

## **PARTNERSHIPS: FOREIGN ASPECTS**

This Help Sheet gives information to help you fill in the Partnership Tax Return if:

- the partnership operates partly overseas, or
- the partnership includes one or more partners who are not resident in the UK, or
- a partner becomes or ceases to be a UK resident.

### **HOW NON-RESIDENCE AND NON-DOMICILE CAN AFFECT THE PARTNERSHIP AND ITS MEMBERS**

For guidance on the meaning of the terms 'residence', 'ordinary residence', 'domicile', 'remittance basis' and 'split year treatment' please read the Notes for the Non-residence etc. Pages of the personal Tax Return.

**UK resident partners** are liable to UK tax on their share of the worldwide profits of the partnership.

Where a partnership is managed and controlled abroad, UK resident partners may be entitled to be taxed on the remittance basis in respect of their share of the profits that arise overseas. This will be so if:

- they are not domiciled in the UK, or
- they are a commonwealth citizen (or a citizen of the Republic of Ireland) who is not ordinarily resident in the UK.

**Non-resident partners** are only liable to tax on:

- profits that arise in the UK, although a corporate non-resident partner will be liable on overseas profits which relate to a UK branch or agency
- their share of partnership investment income, to the extent that it arises in the UK, although a corporate non-resident partner should return its share of overseas investment income which relates to a UK branch or agency.

It is up to a partner to self-determine or, in cases of doubt, agree his or her own residence status with the Tax Office. Partners should refer to the Notes for the Non-residence etc. Pages of the personal Tax Return. An individual who is resident for any part of a tax year is strictly resident for the whole of that tax year. However 'split year treatment' may apply if certain conditions are met. In those circumstances an individual may be regarded as resident and non-resident for different parts of the same tax year. Further details are provided in the Notes for the Non-residence etc. Pages of the personal Tax Return, available from the Orderline.

### **WHAT TO INCLUDE IN THE PARTNERSHIP TAX RETURN**

For partnerships with at least one partner liable to Income Tax, the profits of the partnership are computed as if the partnership were an individual resident in the UK. The effect is that strictly the whole of the worldwide profits of the partnership should be returned.

This Help Sheet explains that in certain circumstances only the UK profit should be included in the Partnership Tax Return, although the Inland Revenue reserves the right to call for worldwide accounts and computations. When only the UK profit is returned, a partner entitled to a share of the overseas profit should include that share in their Tax Return.

Under self assessment, the profits of each partner are taxable separately so that there is no joint partnership assessment. However the partnership may be taxed as agent for a non-resident partner. Where the UK profits are allocated to a large number of non-resident partners it may be possible to agree an alternative arrangement with your Tax Office whereby a single Tax Return is made for all the non-resident partners.

#### **Where the partnership consists solely of partners resident in the UK**

Where all the partners are resident in the UK, the Partnership Tax Return should return the worldwide profits of the partnership. Where any part of the profits has been taxed overseas it will be helpful if the amount taxed in each overseas jurisdiction is separately entered.

#### **Where the partnership consists solely of partners not resident in the UK**

Where all the partners are not resident in the UK, the Partnership Tax Return should enter only the profits arising from UK operations. A corporate partner should separately enter on its return any profit arising overseas which relates to the UK branch or agency.

#### **Where the partnership consists of a mix of UK resident and non-resident partners**

If the partnership is managed and controlled in the UK, complete **two** Partnership Statements:

- one to enter the worldwide profit (the resident partners will put their share of that profit in their own, personal, Tax Returns),  
**and**
- a second to enter only the UK profit (the non-resident partners will put their share of that profit in their own, personal, Tax Returns).

If the partnership is managed and controlled outside the UK, include only the partnership's UK profit in the Partnership Tax Return. The UK resident partners will generally also share in any overseas profit. Where a partner is taxable on the normal basis, that is on the profits as they arise, they should report their share separately on their own Tax Return. Where a partner is taxable on the remittance basis they should show the appropriate remittances in the Foreign Pages of their Tax Return.

**Where a partner becomes or ceases to be UK resident**

Where a partner becomes or ceases to be UK resident and the business is carried on wholly or partly abroad, special rules apply. In order to ensure that the right amount of profit is taxed the partner is treated as having ceased and immediately recommenced as a partner. It follows that the partnership profit must be apportioned to and from the date of change of residence, and for the period of non-residence the partner's share of the UK profit must be identified. Provide details of the appropriate computations and explanations showing how the apportionments have been made in the 'Additional information' box on page 8 of the Partnership Tax Return.

For the partner concerned, the amount of profit to be entered on their own Tax Return will be their share of the total profit for the period of UK residence (unless the remittance basis applies) plus their share of the UK profit for the period of non-residence.

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