Inland Revenue

Notes on PARTNERSHIP SAVINGS, INVESTMENTS AND OTHER INCOME

CONTENTS

Filling in the Partnership Savings Pages

Gather together the information you might need:

- dividend vouchers
- interest statements or tax deduction certificates
- trust vouchers, if the partnership is entitled to income of a trust, the trustee should provide a voucher identifying the various sources of income.

Now use the following notes to help you fill in the boxes. They ask for totals.

Check the following lists to see whether the partnership's income from savings and investments should be included in the Partnership Tax Return.

Exclude:

- Premium Bond, National Lottery and gambling prizes
- accumulated interest on National Savings Certificates, including index-linked certificates
- interest awarded by a UK court as part of an award of damages for personal injury or death
- receipts under a permanent health insurance policy. Only those that are trading receipts should be included because they are to meet the sick pay of employees
- gains on UK life assurance policies, life annuities or capital redemption policies, even if the policy or contract was effected by, or is in the partnership's name. There are special rules for dividing a gain between partners. Each partner's share of the gain should be shown on their personal Tax Return. If you need further help ask your Tax Office or tax adviser
- accrued income on transfer of securities (but see notes on page PSN6).

Include:

- interest from UK banks, including interest on current accounts, building societies or deposit takers
- interest distributions from UK authorised unit trusts or UK open-ended investment companies
- income from National Savings
- FIRST Option Bonds
- other savings income, including annuities, relevant discounted securities
- dividends from UK companies, UK authorised unit trusts or UK open-ended investment companies
- other distributions
- UK scrip dividends
- foreign income dividends from UK companies, UK authorised unit trusts or UK open-ended investment companies
- other income of the partnership that is not included anywhere else in the Partnership Tax Return.

If the partnership has received a bonus sum following the merger of two or more building societies, the bonus sum is subject to Income Tax and should be shown in boxes 7.7 to 7.9.

If, however, the partnership has received a bonus sum following the conversion of a building society to a company or following the takeover of a building society by a company, then details of that sum should be given in the Partnership Disposal of Chargeable Assets Pages.

If the partnership's only savings income for the period was interest paid with tax deducted by banks, building societies or other deposit takers, complete boxes 7.7A to 7.9A on page 5 of the Partnership Tax Return using the guidance in the Partnership Tax Return Guide. Otherwise you will need to complete the full Partnership Savings Pages. These Notes will help.

■ *Return period*

● Return period: taxed income (and the corresponding tax deducted, tax credits or notional tax)

All taxed income should be returned for the period 6 April 1998 to 5 April 1999.

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 1998 to 5 April 1999.

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Notes on PARTNERSHIP SAVINGS, INVESTMENTS AND OTHER INCOME

- Return period: untaxed income

All untaxed income should be returned for the Return period appropriate for your partnership. This period should be determined using the rules below.

boxes 7.1, 7.2, 7.42 and 7.43 The untaxed income sections of the Trading or Professional Partnership Savings Pages should be completed by entering the untaxed income **of the accounting period ended in the period 6 April 1998 to 5 April 1999**.

Enter the date on which the accounting period starts in boxes 7.1 and 7.42 and the date on which the accounting period ends in boxes 7.2 and 7.43.

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

Where there is no such accounting period you need only complete 'Taxed Income' sections of the Partnership Savings Pages. (Read the notes on page 7 of the Partnership Tax Return Guide.)

Investment partnerships

Where, exceptionally, a partnership does not carry on a trade or profession, the untaxed income sections of the Partnership Savings Pages should, in all cases, be completed for the profits in the period 6 April 1998 to 5 April 1999.

Enter 6.4.98 in boxes 7.1 and 7.42 and 5.4.99 in boxes 7.2 and 7.43.

If accounts are made up for any other period, you should apportion figures in the sets of accounts which between them cover the period 6 April 1998 to 5 April 1999.

Interest

The boxes ask for totals. If the partnership has more than one source of interest, add together, for example, interest paid (with tax deducted) by the partnership's bank or building society and put total figures in boxes 7.7 to 7.9. Keep details of the separate accounts in case I ask for these later.

Interest from which UK tax has not been deducted

- Interest from UK banks, building societies or deposit takers

box 7.3 The partnership's bank or building society or deposit taker's statement will show you the interest the partnership received without tax being deducted (gross). Add up all the amounts received during the partnership's return period. Enter the total in box 7.3.

National Savings interest **should not** be included here but should be entered in box 7.4.

- National Savings

box 7.4 Enter in box 7.4 the interest received from the following:

- Ordinary Account
- Investment account
- Deposit bonds
- Income bonds
- Capital Bonds (enter the interest added in the Return period to the Capital Bonds as shown in the partnership's statement).

If the partnership received any interest on a National Savings Ordinary Account, you should advise each partner of their share of that interest to enable them to determine the amount of the exemption (the first £70 interest is exempt) to which they may be entitled.

- Interest not included in boxes 7.3 and 7.4

box 7.5 **If no tax has been deducted**, include in box 7.5 any other interest the partnership received, for example:

- on government stocks (gilts), including those bought through the National Savings Stock Register
- on other loan stocks
- on loans to an individual or organisation
- from credit unions and friendly societies.

If tax has been deducted, fill in boxes 7.16 to 7.18 instead.

Relevant discounted securities

'Relevant discounted securities' have replaced those types of securities previously termed deep discount bonds and deep gain securities. Broadly these are securities where the investment's return is mainly made up of a discount or premium payable on redemption of the bond, rather than by interest payable over the life of the bond.

The discount or premium must be capable of being more than:

- 15% of the redemption price, or, if smaller,
- 0.5% of the redemption price for each year of the bond's life (for example, in the case of a 10 year bond, any discount of 5% or more would mean that it is a relevant discounted bond).

A security with an uncertain yield (for example linked to the Retail Price Index) will normally be a relevant discounted security. A security linked to the value of assets that would be chargeable assets under the capital gains rules (for example, a security whose yield is linked to the FTSE index) will not normally be a relevant discounted security. If you had a relevant discounted security, you will generally be taxable only when you dispose of the security or redeem it. At that time you will be taxable on the difference between the amount you paid for the security and the amount you received when you redeemed or sold it. Income Tax is not deducted from the payment, so the gross amount of income should be entered in box 7.5.

Losses

Should the actual disposal of any relevant discounted security result in a loss, enter this in box 7.45.

Transfer of income from securities

If the partnership sells or transfers the right to receive dividends or interest but does not dispose of the underlying securities, the income from those securities is treated as taxable income.
This may be taxed or untaxed. Enter the amount of income paid out (even if the partnership has not received it) in box 7.5 or boxes 7.16 to 7.18, as appropriate.

Transfer of information to the Partnership Statement

The partners need to distinguish between certain classes of savings, investments and other income (and, where appropriate, the corresponding tax) when calculating the tax due on their shares of such income. The same distinctions are made in the Partnership Tax Return.

Transfer the amount of the untaxed income in box 7.6 to box 13 in the Partnership Statement. If you want to allocate this figure between the partners at the same time, read pages 13 to 15 of the Partnership Tax Return Guide before you do so. Otherwise, fill in the rest of the Partnership Savings Pages.

Interest from which UK tax has been deducted

- Interest from UK banks, building societies or deposit takers

boxes 7.7 to 7.9 Interest is generally paid after tax is deducted. The partnership's bank, building society or deposit taker's statement or pass book will usually show you the amount of interest after tax, the amount of tax deducted and the amount of interest before tax deducted. (If you do not have all three figures the example below shows you how to work them out.) Add up the amounts for the return period for all the partnership's accounts. Enter the totals in boxes 7.7, 7.8 and 7.9. If you do not have the information you should ask the bank, etc., in writing, to provide the partnership with a tax deduction certificate.

Remember, if this is the only income from savings or investments, you can complete boxes 7.7A, 7.8A and 7.9A on page 5 of the Partnership Tax Return. Otherwise you will need to complete the full Partnership Savings Pages.

- Interest distributions from UK authorised unit trusts and open-ended investment companies

boxes 7.10 to 7.12 The information you need to complete these boxes will be shown on the partnership's tax voucher. The voucher will show: the total interest distribution before the deduction of Income Tax (gross interest); the Income Tax deducted; and the amount of the interest distribution paid after Income Tax has been deducted (net interest).

If the units or shares are accumulation units or shares (where the interest distribution is automatically reinvested in the unit trust or open-ended investment company) you must still enter the total interest distribution before the deduction of Income Tax, the Income Tax deducted and the amount of the interest distribution after Income Tax has been deducted.

If the partnership does not have a tax voucher, ask the unit trust or open-ended investment company manager for one.

If the partnership has received an interest distribution without Income Tax being deducted, you should include the total interest distribution received in box 7.5.

Do not enter here any amount shown on the tax voucher as 'equalisation'. This amount, if shown, is a repayment of capital paid and is not subject to tax. In calculating their capital gains each partner should deduct their share of the amount of the equalisation from the cost of the units or shares purchased during the year.

Do not include dividend distributions or foreign income dividend distributions from UK authorised unit trusts or open-ended investment companies in boxes 7.10 to 7.12. They belong in boxes 7.24 to 7.26 and 7.34 to 7.36.

Annual payments received from UK unauthorised unit trusts should be entered in boxes 7.46 to 7.48.

How to calculate tax deducted from interest and tax credits on dividends

For most of the categories in the Partnership Savings Pages you must enter:

- the amount of interest **after** tax deducted (net)
- the amount of tax deducted, and
- the amount of interest **before** tax deducted (gross).

Usually the interest statement will show all three figures. But if it does not, then you can work them out.

Either like this:

- **Statement shows interest of £80** after tax

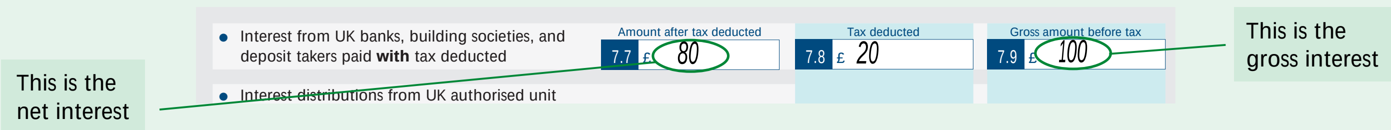
Tax deducted	=	amount after tax	x	25%
£80 x 25%	=	£20		

or like this:

- **Statement shows interest of £100** before tax

Tax deducted	=	amount before tax	x	20%
£100 x 20%	=	£20		

Remember, the amount of the gross interest is the same as the amount of the net interest with the tax added back on. The illustration below shows what figures to use if the partnership received, for example, £80 bank interest after tax.



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- National Savings FIRST Option Bonds

boxes 7.13 to 7.15 This interest is received after deduction of tax. Enter in boxes 7.13 to 7.15:

- the interest received after deduction of tax
- the tax deducted
- the interest received before tax was deducted.

- Other taxed income from UK savings and investments

Enter the totals of the following items in boxes 7.16 to 7.18. Keep details of income included in the totals in case I ask for further information later.

boxes 7.16 to 7.18

Interest not included in boxes 7.7 to 7.15

Include in boxes 7.16 to 7.18 interest the partnership received under deduction of tax but which did not go in boxes 7.7 to 7.15, for example:

- on government stocks (gilts), including those brought through the National Savings Stock Register
- on other loan stocks
- on loans to an individual or organisation
- from credit unions and friendly societies.

If **no tax has been deducted**, enter the interest received in box 7.5.

Transfer of information to the Partnership Statement

Transfer the amount of tax deducted on the taxed income in box 7.19 to box 25 in the Partnership Statement. If you want to allocate this figure between the partners at the same time, read pages 13 to 15 of the Partnership Tax Return Guide before you do so. Otherwise finish filling in the rest of the Partnership Savings Pages.

Dividends

boxes 7.21 to 7.23

- Dividends and other qualifying distributions from UK companies

The partnership's dividend voucher shows the amount of the dividend and the tax credit. Add these together to get 'dividend/ distribution plus credit'.

Do not include scrip dividends or foreign income dividends here. Include these in boxes 7.28 to 7.30 and boxes 7.31 to 7.33.

- Other qualifying distributions

A company makes a distribution when it passes value to a shareholder, for example:

- by selling an asset to a shareholder at less than market value, **or**
- by paying interest at more than a commercial rate on a loan from a shareholder.

Non-qualifying distributions are defined on page PSN5 and should be entered in boxes 7.37 to 7.39. Other distributions are 'qualifying'.

Some qualifying distributions are treated as foreign income dividends for tax purposes. If the voucher shows that foreign income dividend treatment applies, include the distribution in boxes 7.31 to 7.33 not boxes 7.21 to 7.23.

Enter the amount in boxes 7.21 to 7.23 and please give details in the 'Additional information' box on page 8 of the Partnership Tax Return, explaining the circumstances in which the distribution arose.

- Dividend distributions from UK authorised unit trusts and open-ended investment companies

boxes 7.24 to 7.26 The dividend voucher shows the amount of the dividend and the tax credit. Add these together to get 'dividend/distribution plus credit'.

If the partnership has accumulation units or shares, the dividend is automatically reinvested in the unit trust or open-ended investment company. You must still enter the amount of the dividend, tax credit and dividend/distribution plus credit.

If you do not have a dividend voucher, ask the partnership's unit trust or open-ended investment company manager for one.

Do not enter here any amount shown on the tax voucher as 'equalisation'. This amount, if shown, is a repayment of capital paid and is not subject to tax. In calculating their capital gains, each partner should deduct their share of the amount of the equalisation from the cost of the units or shares purchased during the year.

Transfer of information to the Partnership Statement

Transfer the amount of tax credits in box 7.27 to box 26 in the Partnership Statement. If you want to allocate this figure between the partners at the same time, read pages 13 to 15 of the Partnership Tax Return Guide before you do so. Otherwise finish filling in the rest of the Partnership Savings Pages.

- Scrip dividends and foreign income dividends

You have to enter scrip dividends and foreign income dividends separately because the notional tax attached to them cannot be repaid to the partner who is entitled to a share of that dividend, even if they do not pay tax.

Scrip dividends from UK companies

boxes 7.28 to 7.30 **If the partnership took up an offer of shares in place of a cash dividend**, this is a 'scrip' or 'stock' dividend.

The dividend statement should have 'the appropriate amount in cash' on it - this is the amount you should enter in box 7.28. Enter in box 7.29 the notional tax (this is 25% of the appropriate amount in cash). Add box 7.28 and 7.29 together and put the total in box 7.30. Ask your company for a statement if you have not got one. If you have doubts about what to include, ask your Tax Office or tax adviser for help.

Foreign income dividends from UK companies

boxes 7.31 to 7.33 Foreign income dividends are dividends paid by a company under the foreign income dividend scheme, or qualifying distributions which are treated as foreign income dividends.

The dividend voucher should show the dividend and notional Income Tax.

Foreign income dividend distributions from UK authorised unit trusts and UK open-ended investment companies

boxes 7.34 to 7.36 The dividend voucher shows the amount of the foreign income dividend distribution and Income Tax treated as paid (notional Income Tax).

If the partnership has accumulation units or shares, the foreign income dividend distribution is automatically reinvested in the unit trust or open-ended investment company. You must still enter the amount of the foreign income dividend distribution and the notional tax.

If you do not have a dividend voucher, ask the partnership's unit trust or open-ended investment company manager for one.

Do not enter here any amount shown on the tax voucher as 'equalisation'. This amount, if shown, is a repayment of capital paid and is not subject to tax. In calculating their capital gains, each partner should deduct their share of the amount of the equalisation from the cost of the units or shares purchased during the year.

- Non-qualifying distributions or loans written off

boxes 7.37 to 7.39 A non-qualifying distribution is:

- a bonus issue by a company of securities or redeemable shares (except a bonus issue giving rise to a qualifying distribution), **or**
- the paying on of such a bonus issue by a company that has itself received it.

If the partnership receives such a bonus issue of securities or redeemable shares, the amount of the distribution is:

- *for redeemable shares*, their nominal value **plus** any premium payable
- *for securities*, the amount of the principal secured **plus** any premium payable

minus any new consideration given for that issue.

Enter the amount of the distribution in box 7.39. Multiply that amount by 20% to arrive at the lower rate tax that is treated as paid by the partnership and enter that amount in box 7.38. Leave box 7.37 blank.

A loan or advance made by a company wholly or partly released or written off may be taxable. If so, the amount released or written off is treated as a net amount of income received after deduction of tax at the lower rate.

Include in box 7.37 the amount of the loan released or written off. Multiply this figure by 25% and put the result in box 7.38. Add the figures in boxes 7.37 and 7.38 together and put the result in box 7.39.

Transfer of information to the Partnership Statement

Transfer the amount of notional tax in box 7.40 to box 27 in the Partnership Statement and the taxed income in box 7.41 to box 22 in the Partnership Statement. If you want to allocate these figures between the partners at the same time, read pages 13 to 15 of the Partnership Tax Return Guide before you do so. Otherwise finish filling in the rest of the Partnership Savings Pages.

Other partnership income

If the partnership received income which is taxable and you have not included it elsewhere in this form or elsewhere in the Partnership Tax Return, fill in boxes 7.44 to 7.48 using the notes below. If you are in doubt about what to include, ask your Tax Office or tax adviser.

There are many types of transaction which produce such taxable income. Examples include:

- all casual earnings not declared elsewhere on the Partnership Tax Return including 'one-off' freelance income
- payments under covenants entered into for genuine commercial reasons in connection with the payer's trade or profession
- profits from isolated literary or artistic activities
- rental from leasing equipment owned by the partnership
- underwriting or sub-underwriting commissions
- income received after winding up the partnership's business - for example, payments for the sale of copyright or bad debts, or recovered post-cessation receipts)
- sale of patent rights if the partnership received a capital sum
- annual payments from UK unauthorised unit trusts.

- Expenses

The amount of taxable income is the gross income the partnership is entitled to (whether or not it received it) in the Return period minus allowable expenses incurred in that period. Allowable expenses are those, which:

- had to be spent solely to earn the receipts
- were not spent for private or personal reasons
- were not spent to buy something that the partnership intends to keep for a while (such as a computer). But it may be able to claim capital allowances for this expenditure. Ask your Tax Office for help.

You cannot set expenses against annual payments.

How to fill in boxes 7.42 to 7.48

Enter the aggregate figures for all the partnership's other income in the boxes. Keep a record of the separate items of income, and any relevant expenses relating to each item, in case you are asked for details later.

Other income received without UK tax deducted

- Profit

boxes 7.42 and 7.43 Enter the details of the Return period (see the note on page PSN2) which the information in boxes 7.44 to 7.48 relates.

box 7.44 Enter the gross amount of income minus expenses for the Return period (box 7.42 plus box 7.43). If the partnership made an overall loss, enter '0' in this box and the amount of the loss in box 7.45.

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Post-cessation receipts and similar business receipts

If the basis on which the partnership's trade or professional profits are taxable has changed (because, for example, there has been a change from the accounts basis to the earnings basis) include in box 7.44 any receipts that, as a result of that change, will not be taken into account during the lifetime of the business.

All other post-cessation receipts received by the partnership after its business has ceased should be included in the partners' personal Tax Returns - see the notes for Question 13 in the personal Tax Return Guide.

Loss

If the partnership's allowable expenses are more than its income, it has suffered a loss.

box 7.45 Enter the amount of any overall loss for the year.

Other income received with UK tax deducted

boxes 7.46 to 7.48 Enter in box 7.46 the amount of the other income received after tax has been deducted (net), in box 7.47 the amount of tax so deducted and in box 7.48 the amount before tax has been deducted (gross).

Give details of annual payments received in the year, including annual payments from unauthorised unit trusts.

Accrued income

Accrued income securities include all interest bearing securities, including permanent interest bearing shares in a building society, government loan stock, and company loan stock, but not shares in a company or National Savings Certificates.

Although they can own and buy and sell such securities, partnerships are not themselves within the accrued income scheme.

You should provide each partner with *full* details of accrued income securities bought and sold, including whether they were bought or sold **with accrued interest** (cum-dividend) or without the right to the next interest payment (ex-dividend).

Each partner will need to know his share of:

- the **nominal** holdings bought or sold
- any accrued income scheme charge
- any accrued income relief (rebate interest)
- the actual interest received.

Any charge arising on a partner's share of partnership accrued income securities bought and sold will be reflected on their Partnership Pages, and any relief will reduce the share of the interest returned.

Transfer of information to the Partnership Statement

Transfer the amount of any untaxed profit (or loss) in box 7.44 (or 7.45) to box 15 (or box 16) in the Partnership Statement.

Transfer the amount of any taxed income in box 7.48 to box 23 in the Partnership Statement and the corresponding tax credit in box 7.47 to box 25 in the Partnership Statement.

If you want to allocate these figures between the partners at the same time, read pages 13 to 15 of the Partnership Tax Return Guide before you do so.

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