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HELP SHEETS AND LEAFLETS

Help Sheets and leaflets giving more detailed information about particular tax rules for partnerships are available from the Orderline.

- IR220: *More than one business*
- IR222: *How to calculate your taxable profits*
- IR224: *Farmers and market gardeners*
- IR227: *Losses*

Filling in the Partnership Pages

You must fill in the Partnership Pages if, at any time during the 1997-98 tax year, you were entitled to a share of profits, losses or income from a business which you carried on in partnership.

But read the note below if you carried on the same business in partnership and as a sole trader during the year.

- The Partnership Tax Return

You are jointly responsible, with your partners, for making a Partnership Tax Return for 1997-98. The records used to complete it should be kept until at least 31 January 2004 in case your Tax Office asks to see them.

Each partner who was a member of the partnership during the return period will be liable to an initial automatic penalty of £100 if the completed Partnership Tax Return is not sent back to me on time. Penalties are also chargeable on each partner if the Partnership Tax Return is incorrect through the fraud or negligence of any partner.

- The Partnership Statement

The Partnership Tax Return includes a summary of the share of profits, losses or income allocated to you during any period for which you were a member of the partnership. This summary is called the 'Partnership Statement' and you should use the information in that Statement to complete your Partnership Pages.

If the partnership makes up its accounts to more than one accounting date in 1997-98, then it may have been required to complete a separate Partnership Statement for each period.

There are two types of Statement:

- a 'full', unabridged, version covering all the possible types of partnership income you might receive, **and**
- a 'short', abridged, version for partnerships that only have trading income and interest with tax deducted from banks, building societies or other deposit takers.

If your partnership completes a full Partnership Statement, you will need to ask the Orderline for the full Partnership Pages and transfer the figures to those.

Most partnerships will complete the short Partnership Statement and I have sent you the Partnership Pages for it. The notes below explain how to complete the short Partnership Pages. They use technical terms such as 'trade', 'basis period' and so on. They explain these terms as fully as possible, but they are not a comprehensive guide in all circumstances. If you are in doubt about the correct tax treatment of a particular item, ask your Tax Office or tax adviser for advice. There is also a glossary of terms on page PN4.

- If you were a member of more than one partnership or the partnership carried on more than one business

Your partnership will complete separate Partnership Statements:

- for each partnership of which you were a member, **and**
- for each business if the partnership carried on more than one business.

In these circumstances you must complete a set of the relevant Partnership Pages for each business. Either photocopy blank pages you already have, or ask the Orderline for more copies. If you use photocopies, please put your name and tax reference at the top. You should also ask the Orderline for *Help Sheet IR220: More than one business*. It includes a Working Sheet to deal with special rules for Class 4 National Insurance Contributions.

- Changing between self-employment and partnership

Normally you will need to complete the Partnership Pages if you were a partner during the year ended 5 April 1998 and the Self-employment Pages if you were self-employed during that period. Where you carried on the same business during the year, but did so as a sole trader for part of the year and in partnership for part follow the guidance below.

Step 1 Identify your basis period for this year. See the notes for boxes 4.5 and 4.6 on page PN2.

Step 2 Do not treat the date of change from sole trade to partnership, or partnership to sole trade, as requiring an entry in either box 4.3 or 4.4.

Step 3 Check whether the accounts information for any accounting period relating to your basis period has been returned in the Partnership Tax Return.

Step 4 If it has, you should complete the Partnership Pages and calculate your taxable profit or allowable loss for this year. This will be based on:

- your share of the partnership profit or loss shown in the Partnership Statement, together with
- the profit or loss of any accounting period affecting your basis period during which the business was not carried on in partnership for which you have entered details in boxes 3.11 to 3.70 in the Self-employment Pages.

Step 5 Otherwise, enter the accounts information in boxes 3.11 to 3.70 and 3.93 to 3.109 in the **Self-employment Pages** and complete boxes 3.71 to 3.92 in those Pages to calculate your taxable profit or allowable loss for this year. Do **not** complete the Partnership Pages.

Notes on **PARTNERSHIP (SHORT VERSION)**

● If the partnership disposed of any chargeable assets

The Partnership Tax Return shows details of the chargeable assets disposed of. Do not put details of the capital gains arising on your share of the proceeds from the disposal of partnership assets in these Pages. Put details in the Capital Gains Pages instead, unless

- the total value of **all** the assets you disposed of in 1997-98 (through the partnership or otherwise) is no more than £13,000, **and**
- your total chargeable gains do not exceed £6,500, in which case no tax will be due.

See your Tax Return Guide for more information.

● Pension payments

If you want to claim relief for pension payments, contributions to retirement annuities, or additional voluntary contributions, fill in Question 14 on page 5 of your Tax Return.

● Tax due on shares of partnership income

The Inland Revenue will normally have until 31 January 2000 to decide whether an enquiry is necessary to check the accuracy of the figures in the Partnership Tax Return.

Partnership details

boxes 4.1 and 4.2 Make sure you complete these boxes for each set of Pages you fill in. Enter the partnership tax reference number in box 4.1 and describe the partnership trade or profession, for example 'farming' or 'contracting', in box 4.2.

boxes 4.3 and 4.4 If you became a partner after 5 April 1997, you should enter that date in box 4.3. If you stopped being a partner before 6 April 1998, you should enter that date in box 4.4.

Your share of the partnership's trading or professional income

boxes 4.5 and 4.6

You pay tax for 1997-98 on the profits and losses of your 'basis period'. For this purpose the normal basis period rules for trading and professional income are applied to your share of the partnership's profits (and losses), as if that income had arisen to you from a business that you carried on alone. These notes describe this as your 'notional business'. After the first one or two years as a partner, your basis period will be the same as the partnership's accounting period, unless the partnership changes its accounting date. For example, if the partnership's accounting date is 31 December and you became a partner on 1 January 1996, your basis period for 1997-98 is the 12 months from 1 January 1997 to 31 December 1997.

However, your 'notional' business will be regarded as having commenced on the date you became a partner, or if you previously carried on the partnership business on your own account, the date on which you first started that business. It will be regarded as having ceased on the date you ceased to be a partner, or, if you subsequently carried on the business on your own account, the date you ceased to carry on that business.

Full details of the rules used to determine your basis period are in *Help Sheet IR222: How to calculate your taxable profits*.

Enter the date on which your basis period starts and ends in boxes 4.5 and 4.6 respectively.

boxes 4.7 and 4.8

Your share of the partnership's profit or loss is the amount shown in the Partnership Statement. You should not make any adjustment to that figure other than those described below.

If your basis period is the same as the partnership's accounting period, enter your share of the partnership's profit or loss in box 4.7 and ignore box 4.8.

In any other case, you will need to calculate the profit or loss of the basis period by adding together (or subtracting, as appropriate) your share of the profits or losses of the partnership's accounting periods. Enter your share of the profits or loss for the partnership's accounting period ended in 1997-98 in box 4.7. If more than one accounting period ends in 1997-98, enter the share of profit for the most recent set of accounts. If no accounting period ends in 1997-98, enter '0' in box 4.7.

To arrive at your profit or loss for your 1997-98 basis period, enter in box 4.8 the amount to be added to, or subtracted from, the figure in box 4.7. If this adjustment means you need to deduct a figure at box 4.8, enter the figure in brackets and remember to subtract it in arriving at your total taxable profit. *Help Sheet IR222: How to calculate your taxable profits* explains how to calculate the adjustments.

If you carried on the partnership business as a sole trader during any part of your basis period, the adjustment in box 4.8 may include amounts for:

- the partnership's accounting period(s)
- the accounting period(s) when you carried on the business alone, for which you have entered details in boxes 3.11 to 3.70 and 3.93 to 3.109 in the Self-employment Pages, **or**
- a combination of the two.

You may not be able to complete box 4.8 because it is impossible for the partnership to prepare the accounts needed to enable you to calculate the adjustment before the latest date for sending your Tax Return. If so, you should provide an estimate, tick box 22.3 in your Tax Return and explain in the 'Additional information' box why you cannot provide a final figure, and enter the date by which you expect to be able to do so.

If, because of your residence status, you are taxable on the remittance basis on profits arising overseas, the amount to be entered in box 4.7 is your share of the partnership profit according to the rules for non-residents (the UK profit only).

boxes 4.9 to 4.11

Overlap profit and relief

If your 'notional' business - see the notes on boxes 4.5 and 4.6 - started on or after 6 April 1994 and the partnership's annual accounting date is a date other than 5 April it may be that your basis period for 1997-98 overlaps with the basis period for 1996-97.

Such overlaps can occur in the first three years after your 'notional business' starts up or in a year in which there is a change in the partnership's accounting date. Ask the Orderline for *Help Sheet IR222: How to calculate your taxable profits* which contains instructions on how to compute overlap profits and how to claim overlap relief.

Enter in box 4.9 any overlap profit brought forward, in box 4.10 any overlap profit used this year, and in box 4.11 any overlap profit carried forward.

Overlap relief may be due if:

- you ceased to be a partner or
- the partnership's business ceased in 1997-98 or
- the partnership has changed its accounting date and your basis period as shown in boxes 4.5 and 4.6 exceeds 12 months.

Transitional overlap profit and relief

If the partnership business started before 6 April 1994 and the partnership's annual accounting date is a date other than 5 April you may be entitled to transitional overlap relief.

Notes on **PARTNERSHIP (SHORT VERSION)**

Transitional overlap relief is an amount equal to your share of the partnership's trading or professional profit, before adjustment for capital allowances or balancing charges, of the period between the end of the partnership's basis period for 1996-97 and 6 April 1997.

Any transitional relief due will given in the same circumstances when overlap relief would be given. Enter in box 4.11 the amount of your transitional overlap profit to be carried forward.

Example

You carried on business in partnership for many years with Mr Smith. The partnership makes up its accounts to 31 December each year and profits are split equally. The Partnership Return shows the following:

Profit before capital allowances	£30,000
minus capital allowances	£6,000
Net profit	£24,000

Your share of profit	£12,000
Mr Smith's share	£12,000

Your 1997-98 basis period is the 12 months to 31 December 1997 and transitional overlap profit should be calculated for the period 1 January 1997 to 5 April 1997 - 95 days - (the period of the 1997-98 basis period before 6 April 1997).

Your assessable profit for 1997-98 is £12,000.

And your transitional overlap profit is £3,904 (£12,000 + £3,000 being your 50% share of the capital allowances = 15,000 x 95 days).

$$\frac{365}{95}$$

Enter £3,904 in box 4.11.

box 4.12

If the partnership carried on a farming business, you may be able to claim to average your share of two years' profits. Ask the Orderline for *Help Sheet IR224: Farmers and market gardeners*, which explains this.

Also use box 4.12 to claim credit for foreign tax deductions if you are not claiming tax credit relief in the Foreign Pages for foreign tax paid.

boxes 4.13 and 4.14

If box 4.7 and any adjustments in boxes 4.8, 4.10 and 4.12 result in a profit, enter this in box 4.13 and '0' in box 4.14. If the result is a loss, enter this in box 4.14 and '0' in box 4.13.

If the partnership made a loss, you may be able to claim tax relief for your share of that loss. If you want information about losses, ask the Orderline for *Help Sheet IR227: Losses*. If you have now left the partnership, or the partnership's business has now ceased, you should ask for *Help Sheet IR222: How to calculate your taxable profits*.

Time limits: some claims must be made by 31 January 2000. You should ensure that any claims you wish to make are made within the time limit prescribed. Late claims cannot normally be accepted.

box 4.15

Help Sheet IR227: Losses provides information on how you may claim tax relief on losses. If you wish to offset your 1997-98 loss against other income of 1997-98, enter in box 4.15 the amount you are claiming to offset.

box 4.16

If you want to offset the 1997-98 loss against income of an earlier year, enter the amount of the loss in box 4.16. If you were a member of a partnership which commenced business prior to 6 April 1994 you will need to ask your Tax Office or tax adviser to find out the amount you can claim. If you have already claimed to offset this loss, you should still include it in the entry in box 4.16, and enter the amount repaid in the 'Additional information' box on page 8 of your Tax Return.

box 4.17

Enter in box 4.17 any losses sustained in 1997-98, but not claimed in any other way, that you claim to carry forward against later profits.

boxes 4.18 and 4.19

Enter in box 4.18 any losses sustained in the same business in earlier years that you claimed to carry forward against later profits but have not already used. You can use that loss to offset any profit entered at box 4.13.

Enter in box 4.19 the amount you are deducting up to the figure in box 4.13.

box 4.21

Enter any amounts that have not been included in the partnership accounts but which are needed to calculate your taxable profits; for example, any Enterprise Allowance (sometimes called Business Start-Up Allowance) you received in the year to 5 April 1998. This will normally have been paid to you rather than the partnership and therefore will not have been included in the Partnership Tax Return.

Class 4 National Insurance Contributions

Partners must pay Class 4 contributions on profits from the partnership unless they are 'excepted'. The contributions are a percentage of taxable profits for the tax year between lower and upper profit limits.

box 4.23

You are excepted from paying Class 4 contributions for 1997-98 if you were:

- a man aged over 65, or a woman aged over 60, at 6 April 1997, or
- aged under 16 at 6 April 1997 and the Contributions Agency has granted you exception (leaflet NP18 available from Contributions Agency offices gives details), or
- not resident in the UK for tax purposes during 1997-98 (ask your Tax Office if you do not know whether this applies to you).

It is possible for certain other people to be excepted from paying Class 4 contributions. If you think you may be excepted because you were a trustee, or a diver or diving supervisor, or a sleeping partner, ask your Tax Office or tax adviser.

Sometimes, where both Class 1 and Class 4 contributions could be due, Class 4 contributions may not be payable. In these circumstances the Contributions Agency may agree for your Class 4 contributions to be 'deferred' until your overall contributions can be determined. Only the Contributions Agency can agree to deferment and its leaflet NP18 gives further details.

If you were excepted from Class 4 NIC, or the Contributions Agency has agreed to defer contributions:

- tick box 4.23
- enter '0' in boxes 4.24 and 4.25
- explain in the 'Additional information' box that you are excepted or deferred, and give the reason.

Notes on **PARTNERSHIP (SHORT VERSION)**

boxes 4.24 and 4.25 If this was your only business, use the following Working Sheet to arrive at figures to enter in boxes 4.24 and 4.25.

If you have more than one business do not use the Working Sheet. Instead, ask the Orderline for *Help Sheet IR220: More than one business*.

Working Sheet for NICs (one partnership interest only)

Taxable profit for 1997-98	from box 4.22 A £
Adjustments to profits chargeable to NICs (see notes* below)	copy to box 4.24 B £
Profit for National Insurance Contributions (A minus B)	A minus B C £
Exempt threshold	D £ 7,010
Amount chargeable (Maximum £17,170 in box E)	C minus D E £
If you want to calculate your tax, complete box F and copy it to box 4.25 in your Partnership Pages. If you want me to calculate your tax, ignore boxes F and 4.25.	E x 6% F £
Class 4 NIC due (Maximum £1,030 in box F)	

***Trading losses** of this business from 1996-97 and earlier years that have not yet been set against profits chargeable to Class 4 NIC may be brought forward and set against the Class 4 profits of the same business for 1997-98. (This is because losses that are allowable for tax are also treated as losses arising for the purposes of Class 4 NIC. They may be allowed for Class 4 in the same ways as losses are allowed for tax.)

***Interest** can be deducted in calculating Class 4 profits if it is incurred for the purposes of your business but has not been deducted in arriving at your taxable profits. Include any such interest from 1996-97 and earlier years which has not been set against previous Class 4 profits, or which was paid in 1997-98.

Investment income

You must include your share of any partnership investment income in the Partnership Pages - that is, income other than trading or professional income. It will be shown on the Partnership Statement.

You can use the short Partnership Pages if your only share of investment income was interest with tax deducted from a UK bank, building society or other deposit taker. Otherwise you must ask the Orderline for the full version of the Partnership Pages (and Notes) and complete those instead.

Your share of taxed income and tax paid

boxes 4.70 and 4.74 The basis period for all investment income that has had UK tax deducted at source is the year ended 5 April 1998. This is the case even if the partnership carried on a trade or profession.

Enter in box 4.70 your share of any partnership interest with tax deducted from a bank, building society or other deposit taker. Enter your share of the tax deducted in box 4.74. Get the figures from your Partnership Statement.

box 4.75 If the partnership was a subcontractor in the building industry, it may have received some payments under the Construction Industry Tax Deduction Scheme. Enter in box 4.75 your share of any deduction made on account of tax from payments made to the partnership during the period 6 April 1997 to 5 April 1998. Get the figure from your Partnership Statement.

You should also include in box 4.75 any other UK tax deducted from trading income.

Glossary

Accounting date The date to which the partnership's accounts are made up.

Basis period The period on which your profits for the tax year are based.

Investment business Any business carried on by the partnership that does not amount to carrying on a trade or profession.

Overlap profits and overlap relief Overlap profits arise when basis periods overlap so that the same profits are taxed in two different tax years. Overlap relief deducts the overlap profits in a later tax year so that over the life of your business you do not pay tax on more profits than you earn.

Trade Any commercial operation supplying goods or services to a customer for profits is likely to be regarded as a trade. If you are in doubt whether you carried on a trade, profession or vocation during 1997-98, ask your Tax Office or tax adviser.