

Partnerships and Capital Gains Tax

This Help Sheet explains how partners are treated for Capital Gains Tax. But it is only an introduction. If you are in any doubt about your circumstances you should ask your tax adviser. We will also be pleased to help. You can also consult our Capital Gains Manual, which explains the rules in more detail, at www.hmrc.gov.uk

This Help Sheet will help you fill in the *Capital gains summary* pages of your Tax Return.

How are partnerships treated for Capital Gains Tax?

Partnerships (including those carrying on a business as a Limited Liability Partnership) are treated as transparent for Capital Gains Tax. Each partner is responsible for returning any capital gains arising on the disposal of their interests in the assets of the partnership.

This applies to Scottish partnerships as well as those in England, Wales and Northern Ireland.

While this also applies to partnerships which include companies as members, the rules for computing gains of companies, which are chargeable to Corporation Tax, are different from those for individuals. The contents of this Help Sheet do not therefore apply to companies who are members of partnerships.

When we should be given details of any capital gains

You should fill in the *Capital gains summary* pages if you were a member of a partnership during the year and any of the following happened:

- the partnership disposed of an asset during the year (for example, it sold part of its business premises), or
- you left the partnership during the year, or
- there was a change in the partnership during the year and you now have a reduced share in the partnership assets (for example, a new partner joined).

How do you know what your share in the assets is?

Partners are treated as each owning a fractional share in all the assets of the partnership. The amount of your share will be decided by:

- any written agreement showing how you and your partners will share the assets
- any written agreement showing how you and your partners will share the profits
- the rules in the 1890 Partnership Act which treats you all as having equal shares.



Contacts

Please phone:

- the number printed on page TR 1 of your Return
 - the Helpline on **0845 9000 444**
 - the Orderline on **0845 9000 404** for Help Sheets
- or go to www.hmrc.gov.uk

Example 1

Bill and Ted are in partnership and agree to share profits equally. This means that they are each treated as having a 50% interest in the assets of the partnership.

When you dispose of all of your share

You dispose of all of your share in an asset if this is disposed of to someone outside the partnership.

Example 2

Jack and Jill are equal partners in a farm. They sell part of the farm land to their neighbour in May 2008. Each has disposed of all of their 50% interest in the land that is sold.

You also dispose of all your share if you leave the partnership completely, for example, when you retire.

Example 3

Jack reaches retiring age and leaves the partnership in December 2008. He disposes of all of his 50% share in the remaining assets to Jill.

When you dispose of part of your share

You may dispose of part of your share in an asset if the original agreement is altered. This most commonly happens when a new partner joins.

Example 4

Bill and Ted are joined by a new partner, Alice, in July 2008. They now agree to share profits on a 40%/40%/20% basis. This means that Bill and Ted have each disposed of 10/50 of their original shares.

It may also happen when the partners rearrange matters between themselves.

Example 5

After six months, Bill, Ted and Alice become equal partners. Each partner is now entitled to $33\frac{1}{3}\%$ of the profits. Bill and Ted have now made a further disposal of $6\frac{2}{3}\%$ of their 40% shares.

When you acquire your share

If the asset is acquired from someone outside the partnership, you acquire your original share in it at that time.

Example 6

The partnership of Bill, Ted and Alice buys a new piece of machinery in March 2009. Each now has a $33\frac{1}{3}\%$ share in that asset.

When you acquire a further share

You may acquire a share or a further share in the asset if the original agreement is altered. This most commonly happens when a partner leaves.

It may also happen when the partners agree to revise their sharing arrangements.

Example 7

Bill resigns from the partnership on 5 April 2009 and disposes of his share in the assets to Ted and Alice. At the same time, they agree to revise their shares to 40%:60%. As a result, Ted acquires a further $6\frac{2}{3}\%$ share from Bill, Alice acquires a further $26\frac{2}{3}\%$.

What do you need to do if you have disposed of part of your share?

If you have disposed of any part, or all, of your share in a partnership asset you need to calculate any chargeable gain and enter it in your *Capital gains summary* pages.

Points to remember

- You are treated as having a fractional share in the partnership assets.
- You can acquire that share
 - when an asset is acquired from someone outside the partnership
 - when there is a reorganisation within the partnership.
- You can dispose of that share
 - when an asset is disposed of to someone outside the partnership
 - when there is a reorganisation within the partnership.

How you calculate any chargeable gains

Most of the normal rules for calculating chargeable gains apply to disposals of shares in partnership assets. This Help Sheet explains these briefly. If you need help with these, you should ask us or your tax adviser.

The normal rules do not apply if you acquired your share in the asset from, or disposed of it to, another partner. See 'The special rules' section on page 4.

The normal rules

There are rules which you have to use if you are calculating a chargeable gain on the disposal of a share in a partnership asset. These affect:

- the amount you should include for the disposal proceeds of your share in the asset
- the amount you can deduct for the allowable cost of your share in the asset
- the amount you can deduct if you held your share in the asset on 31 March 1982.

The amount to be included for the proceeds of disposal

In calculating your chargeable gain on the disposal of your share in the asset to someone outside the partnership, you normally include your share of the actual disposal proceeds minus any incidental expenses.

Example 8

When Jack and Jill sold the part of the farm land to their neighbour in May 2008, they received £25,000 for it and incurred legal fees of £5,000. In calculating their chargeable gains, each should include disposal proceeds of £12,500 minus expenses of £2,500.

In certain circumstances, you may have to include your share of the market value of the asset at the date of disposal, rather than the actual disposal proceeds. If you think this might apply, you should consult us or your tax adviser.

The normal rules do not apply if you have disposed of your share in the asset to another partner. See 'The special rules' section on page 4.

How much should you deduct for the cost of the asset?

Assets acquired after 31 March 1982

If the asset was acquired from someone outside the partnership after 31 March 1982 and you acquired your share at that time you should deduct your share of the original acquisition cost, plus any incidental expenses.

Example 9

When Bill, Ted and Alice bought their new machinery in March 2009, they paid £30,000 for it with incidental expenses of £750. If they sell it, each will be able to deduct acquisition costs of £10,000 and expenses of £250.

In certain circumstances, you may have to deduct your share of the market value of the asset at the date of acquisition, rather than the actual cost. If you think this might apply, you should consult us or your tax adviser.

Assets acquired on or before 31 March 1982

If the asset was acquired from someone outside the partnership on or before 31 March 1982 and you acquired your share at that time, you should deduct your share of the market value of the asset at 31 March 1982, rather than the actual cost.

The normal rules do not apply if you acquired your share in the asset from another partner. See 'The special rules' section.

Points to remember

- You should include your share of the disposal proceeds, less any incidental expenses.
- If you acquired your share in the asset
 - after 31 March 1982, you should deduct your share of the original acquisition cost, plus any incidental expenses
 - on or before 31 March 1982, you should deduct your share of the market value of the asset at that date.

The special rules

There are special rules that apply if you acquired your share in the asset from another partner or have disposed of it to another partner. These affect:

- the amount you should include for the disposal proceeds
- the amount you can deduct for the allowable cost
- whether you should use your share of the 31 March 1982 value of the asset.

This Help Sheet summarises the way the special rules work. If you need further assistance, ask us or your tax adviser.

Disposal proceeds

If you dispose of your share in the asset to another partner the special rules treat the disposal proceeds as your share of the balance sheet value of the asset.

Example 10

When Bill resigns from the partnership, the chargeable assets in the balance sheet are:

Property	£240,000
Machinery	£180,000
Goodwill	£ 60,000

Bill had a 33¹/₃% share in the assets, so his disposal proceeds are:

Property	£ 80,000
Machinery	£ 60,000
Goodwill	£ 20,000

This rule does not apply if you have received actual consideration from the other partners. In that case, ask us or your tax adviser.

This rule may not apply if you and the other partners are connected persons, for example, father and son. In that case, you should ask us or your tax adviser.

Acquisition cost

If you acquire your share in the asset from another partner the special rules treat the acquisition cost as your share of the balance sheet value of the asset.

Example 11

When Bill resigned, Ted acquired a further $6\frac{2}{3}\%$ share in the assets. His acquisition cost of that share will be:

Property	£16,000
Machinery	£12,000
Goodwill	£ 4,000

This rule does not apply if you have given actual consideration to the other partners. In that case, ask us or your tax adviser.

This rule may not apply if you and the other partners are connected persons, for example, father and son. In that case, ask us or your tax adviser.

This rule may not apply where the asset was acquired by the partnership on or before 31 March 1982. In that case, ask us or your tax adviser.

Transfers at balance sheet value

Because the special rules treat acquisitions and disposals as taking place at balance sheet value you may have to use the same figure for both disposal consideration and acquisition cost.

This will depend on whether the assets have been revalued since you acquired your share in them.

Example 12 – Assets not revalued

Charles became a member of a partnership in 1990. He was entitled to a 25% share in the assets. In the balance sheet, these were shown as:

Property	£400,000
Goodwill	£ 80,000

Charles made no payment for his share, so his acquisition costs are:

Property	£100,000
Goodwill	£ 20,000

In June 2008, Andrew joins as a partner, and Charles reduces his share to 20%.

The assets are still in the balance sheet at £400,000 and £80,000, so Charles will use 5% of those values as both his acquisition costs and disposal proceeds for the 5% he transfers to Andrew. He therefore makes neither a gain nor a loss.

A situation such as this is referred to as a no gain/no loss disposal. If, however, the assets in the balance sheet have been revalued, then gains or losses may arise.

Example 13 – Assets revalued

In October 2008, Edward joins the partnership and Charles makes a further 5% reduction in his share. By now the assets have been revalued to:

Property	£1,000,000
Goodwill	£ 10,000

As the assets have been revalued, Charles' acquisition costs and disposal proceeds are now different:

Property	acquisition	5% x £400,000	£20,000
	disposal	5% x £1,000,000	<u>£50,000</u>
	gain		£30,000
Goodwill	acquisition	5% x £80,000	£ 4,000
	disposal	5% x £10,000	<u>£ 500</u>
	loss		£ 3,500

Point to remember

Transfers of shares between partners take place at balance sheet value unless actual consideration is paid.