Notes on PARTNERSHIP FOREIGN

CONTENTS

HELP SHEETS

Help Sheets giving more detailed information about particular tax rules for the Partnership Foreign Pages are available from the Orderline.

- *IR250: Capital allowances and balancing charges in a rental business*
- *IR380: Partnerships: Foreign aspects*

Filling in the Partnership Foreign Pages

Gather together the material you need, such as:
- overseas dividend vouchers
- bank statements for overseas accounts.

These notes tell you how to complete the Partnership Foreign Pages. Fill in Pages PF1 to PF4 to give details of foreign income and gains:

- Page PF1 is for foreign savings (including income from offshore funds) from which UK tax has been deducted for the period 6 April 1997 to 5 April 1998
- Page PF2 is for foreign savings, income from land and property and disposals of offshore funds from which UK tax has not been deducted
- complete a copy of Page PF3 for each foreign property. Summarise the income on Page PF2
- Page PF4 is for any additional information.

SA802 (Notes) (NET)

The notes are only a simple introduction to the rules about the taxation of foreign income. If you are in any doubt about the information you need to provide, ask your Tax Office or tax adviser.

You may need to allocate shares of foreign income to the partners on an **item by item basis** before you can complete the Partnership statement. Even if you do not need to do this to complete the Partnership statement **the partners will need this additional information** so that they can complete their own Tax Returns. This will be the case if any partner wants to claim relief by way of credit for foreign tax paid ('tax credit relief'), or if the partner has a share in any foreign income that the partnership has been unable to remit to the UK.

Example 1

Jim is a member of a partnership and is entitled to 40% of the profits. The partnership receives two dividends, as follows:

	Gross	Foreign tax
Country A	£5,000	£1,000
Country B	£2,500	£250
Totals	£7,500	£1,250

To claim tax credit relief Jim will need to know details of his share of the partnership's foreign income on an item by item basis as follows:

	Share of gross	Share of foreign tax
Country A	£2,000	£400
Country B	£1,000	£100
Totals	£3,000	£500

See the notes on pages 13 to 15 of the Partnership Tax Return Guide for further details, including a further example.

■ Return period

Income which has had UK tax deducted

All income that has been received by a UK paying or collecting agent and from which UK tax has been deducted (taxed income) should be entered on Page PF1 of the Partnership Foreign Pages for the period **6 April 1997 to 5 April 1998**.

If accounts are made up for any other period you should apportion figures in the sets of accounts that between them cover the period 6 April 1997 to 5 April 1998.

Income from which no UK tax has been deducted

All income that has come to the partnership direct and that has, therefore, had **no** UK tax deducted (untaxed income) should be entered on Page PF2 of the Partnership Foreign Pages. The Return period appropriate for your partnership should be determined using the rules below.

■ Trading or professional partnerships

boxes 2.4 and 2.5

Return period for trading or professional partnerships

For all partnerships Page PF2 should be filled in by entering the foreign untaxed income **of the accounting period ended in the 12 months from 6 April 1997 to 5 April 1998**.

Enter the date on which the accounting period starts in box 2.4 and the date on which the accounting period ends in box 2.5.

Where there is more than one such accounting period you may have to complete more than one set of Partnership Foreign Pages (Read the notes on page 6 of the Partnership Tax Return Guide.)

Where there is no such accounting period, you need only complete the 'Partnership details' and 'Foreign savings' sections on Page PF1. (Read the notes on page 7 of the Partnership Tax Return Guide.)

■ Investment partnerships

boxes 2.4 and 2.5

Return period for investment partnerships

Where, exceptionally, a partnership does not carry on a trade or profession, Page PF2 should in all cases be filled in for the profits **in the period 6 April 1997 to 5 April 1998**. Enter '6.4.97' in box 2.4 and '5.4.98' in box 2.5.

If accounts are made up for any other period you should apportion figures in the sets of accounts that between them cover the period 6 April 1997 to 5 April 1998.

■ Returning foreign income

You should enter the full amount of income arising from overseas sources on the Partnership Foreign Pages. For overseas rental income this means the gross income minus allowable expenses. For all other income, it is simply gross income before tax.

■ Unremittable income

If the partnership has income arising outside the UK that it is unable to remit to the UK because of exchange controls or a shortage of foreign currency in the overseas country, then the members of the partnership can claim that the unremittable income should not be taxed for 1997-98.

If you think this applies to the partnership, see below for guidance on how to enter details of the unremittable income.

■ Income becoming remittable

Where income was not taxed in an earlier year because it was unremittable but it can now be remitted to the UK, it is treated as arising in 1997-98. Income may become remittable if, for example, exchange controls are lifted. Include any income to which this applies whether or not it is actually remitted to the UK. The amount of the income and any foreign tax charged on it should be translated to sterling using the exchange rate prevailing at the time the income becomes remittable.

■ Foreign income: change to sterling

Income taxable in the UK should be translated to sterling at the rate of exchange prevailing at the time when the income arose. Your Tax Office will be able to help if you are not sure which exchange rate should be applied.

■ Filling in Pages PF1 and PF2 of the Partnership Foreign Pages

Important: if the partnership has more than one item of income or gains in any particular category (for example, dividends from more than one overseas company) each such item must be entered separately. **But see below for how to deal with unremittable income.**

For each item:

- **in column A**, enter the country in which the item of income arose
- **in column B**, enter the amount of income **before** deducting any UK or foreign tax but **after** deducting unremittable income
- **in column C**, enter the amount of any UK Income Tax deducted from the income
- **in column D**, enter the amount of foreign tax paid on the income entered in column B.

These notes will help you decide what to put in each column.

● Entering unremittable income

Details of unremittable income, and the corresponding tax, should be entered in the Partnership Foreign Pages in the appropriate foreign currency.

For each item of income not remittable to the UK in the tax year 1997-98:

- **in column A**, enter the country in which the item of income arose
- tick the box between columns A and B
- **in column B**, enter the amount of the unremittable income, in its foreign currency (delete the £ signs)
- leave **column C** blank
- **in column D** enter the amount of the foreign tax, if any, suffered on the unremittable income in its foreign currency (delete the £ signs).

Make sure you **exclude** details of unremittable income, and the corresponding tax, from the 'totals' boxes at the foot of each column.

Foreign savings

■ Dividends and distributions from overseas sources

Income you should not include in the Partnership Foreign Pages

Exclude:

- distributions made in the course of the liquidation of a foreign company
- distributions that constitute a return of the partnership's capital interest in a foreign company
- distributions made by a foreign company in the form of its own stocks and shares
- stock dividends from foreign companies
- bonus shares from a scrip issue made by a foreign company.

If you are not sure whether distributions the partnership has received fall into any of the above categories, ask your Tax Office or tax adviser for advice.

column A Enter the name of the country where the dividend or distribution arose.

columns B to D

● Dividends from overseas unit trusts and investment funds

The information you will need to complete these boxes will be shown on the partnership's unit trust or fund voucher. Where the dividend distribution is automatically reinvested in the unit trust, you must still show the dividend distribution and the tax deducted.

If you do not have a tax voucher, ask the fund manager for one.

● Dividends from other overseas sources

The information you will need to complete these columns will be shown **either:**

- on the partnership's dividend voucher
- or (if the dividends are paid through a paying agent in the UK, or collected and paid to the partnership by a banker in the UK) on the certificate of deduction of tax provided by the agent or banker.

● Other distributions from overseas sources

If the partnership has received a distribution from a foreign company other than in the form of a cash dividend, for example, if the company has released some of its assets (such as shares it holds in another company) to its shareholders, you should enter the currency value of such assets at the date of distribution, **unless** the assets are released on liquidation or represent a return of capital.

■ *Interest and other income from overseas savings and investments*

column A Enter the name of the country where the income arose.

columns B to D

● Interest from overseas unit trusts and investment funds

The information you need to complete these columns will be shown on the partnership's unit trust or fund voucher. If you do not have a tax voucher, ask the fund manager for one. Where the interest distribution is automatically reinvested in the unit trust, you must still enter the interest distribution and the tax deducted.

● Interest from other overseas sources

Enter the amounts of interest that the partnership received from foreign bank accounts, or from foreign company loan stocks, or loans to individuals or other organisations outside the UK. If the payer of the interest has deducted foreign withholding tax and accounted for that tax to the overseas tax authority on your behalf, this will normally be shown on a certificate of tax paid.

● Other income from overseas savings

Enter any other income that the partnership received from overseas savings and investments. Include gains on life assurance policies, life annuities and capital redemption policies. Do not include income from land and property abroad (see below).

Income from land and property abroad

You must fill in a separate line for each overseas property from which the partnership derived income during 1997-98.

column A Enter the name of the country where the property is situated.

column B Fill in Page PF3 of the Partnership Foreign Pages to calculate the amount to be entered in this column. A separate Page will be required for each property from which rental income arose. If you need further copies, you should either photocopy the Page or ask the Orderline for more copies. If you use photocopies, enter the partnership name and tax reference next to the address box on each copy.

column D If the partnership has paid foreign tax in respect of rental income arising in the return period, enter the amount in column D. Enter the full amount, in sterling, of foreign tax paid.

■ *Filling in Page PF3 of the Partnership Foreign Pages*

■ *Income*

box 2.11 If the partnership enters into any transaction that produces rents or other receipts from any right or interests it holds in land or property situated abroad, those rents and receipts are taxable.

Enter in box 2.11 the full amount of the receipts from the property in question, but **excluding** any chargeable premiums.

'Income' includes receipts in cash or in kind. It is taxed when it is earned, even if the partnership does not receive the money or goods until later. **Include** in box 2.11 any rent the partnership receives (or will receive) after 5 April 1998 that is payment for the year ended 5 April 1998 (because it is paid in arrears). **Exclude** from box 2.11 any rent received which relates to any period after 5 April 1998 (because it is paid in advance). It must be included in the income for the year to which it relates. **Make sure you do not count money received in this year if it was included in an earlier year.**

Generally, most income will be rental income from a tenancy, leasing, or licensing agreements over the land or property. Rental income from furnished, unfurnished, commercial and domestic accommodation, and from any land, should all be included in the overall total. If the property is let furnished, any sums that a tenant may pay for the use of furniture will be taxed as income of the business. All this income should be added together and entered in box 2.11.

Receipts other than rent

Receipts other than rents are also taxable. Some of the main categories are:

- rent charges, ground rents and feu duties
- income arising from the grant of sporting rights
- income arising from letting others tip waste on the land
- income from letting someone use the land when no lease or licence is created; for example, receipts from a film crew who pay to film on the land.

This list is not comprehensive. If you do not know whether to include a particular sum, ask your Tax Office or tax adviser.

● Chargeable premiums

Premiums paid for the grant of a lease, certain other lump sum payments and other forms of consideration given in connection with the right to possession of a property are also taxable, but on a special basis.

Broadly, for leases over 50 years the entire premium is treated as a capital receipt and so does not form part of the income of the business. For leases of up to 50 years the premium is treated as partly capital and partly rent, and only the rent is taxed.

Use the Working Sheet below to calculate the taxable amount.

Working Sheet for chargeable premiums – leases up to 50 years

Premium	A	£
Number of **complete periods of 12 months** in lease *(ignore the first 12 months of the lease)*	B	
Box A multiplied by box B	C	£
Box C divided by 50	D	£
Box A *minus* box D	E	£

Copy figure in box E to Column B

If the partnership paid foreign tax in respect of the premium, apportion the amount of foreign tax as appropriate, and enter in column D the amount appropriate to the part of the premium that is taxable in the UK.

If you are in doubt whether any payment you have received constitutes a premium, ask your Tax Office or your tax adviser. There can be a premium charge where you have assigned a lease but not required the payment of a premium. Consult your Tax Office or tax adviser if you have assigned a lease and are not sure of all the consequences of that assignment.

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■ *Expenses*

boxes 2.12 to 2.17 **If the total property income in the year before expenses is less than £15,000 annually, you do not have to list expenses separately. Instead, enter the total expenses in box 2.17.**

The following guidelines give an indication of the main types of expenses likely to arise in a rental business and what usually can or cannot be claimed as a deduction against income from land and property.

Non-allowable expenses:

- a partner's personal expenses (see the notes about box 2.20 on page PFN5)
- capital costs, such as expenses relating to the purchase of the land or property that the partnership intends to let, or the cost of buying machinery, furnishings or furniture
- any loss made on the sale of a property.

Allowable expenses:

- in general, any costs you incurred for the sole purpose of earning business profits
- you may be able to claim capital allowances or a renewals deduction on the cost of buying a capital asset, or a wear and tear allowance for furnished lettings.

The expenses must be allocated to the correct Return period and it may be necessary to apportion certain expenses to arrive at the correct amount.

● Rent, rates, insurance, ground rents etc.

box 2.12 Any rent paid under a lease of a property let to someone else can be deducted in working out the business profits.

Other expenses connected with the property such as local rates or ground rents are also allowable. Enter in box 2.12 the total of any such expenses incurred in the period for all properties comprised in your business.

Include in box 2.12 any expenses the partnership must incur as landlord insuring any let property and its contents. Insurance against loss of rents is also an allowable cost, but you must include in box 2.11 any income received as a result of taking out such an insurance. But insurances that extend beyond the rental business, such as partners' personal policies or those insuring your private belongings, are not allowable costs.

● Repairs, maintenance, and renewals

box 2.13

Repairs and maintenance

Expenses that prevent the property from deteriorating can be deducted as a repair. Examples include exterior and interior painting, stone-cleaning, damp treatment, roof repairs, furniture repairs and repairs to lifts and other machines that form part of the property.

Where maintenance and repairs of property are made unnecessary by improvements, additions or alterations, part of the outlay equal to the estimated cost of the maintenance and repairs can be claimed as an expense. No expense can be claimed, however, where:

- the alterations etc., are so extensive as to amount to the reconstruction of the property, **or**
- there is a change in the use of the property that would have made the maintenance or repairs unnecessary.

If you are in doubt whether any work undertaken on the property constitutes a repair or maintenance, ask your Tax Office or tax adviser.

Renewals

The partnership can claim as an expense the cost of replacing furniture and machinery supplied with the property where capital allowances or 'wear and tear' allowance (see page PFN5) are not claimed. It includes the renewal of small items such as knives and forks. If the partnership opts for a renewals deduction, you may deduct the cost of replacing any such equipment, but not the cost of the original purchase. Deduct from the replacement cost any sum received for the item scrapped or sold. Also deduct any part of the replacement cost that represents an improvement or addition to the original item.

Enter in box 2.13 the total of any such expenses on renewals (and repairs and maintenance) incurred in the period for all the properties in the business. If you are in doubt about how much to claim as a renewal, ask your Tax Office or tax adviser.

● Finance charges, including interest

box 2.14 Include in box 2.14 expenses which relate to the financial side of the rental business. Costs incurred in obtaining a loan to buy a property that is let are allowable as a deduction. So is any interest incurred on the loan. If you are unsure whether any financial cost is allowable as a deduction, ask your Tax Office or tax adviser.

● Legal and professional costs

box 2.15 Below are some examples of expenses the partnership cannot deduct and those it can.

Non allowable expenses:

- expenses in connection with the first letting or sub-letting of a property for **more than one year**. These include, for example, legal expenses (such as the cost of drawing up the lease), agents' and surveyors' fees and commission
- any proportion of the legal etc. costs that relate to the payment of a premium on the renewal of a lease
- fees incurred in obtaining planning permission, or on the registration of title when buying a property.

Allowable expenses:

- expenses for the let of a **year or less**
- the normal legal and professional fees you incurred on the renewal of a lease, if the lease is for less than 50 years
- professional fees incurred evicting an unsatisfactory tenant, with a view to re-letting, or those on an appeal against a compulsory purchase order
- professional fees in drawing up accounts.

If you are not sure whether any legal or professional fee is allowable as a deduction, ask your Tax Office or tax adviser.

● Costs of services provided, including wages

box 2.16 If, in addition to letting a property, the partnership provides any service to the tenant (such as gardening, porterage, cleaning or even communal hot water), which requires a degree of maintenance and thus expense, you can claim the cost of these services to the extent that they are provided wholly and exclusively for the purposes of the letting.

You should include in box 2.16 the total of any such expenses for all properties and their associated services. If the partnership **receives** any income for any service provided, this should be entered in box 2.11.

- Other expenses

box 2.17 Enter in box 2.17 all expenses incurred wholly and exclusively for the purpose of the rental business that are not already included in boxes 2.12 to 2.16. Examples include the costs of rent collection, advertising for tenants, travelling solely for business purposes, stationery, telephone calls and other miscellaneous expenses.

Remember, though, that partners' personal expenses are not allowable. If the partnership spends money on something only partly used for the property, you must enter only the amount expended for business purposes in box 2.17. Alternatively, enter the whole amount and deduct in box 2.20 the proportion of the cost that represents personal use.

Tax adjustments

To arrive at the income (or the allowable loss) for tax purposes you need to make certain adjustments to the net profit or loss arising in the year in box 2.19. The main adjustments are listed below.

- Private use

box 2.20 Private and personal expenses are not allowable. If the partnership spends money on something only partly used for the rental business and partly for a non-business reason you must either:

- enter the amount expended for business purposes in boxes 2.12 to 2.17, **or**
- enter the whole expenses in those boxes and deduct in box 2.20 the proportion of the cost that represents your personal use or the non-business element.

For example, if the partnership lets out a property for only eight months in a year and a partner uses it for the other four months, you can put the full annual cost of insuring the property in box 2.12. If you do, you should add back one-third of that cost in box 2.20.

If you are in any doubt whether a particular expense needs to be apportioned between business and private use, ask your Tax Office or tax adviser.

- Capital allowances and balancing charges

boxes 2.21 and 2.23 In working out the rental business profits you must not deduct:

- the cost of buying, altering, building, installing or improving fixed assets, **or**
- depreciation or any losses that arise when you sell them.

Instead, the partnership may be able to claim **capital allowances** in box 2.23. These **reduce** a profit or increase a loss. An adjustment, known as **a balancing charge**, may arise when it sells an item, gives it away or stops using it in the business. Enter the amount of balancing charges in box 2.21. These **increase** the profits or **reduce** a loss.

However, if the partnership lets a dwelling house as furnished accommodation, capital allowances are not available on any machines, furniture or furnishings supplied. See the notes on box 2.24 (on wear and tear) in the next column.

Your tax adviser, if you have one, will tell you how to calculate capital allowances and balancing charges.

If you do not have a tax adviser, or want to check your calculation ask the Orderline for *Help Sheet IR250: Capital allowances and balancing charges in a rental business.*

- 10% wear and tear

box 2.24 If the partnership lets a dwelling house as furnished accommodation, capital allowances are not available. Instead, the partnership may claim a deduction for **either:**

- the net cost of replacing a particular item of furniture or furnishings, but not the cost of the original purchase (see the notes on page PFN4 about renewals), **or**
- an allowance amounting to 10% of the rent received minus charges or services that would normally be borne by a tenant but which are, in fact, borne by the partnership. This allowance, which is known as 'wear and tear allowance', is accepted as broadly covering the cost of normal renewals of furniture.

Capital allowances can be claimed if the partnership lets furnished accommodation other than a dwelling house. If capital allowances can be claimed, you cannot claim the 10% wear and tear allowance.

- Foreign tax paid

box 2.27 If the partnership has paid foreign tax on the income from the property in question for the period covered by the Partnership Tax Return, enter the amount in box 2.27, except where the figure in box 2.26 is a loss. In the latter case, no credit for the foreign tax will be allowable.

Now transfer the entries at boxes 2.26 and 2.27 to columns B and D respectively. Include any loss in box 2.10.

Disposals of holdings in offshore funds

An offshore fund is:

- a non-resident company, **or**
- a foreign unit trust, **or**
- any other arrangement which takes effect under the law of a foreign country and creates rights in the nature of co-ownership,

in which you hold a 'material interest'. Your interest in an offshore fund is material if, at the time you acquired it, you might reasonably expect to be able to realise it (usually by redemption) within the following seven years, at about the market value of the fund's assets that the interest represents at that time.

The income arising from your offshore fund should be returned on Page PF1. Box 2.9 should be used for the charge that arises on the disposal of a holding in an offshore fund which has not been granted 'distributor status' (see below).

There are special rules for the taxation of gains arising in offshore funds. Where an offshore fund qualifies for distributor status, Capital Gains Tax will usually apply to gains on disposal of an interest in the fund. If this is relevant to the partnership, you should ask for the Partnership Disposal of Chargeable Assets Pages.

'Distributor status' is granted to funds that regularly distribute the bulk of their income to investors rather than those which roll up the income in the fund until the investor disposes of the holding. To find out whether the partnership's offshore fund qualifies for distributor status, you should look at the latest annual report and accounts of the fund, or ask the fund manager.

If the offshore fund does not qualify for distributor status, the un-indexed gain on disposal of an interest of the fund is subject to Income Tax, and the amount of the gain should be entered in box 2.9.

If the offshore fund qualifies for distributor status, but operates 'equalisation arrangements', part of the gain will be subject to Income Tax. The amount will normally be shown on the redemption voucher provided by the fund manager and must be entered in box 2.9.

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Filling in boxes 2.1 to 2.10

Enter in boxes 2.1 to 2.10 the totals of income remittable to the UK (in sterling) and the corresponding UK and foreign tax (also in sterling).

Transfer of information to the Partnership Statement

The partners need to distinguish between the different classes of income and tax credits identified in boxes 2.1 to 2.10 when calculating the tax due on their shares of foreign income.

You should transfer the amounts shown in the totals boxes 2.1 to 2.10 to the appropriate boxes in the Partnership Statement.

Transfer:

- the figure in box 2.1 (total overseas income with UK tax deducted) to box 14
- the figure in box 2.2 (UK tax deducted from income in box 2.1) to box 17
- the figure in box 2.3 (foreign tax deducted from income in box 2.1) to box 20
- the figure in box 2.6 (total overseas income - no UK tax deducted) to box 6
- the figure in box 2.7 (total overseas letting income) to box 9
- the figure in box 2.8 (foreign tax deducted from the income in boxes 2.6 and 2.7) to box 20
- the figure in box 2.9 (offshore funds) to box 10
- the figure in box 2.10 (losses on overseas income) to box 13.

Remember, you will need to complete more than one Partnership Statement if you have completed more than one set of Partnership Foreign Pages for this Tax Return.

If you do need to complete more than one Partnership Statement you need only enter the information in boxes 2.1 to 2.3 once - use the Partnership Statement for the most recent period.

You may need to allocate shares of foreign income and foreign tax to the partners on a **country by country basis** before you can complete the Partnership Statement. Even if you do not need to do this to complete the Partnership Statement the partners will need this information to complete their own Tax Returns. This will be the case if any partner wants to claim relief by way of credit for foreign tax paid ('tax credit relief'), or if the partner has a share in any foreign income that the partnership has been unable to remit to the UK.

If you want to allocate shares of foreign income to the partners, read pages 13 to 15 of the Partnership Tax Return Guide before you do so.

SA802 (Notes) (NET)

These notes are for guidance only, and reflect the position at the time of writing. They do not affect any rights of appeal.