshore in Jersey. The company filed accounts for a 17-month period ending in December 2011 showing an operating loss of £2.1m, despite a turnover of £75.4m. The company also operates in Berlin and New York, and moved to a permanent space in London's Hanover Square in October.

The 2011 accounts also indicate that Blain Southern may have more to worry about than its tax bill. As well as the £2.1m loss, the UK group had net liabilities of a further £2.1m. These, in part, prompted its accountant, Rawlinson & Hunter, to say in its auditor's report that there was a "material uncertainty which may cast significant doubt [on] the group's ability to continue as a going concern", although it continues to be financially supported by BBB, which is owned by Harry Blain, the gallery's co-founder.

Blain says that although these UK accounts are correct, the group is "absolutely fine as a whole". He says that "running the UK gallery at a loss is not an objective… these were expected legitimate losses in line with our forecasts". He adds that the Jersey holding company pays full UK corporation tax, although he did not say how much.

Blain Southern's accounts also show that the UK business made sales to its secondary market subsidiary in the US (Blain Di Donna LLC) worth £980,488. Blain says this represents one work that was sold to New York because that was where its sale was arranged. "It's a very simple structure, not set up for tax reasons," Blain says. He did not comment on any difference between the amounts for which the work was bought and sold. "It did show a profit but I don't want to give information on margins," he says.

Accounts show that other London-based galleries regularly sell works to their international counterparts. The two eponymous directors of Monika Sprüth & Philomene Magers Limited (which trades in London and Berlin as Sprüth Magers) sold art worth £1.4m during 2011 to two related businesses in Germany, according to accounts for the year ending 31 December. The gallery did not comment on these transactions. A spokeswoman says: "This gallery is a UK company and is in complete compliance with UK tax law and takes its tax obligations very seriously." The gallery paid UK corporation tax of £81,974 on profits of £317,116 from a turnover of £12m.

Rob Sharp and Melanie Gerlis

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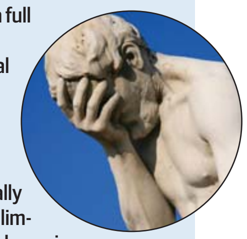
The ties that bind: how to unravel the accounts



It is difficult to get a full picture of private companies' financial health and activities, particularly those with international operations. Businesses can legally create a number of limited companies, under various names. White Cube's businesses are complex. Records at Companies House show that the gallery's founder, Jeremy "Jay" Jopling, is registered as the director of three entities: Mansmoor Ltd, a "consultancy and advisory" service with an annual income of £50,000; Fig-1 (2000) Ltd, an artist showcase founded more than a decade ago; and MYJ Services Ltd, which provides "services and management" to art galleries and has a turnover of around £11.8m a year. MYJ made a profit before tax of £789,905, paying £286,059 in tax, for the year ending 31 March 2011. Its most recent accounts show a series of transactions taking place between the company, Jopling as an individual, and two limited liability partnerships (LLPs), registered in Canada. Gagosian Gallery is registered as an LLP in Britain and the US but says it runs its UK company as a "branch" of the main US business so it is not required to publish its accounts. As such, it is hard to know how much tax Gagosian is paying in the UK.

Lisson Gallery London Ltd, which has recently opened subsidiaries in Milan and New York, paid corporation tax of £520,605 on profits of just over £1m from a turnover of £33.2m in the accounting period ending 31 January 2012. Victoria Miro Gallery, which submitted its latest abbreviated accounts to Companies House in October, paid £88,219 in UK corporation tax on profits of £189,389 from a turnover of £10.2m for the year ending 31 October 2011. **R.S.**

In brief

Picasso expected to leave the UK

Picasso's *Child with a Dove*, 1901, will be sold privately for £50m this month, when a UK export licence is issued. The painting comes from the descendants of Lady Aberconway, who inherited it from Samuel Courtauld. The Blue Period work went on long-term loan to the National Gallery in 1974 upon her death. More recently, it was at the Courtauld Gallery, and was then included in "Picasso and Modern British Art" at Tate Britain and the Scottish National Gallery of Modern Art (closed 4 November). An export licence has been deferred until 16 December, allowing a UK buyer to match the price, but none is expected to come forward. The buyer is an unidentified foreign collector. The record auction price for a Picasso was set by *Nude, Green Leaves and Bust*, 1932, which sold for $106m in 2010 at Christie's New York. **M.B.**