

Appendix A

Rebasing rules for disposals of interests in partnership assets before 6 April 2008

Example 1 – change in partnership sharing ratios – no rebasing election made by disposing partner

Facts

- A and B formed a partnership on 1 January 1980 sharing assets on a 50:50 basis.
- The partnership acquired an asset for use in its business on 1 March 1980 for £100,000.
- The market value of the asset on 31 March 1982 was £120,000.
- On 1 January 2000 C was admitted as a partner and the sharing ratios were changed to A 25 per cent:B 50 per cent:C 25 per cent.
- No payment was made by Partner C to Partner A in consideration for the transfer of a 25 per cent interest in the partnership asset.
- Throughout the period the asset was included in the partnership balance sheet at its original cost of £100,000.
- Partner A did not make a rebasing election in his capacity as a partner.
- Partner B has made a rebasing election in his capacity as a partner.
- The partnership disposed of the asset on 1 March 2004 for £660,000.

Analysis

1. Change in partnership sharing ratios on 1 January 2000

Partner A disposed of a 25 per cent interest in the asset to Partner C on 1 January 2000.

In accordance with paragraph 4 of SP D12 the disposal consideration will be treated as 25 per cent of the current balance sheet value of the asset, £100,000 x 25 per cent = £25,000.

As the disposal would result in neither a gain nor a loss SP1/89 applies to treat the transfer as a statutory no gain/no loss disposal. Therefore, rebasing does not apply in accordance with section 35 (3)(d) TCGA 1992.

The effect of SP1/89 is that the disposal consideration under paragraph 4 SP D12 is adjusted so that after accounting for indexation allowance neither a gain nor a loss accrues.

Partner A - Capital Gains computation for 1999-2000

Disposal consideration	
£100,000 x 25%	£25,000
+ Indexation allowance £120,000 x 25%	
£30,000 x 1.047	<u>£31,410</u>
	£56,410
Less cost £100,000 x 25%	<u>£25,000</u>
Unindexed gain	£31,410
Indexation allowance	<u>£31,410</u>
	NG/NL

Capital Gain base cost for partner A

Partner A £100,000 x 50% = £50,000 - £25,000 = £25,000

Capital Gain base cost for partner B

The effect of the rebasing election made by partner B is that his Capital Gain base cost will be based on a proportion of the market value of the asset at 31 March 1982.

Partner B £120,000 x 50% = £60,000

Partner C's acquisition cost

Partner C will be treated as having acquired his 25 per cent interest for £56,410 on 1 January 2000, a sum equal to the disposal consideration taken into account for partner A.

2. Subsequent disposal of the asset by the partnership on 1 March 2004

The partners will be treated as having disposed of their fractional interests in the asset when the partnership disposed of the asset on 1 March 2004.

In accordance with paragraph 2 of SP D12 the disposal consideration, £660,000, will be apportioned by reference to the partners' sharing ratios:

Partner A	£660,000 x 25% = £165,000
Partner B	£660,000 x 50% = £330,000
Partner C	£660,000 x 25% = £165,000

Partner A - Capital Gain computation for 2003-2004

Partner A did not make a rebasing election so the kink test will apply.

	Cost	market value 31.03.82
Disposal consideration	£165,000	£165,000
Less cost	<u>£ 25,000</u>	
Less market value 31.03.82		
£120,000 x 25%		<u>£ 30,000</u>
Unindexed gain	£140,000	£135,000
Indexation allowance		
£30,000 x 1.047	<u>£ 31,410</u>	<u>£ 31,410</u>

Indexed gain	£108,590	£103,590
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The chargeable gain before taper relief is the lower of the two gains, £103,590.

The chargeable gain after business asset taper relief is £103,590 x 25% = £25,897.

Partners B and C - Capital Gain computations for 2003-2004

The effect of SP1/89 is that partner C's acquisition cost is adjusted under section 55 (5) and (6) TCGA 1992 to £25,000 (£56,410 - £31,410) and he is treated as having held his interest in the partnership asset on 31 March 1982.

Partner C makes a rebasing election in his capacity as a partner.

	Partner B	Partner C
Disposal consideration	£330,000	£165,000
Less market value 31.03.82		
£120,000 x 50%/25%	<u>£ 60,000</u>	<u>£ 30,000</u>
Unindexed gain	£270,000	£135,000
Indexation allowance		
£60,000/£30,000 x 1.047	<u>£ 62,820</u>	<u>£ 31,410</u>
Indexed gain	£207,180	£103,590

Partner B's chargeable gain after business asset taper relief is £207,180 x 25% = £51,795.

Partner C's chargeable gain after taper relief is £103,590 x 25% = £25,897.

Example 2 - change in partnership sharing ratios – rebasing election made by disposing partner

Facts

- A and B formed a partnership on 1 January 1980 sharing assets on a 50:50 basis.
- The partnership acquired an asset for use in its business on 1 March 1980 for £100,000.
- The market value of the asset on 31 March 1982 was £120,000.
- On 1 January 2000 C was admitted as a partner and the sharing ratios were changed to A 25 per cent:B 50 per cent:C 25 per cent.
- No payment was made by partner C to partner A in consideration for the transfer of a 25 per cent interest in the partnership asset.
- Throughout the period the asset was included in the partnership balance sheet at its original cost of £100,000.
- Partners A and B have made rebasing elections in their capacity as partners.

- The partnership disposed of the asset on 1 March 2004 for £660,000.

Analysis

1. Change in partnership sharing ratios on 1 January 2000

Partner A disposed of a 25 per cent interest in the asset to partner C on 1 January 2000.

In accordance with paragraph 4 of SP D12 the disposal consideration will be treated as 25 per cent of the current balance sheet value of the asset, £100,000 x 25 per cent = £25,000.

SP1/89 does not apply because the transfer is not one which results in neither a gain nor a loss.

Partner A - Capital Gain computation for 1999-2000

Disposal consideration	
£100,000 x 25%	£25,000
Less market value at 31 March 1982	
£120,000 x 25%	<u>£30,000</u>
Loss	£ 5,000

Capital Gain base costs for partners A and B – rebasing elections apply

Partner A	$£120,000 \times 50\% = £60,000 - £30,000 = £30,000$
Partner B	$£120,000 \times 50\% = £60,000$

Partner C's acquisition cost

Partner C will be treated as having acquired his 25 per cent interest in the partnership asset for £25,000 on 1 January 2000, a sum equal to the disposal consideration taken into account for partner A.

2. Subsequent disposal of the asset by the partnership on 1 March 2004

The partners will be treated as having disposed of their fractional interests in the asset when the partnership disposed of the asset on 1 March 2004.

In accordance with paragraph 2 of SP D12 the disposal consideration, £660,000, will be apportioned by reference to the partners' sharing ratios:

Partner A	$£660,000 \times 25\% = £165,000$
Partner B	$£660,000 \times 50\% = £330,000$
Partner C	$£660,000 \times 25\% = £165,000$

Partners' Capital Gain computations for 2003-2004

	Partner A	Partner B	Partner C
Disposal consideration	£165,000	£330,000	£165,000
Less market value 31.03.82			
£120,000 x 25%/50%	<u>£ 30,000</u>	<u>£ 60,000</u>	
Less cost 01.01.00			<u>£ 25,000</u>

Unindexed gain	£135,000	£270,000	
Gain			£140,000
Indexation allowance			
£30,000/£60,000 x 1.047	<u>£ 31,410</u>	<u>£ 62,820</u>	
Indexed gain	£103,590	£207,180	

Partner C is not entitled to indexation allowance as he acquired his interest after 31 March 1998.

Chargeable gains after business asset taper relief:

Partner A	£103,590 x 25% = £25,897
Partner B	£207,180 x 25% = £51,795
Partner C	£140,000 x 25% = £35,000

Example 3 - change in partnership sharing ratios following revaluation of an asset in the partnership accounts – rebasing election made by disposing partner

Facts

- A and B formed a partnership on 1 January 1980 sharing assets on a 50:50 basis.
- The partnership acquired an asset for use in its business on 1 March 1980 for £100,000.
- The market value of the asset on 31 March 1982 was £120,000.
- On 1 December 1999 the asset was revalued in the partnership accounts to £480,000.
- On 1 January 2000 C was admitted as a partner and the sharing ratios were changed to A 25 per cent:B 50 per cent:C 25 per cent.
- No payment was made by Partner C to Partner A in consideration for the transfer of a 25 per cent interest in the partnership asset.
- Partner A and partner B have made rebasing elections in their capacity as partners.
- The partnership disposed of the asset on 1 March 2004 for £660,000.

Analysis

1. Change in partnership sharing ratios on 1 January 2000

Partner A disposed of a 25 per cent interest in the asset to partner C on 1 January 2000.

In accordance with paragraph 4 of SP D12 the disposal consideration will be treated as 25 per cent of the current balance sheet value of the asset, £480,000 x 25 per cent = £120,000.

SP1/89 does not apply because the transfer is not one which results in neither a gain nor a loss.

Partner A - Capital Gain computation for 1999-2000

Disposal consideration	
£480,000 x 25%	£120,000
Less market value at 31 March 1982	
£120,000 x 25%	<u>£ 30,000</u>
Unindexed gain	£ 90,000
Less Indexation allowance	
£30,000 x 1.047	<u>£ 31,410</u>
Indexed gain	£ 58,590

The chargeable gain after taper relief is £58,590 x 85% = £49,801.

Capital Gain base costs for partners A and B – rebasing elections apply

Partner A	£120,000 x 50% = £60,000 - £30,000 = £30,000
Partner B	£120,000 x 50% = £60,000

Partner C's acquisition cost

Partner C will be treated as having acquired his 25 per cent interest in the partnership asset for £120,000 on 1 January 2000, a sum equal to the disposal consideration taken into account for Partner A.

2. Subsequent disposal of the asset by the partnership on 1 March 2004

The partners will be treated as having disposed of their fractional interests in the asset when the partnership disposed of the asset on 1 March 2004.

In accordance with paragraph 2 of SP D12 the disposal consideration, £660,000, will be apportioned by reference to the partners' sharing ratios:

Partner A	£660,000 x 25% = £165,000
Partner B	£660,000 x 50% = £330,000
Partner C	£660,000 x 25% = £165,000

Partners' Capital Gain computations for 2003-2004

	Partner A	Partner B	Partner C
Disposal consideration	£165,000	£330,000	£165,000
Less market value 31.03.82			
£120,000 x 25%/50%	<u>£ 30,000</u>	<u>£ 60,000</u>	
Less cost 01.01.00			<u>£120,000</u>
Unindexed gain	£135,000	£270,000	
Gain			£ 45,000

Indexation allowance		
£30,000/£60,000 x 1.047	<u>£ 31,410</u>	<u>£ 62,820</u>
Indexed gain	£103,590	£207,180

Partner C is not entitled to indexation allowance as he acquired his interest after 31 March 1998.

Chargeable gains after business asset taper relief:

Partner A	£103,590 x 25% = £25,897
Partner B	£207,180 x 25% = £51,795
Partner C	£45,000 x 25% = £11,250.