

Appendix B

Rebasing rules for disposals of interests in partnership assets on or after 6 April 2008

Example 4 - change in partnership sharing ratios on or after 6 April 2008 – FA 2008 rebasing rules

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 June 2008 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.
- The partnership disposed of the asset on 1 September 2009 for £660,000.

Analysis

1. Change in partnership sharing ratios on 1 June 2008

Partner A disposed of a 25 per cent interest in the asset to partner C on 1 June 2008.

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 and the practice outlined in this Brief in relation to disposals on or after 6 April 2008 do not apply because the transfer is not one which results in neither a gain nor a loss.

Partner A - Capital Gain computation for 2008-09 – FA 2008 rebasing rules

Disposal consideration	
£100,000 x 25%	£25,000
Less market value 31.03.82	
£120,000 x 25%	<u>£30,000</u>
Loss	£ 5,000

Capital Gain base costs for partners A and B – FA 2008 rebasing rules

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 £25,000 on 1 June 2008, a sum equal to the disposal consideration taken into account for partner A.

2. Subsequent disposal of the asset by the partnership on 1 September 2009

The partners will be treated as having disposed of their fractional interests in the asset when the partnership disposed of the asset on 1 September 2009.

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 2009-2010

	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			<u>£ 25,000</u>
Gains	£135,000	£270,000	£140,000

Example 5 - change in partnership sharing ratios before 6 April 2008 followed by disposal of asset on or after 6 April 2008 – S35A TCGA 1992

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 did not make rebasing elections in their capacity as partners.
- The partnership disposed of the asset on 1 March 2009 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 Gain computation for 1999-2000

Disposal consideration 25%	
£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 costs for partners A and B

Partner A	$£100,000 \times 50\% = £50,000 - £25,000 = £25,000$
Partner B	$£100,000 \times 50\% = £50,000$

Partner C's acquisition cost

Partner C will be treated as having acquired his 25 per cent interest in the partnership asset 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 2009

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 2009.

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 A and B - Capital Gain computations for 2008-2009 – FA 2008 rebasing rules

	Partner A	Partner B
Disposal consideration	£165,000	£330,000
Less market value 31.03.82		
£120,000 x 25%/50%	<u>£ 30,000</u>	<u>£ 60,000</u>
Gains	£135,000	£270,000

Partner C - Capital Gain computation for 2008-09 – Section 35A TCGA 1992

The effect of SP1/89 was to treat partner C as having acquired his 25 per cent interest on 1 January 2000 for £56,410, a sum based on 25 per cent of the original cost of the asset adjusted for indexation allowance.

The changes in FA 2008 which apply to disposals on or after 6 April 2008 mean that the previous rules are superseded with the result that Section 55 (5) and (6) TCGA 1992 no longer apply to strip out indexation allowance from partner C's Capital Gain base cost.

Consistently with HMRC's practice as set out in SP1/89 the disposal by which partner C acquired his 25 per cent interest in the asset after 31 March 1982 and before 6 April 2008 may be treated as a statutory no gain/no loss disposal for the purposes of section 35A (1)(b) TCGA 1992.

The effect of section 35A TCGA 1992 is to treat partner C as having acquired his interest for a sum equal to 25 per cent of the market value of the asset on 31 March 1982 plus indexation allowance for the period 31 March 1982 to 1 January 2000:

$$£30,000 (£120,000 \times 25\%) + £31,410 (£30,000 \times 1.047) = £61,410$$

	Partner C
Disposal consideration	£165,000
less cost per s35A (2)	<u>£ 61,410</u>
Gain	£103,590

Example 6 - changes in partnership sharing ratios before and after 6 April 2008 followed by disposal of asset – S35A TCGA 1992

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 did not make rebasing elections in their capacity as partners.
- On 1 June 2008 D is admitted to the partnership and the sharing ratios become A 20 per cent: B 40 per cent: C 20 per cent: D 20 per cent.
- No payment was made by partner D to partners A, B and C in consideration for the transfer of a 20 per cent interest in the partnership asset.
- The partnership disposed of the asset on 1 May 2009 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 Gain 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>

Capital Gain base costs for partners A and B

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

Partner C's acquisition cost

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

2. Change in partnership sharing ratios on 1 June 2008

Partners A, B and C disposed of part of their interests in the asset to partner D on 1 June 2008.

In accordance with paragraph 4 of SP D12 the disposal consideration will be treated as a proportion of the current balance sheet value of the asset.

Partner A £100,000 x 5% = £ 5,000
 Partner B £100,000 x 10% = £10,000
 Partner C £100,000 x 5% = £ 5,000

Partners A and B - Capital Gain computations for 2008-2009 – FA 2008 rebasing rules

	Partner A	Partner B
Disposal consideration	£5,000	£10,000
Less market value 31.03.82		
£120,000 x 5%/10%	<u>£6,000</u>	<u>£12,000</u>
Losses	£1,000	£ 2,000

Partner C - Capital Gain computation for 2008-09 – Section 35A TCGA 1992

The effect of SP1/89 was to treat partner C as having acquired his 25 per cent interest on 1 January 2000 for £56,410, a sum based on 25 per cent of the original cost of the asset adjusted for indexation allowance.

The changes in FA 2008 which apply to disposals on or after 6 April 2008 mean that the previous rules are superseded with the result that Section 55 (5) and (6) TCGA 1992 no longer apply to strip out indexation allowance from partner C's Capital Gain base cost.

Consistently with HMRC's practice as set out in SP1/89 the disposal by which partner C acquired his 25 per cent interest in the asset after 31 March 1982 and before 6 April 2008 may be treated as a statutory no gain/no loss disposal for the purposes of section 35A (1)(b) TCGA 1992.

The effect of section 35A TCGA 1992 is to treat partner C as having acquired his interest for a sum equal to 25 per cent of the market value of the asset on 31 March 1982 plus indexation allowance for the period 31 March 1982 to 1 January 2000:

£30,000 (£120,000 x 25%) + £31,410 (£30,000 x 1.047) = £61,410

	Partner C
Disposal consideration	£ 5,000
Less cost per s35A (2)	
£61,410 x 5%/25%	<u>£12,282</u>
Loss	£ 7,282

Capital Gain base costs for partners A, B and C

Partner A	£120,000 x 20% = £24,000
Partner B	£120,000 x 40% = £48,000
Partner C	£61,410 - £12,282 = £49,128

Partner D's Capital Gain base cost

Partner D will be treated as having acquired his 20 per cent interest in the asset for £20,000, a sum equal to the disposal consideration taken into account for partners A, B and C (£5,000 + £10,000 + £5,000).

3. Subsequent disposal of the asset by the partnership on 1 May 2009

The partners will be treated as having disposed of their fractional interests in the asset when the partnership disposed of the asset on 1 May 2009.

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

Partner A	£660,000 x 20% = £132,000
Partner B	£660,000 x 40% = £264,000
Partner C	£660,000 x 20% = £132,000
Partner D	£660,000 x 20% = £132,000

Partners' Capital Gain computations for 2009-2010

	Partner A	Partner B	Partner C	Partner D
Disposal consideration	£132,000	£264,000	£132,000	£132,000
Less market value 31.03.82	<u>£ 24,000</u>	<u>£ 48,000</u>		
less cost (per s35A)			<u>£ 49,128</u>	
less cost				<u>£ 20,000</u>
Gains	£108,000	£216,000	£ 82,872	£112,000