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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 or on our website at www.inlandrevenue.gov.uk

- IR220: *More than one business*
- IR222: *How to calculate your taxable profits*
- IR224: *Farmers and market gardeners*
- IR227: *Losses*
- IR234: *Averaging for creators of literary or artistic works*

Filling in the Partnership Pages

You must fill in the Partnership Pages if, at any time during the 2001-02 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 in the next column 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 2001-02. The records used to complete it should be kept until at least 31 January 2008 in case your Inland Revenue office asks to see them.

If the Partnership Tax Return is not sent back to me in time, each partner who was a member of the partnership during the return period will be liable to an initial automatic penalty of £100. We can also charge penalties on **each** partner if that Return is incorrect because of fraud and negligence of **any** partner. We normally have until 31 January 2004 to decide whether an enquiry is necessary to check the accuracy of the figures in the Return.

● 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 2001-02, 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 received after tax was deducted from banks, building societies or other deposit takers.

Most partnerships will only complete the short Partnership Statement, and most partners will only complete the short Partnership Pages, which I have sent you. However, if your partnership completes the full Partnership Statement, you should complete the full Partnership Pages, which you can get from the Orderline.

The following Notes will help you. They use technical terms, which are explained, and there is a glossary of terms on page PN4. However, they do not cover every case, and if you are unsure of any points, ask your Inland Revenue office or tax adviser.

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

There will be 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 partnership and/or 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 2002 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.

Notes on **PARTNERSHIP (SHORT VERSION)**

Step 4 If it has, you should complete the Partnership Pages and work out 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 3.14 to 3.73 in the Self-employment Pages.

Step 5 Otherwise, enter the accounts information in boxes 3.14 to 3.73 and 3.99 to 3.115 in the **Self-employment Pages** and complete boxes 3.74 to 3.98 in those Pages to work out your taxable profit or allowable loss for this year. Do **not** complete the Partnership Pages.

● 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 2001-02 (through the partnership or otherwise) is no more than £15,000, and
- your total chargeable gains do not exceed £7,500, 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.

● Intermediaries legislation - IR35

If the partnership provided your services to clients in circumstances where you would be an employee if you worked for the client directly and not through the partnership, then new rules about tax and National Insurance contributions introduced from 6 April 2001 may apply. See the section 'IR35 - the provision of personal services through a partnership' on *Help Sheet IR222: How to calculate your taxable profits*. It tells you what adjustments are to be made to your taxable income and where these should be entered on your Tax Return.

● Compensation for slaughter of farm animals

If you claim relief under Extra Statutory Concession B11 (spreading of compensation for compulsory slaughter of farm animals) you should enter the adjustments in box 4.8.

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 2001, you should enter that date in box 4.3. If you stopped being a partner before 6 April 2002, you should enter that date in box 4.4. But leave these boxes blank if you have changed from sole trader to partnership or partnership to sole trader.

Your share of the partnership's trading or professional income

boxes 4.5 and 4.6 You pay tax for 2001-02 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 2000, your basis period for 2001-02 is the 12 months from 1 January 2001 to 31 December 2001.

However, your 'notional business' starts on the date you became a partner, or if you previously carried on the partnership business on your own, the date you first started that business. It will stop on the date you stop being a partner, or, if you subsequently carried on the business on your own account, the date you stop doing so.

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 adjustments 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 (enter a loss in brackets) and ignore box 4.8.

In any other case, you will need to work out 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 2001-02 in box 4.7 (enter a loss in brackets). If more than one accounting period ends in 2001-02, enter the share of profit for the most recent set of accounts. If no accounting period ends in 2001-02, enter '0' in box 4.7.

To arrive at your profit or loss for your 2001-02 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 work out 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 3.14 to 3.73 and 3.99 to 3.115 in the Self-employment Pages, **or**
- a combination of the two.

You may not be able to complete box 4.8 because the partnership cannot prepare the accounts from which you could work out the adjustment before the date for sending me your Tax Return. If so, you should provide a provisional amount, tick box 23.2 on page 9 of your Tax Return and explain in the 'Additional information' box, box 23.5:

- which figures are provisional (refer to appropriate box numbers in your Tax Return), **and**

Notes on **PARTNERSHIP (SHORT VERSION)**

- why you could not give final figures, **and**
- the date on which you expect to give me your final figures.

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).

Compensation for slaughter of farm animals

If your partnership has suffered compulsory slaughter of farm animals which are not covered by a herd basis election, you may wish to claim under Extra Statutory Concession B11 to:

- deduct your share of the profit arising from the compensation from your share of profit assessed for the period when the slaughter took place, **and**
- spread the amount deducted over the following three tax years (or the period to when you ceased to be a partner if that was shorter). Keep a note to make sure you do not overlook these adjustments.

Enter these adjustments in box 4.8. If you are reducing profits enter the adjustment in brackets.

If you have another adjustment to go in box 4.8 (see above) then add the two together. Use the 'Additional information' box, box 4.79 to explain any entries in box 4.8.

For more information about ESCB11 ask the Orderline for *Help Sheet IR224: Farmers and market gardeners*.

boxes 4.9 to 4.11**Overlap profits and relief**

If the partnership's accounting date is a date other than 5 April overlaps in your basis periods may occur:

- in the first three years after your 'notional business' starts up - see the notes on boxes 4.5 and 4.6, **or**
- in a year in which there is a change in the partnership's accounting date.

You may be able to claim overlap relief for the profit (the overlap profit) which arises in any overlap period.

Overlap relief may be due for 2001-02 if:

- you ceased to be a partner in 2001-02, **or**
- the partnership's business ceased in 2001-02, **or**
- the partnership changed its accounting date in 2001-02 and your basis period, as shown in boxes 4.5 and 4.6, exceeds 12 months.

Enter in

- box 4.9 any unused overlap profit (including any unused transitional overlap profit) brought forward from 2000-01;
- box 4.10 any overlap profit used in 2001-02;
- box 4.11 any unused overlap profit carried forward to 2002-03.

Ask the Orderline for *Help Sheet IR222: How to calculate your taxable profits*. It tells you how to work out overlap profits and how to claim overlap relief.

box 4.12 You may be able to claim averaging if the partnership:

- carries on the business of farming or market gardening, **or**
- derives its income from selling or allowing others to reproduce literary or artistic works which were created by one or more of the partners.

Enter in box 4.12 the amount by which your profit is changed by the averaging claim. Enter the figure in brackets if it reduces your profit. This entry does not change the amount of any loss to be included in box 4.14.

If you work out your tax bill you must also include in your Tax Return the adjustment to your tax for 2000-01 resulting from the averaging claim. Use box 18.4 if it is an increase or box 18.5 if it is a reduction.

For more information ask the Orderline for *Help Sheet IR224: Farmers and market gardeners* or *Help Sheet IR234: Averaging for creators of literary or artistic works*.

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; please also enter the amount in the 'Additional information' box, box 4.79 on Page P2.

box 4.12A If the partnership is carrying on a profession or vocation and has previously used a 'cash' or 'conventional' basis to calculate its profits, enter in box 4.12A the amount of the 'adjustment' from box 11A on your Partnership Statement.

boxes 4.13 and 4.14 If box 4.7 and the adjustments in boxes 4.8 and 4.10 result in a profit and you have not claimed averaging (box 4.12) or made a special adjustment for the change in accounting for professions and vocations on a cash basis (box 4.12A), enter the profit in box 4.13 and '0' in box 4.14. If you have made an entry in either box 4.12 or 4.12A, adjust the profit by that amount and enter the resulting figure in box 4.13 and '0' in box 4.14.

If box 4.7 and the adjustments in boxes 4.8 and 4.10 result in a loss, enter this figure in box 4.14 and '0' in box 4.13 unless you have claimed averaging (box 4.12) or made a special adjustment for the change in accounting for professions and vocations on a cash basis (box 4.12A). If you have made an entry in either box 4.12 or 4.12A, enter this figure in box 4.13 (and the loss in box 4.14).

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 2004. You should ensure that any claims you wish to make are made within the time limit prescribed. I cannot normally accept late claims.

box 4.15 *Help Sheet IR227: Losses* provides information on how you may claim tax relief on losses. If you wish to offset your 2001-02 loss against other income of 2001-02, enter in box 4.15 the amount you are claiming to offset.

box 4.16 If you want to offset the 2001-02 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 ask your Inland Revenue 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, box 23.5 on page 9 of your Tax Return.

box 4.17 Enter in box 4.17 any losses sustained in 2001-02, but not claimed in any other way, that you claim to carry forward against later profits. Where your business is subsequently transferred to a company in exchange for shares in that company you may be able to set unused losses carried forward against income from the company - see the note for box 15.8 on page 24 of your Tax Return Guide.

Notes on **PARTNERSHIP (SHORT VERSION)**

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 in box 4.21 any amounts that have not been included in the partnership accounts but which you need to work out your taxable profits; for example, any Enterprise Allowance (sometimes called Business Start-Up Allowance) you received in the year to 5 April 2002. This will normally have been paid to you rather than the partnership and therefore will not have been included in the Partnership Tax Return.

National Insurance contributions

Self-employed people are liable to pay the flat-rate Class 2 contributions, although people with small earnings from self-employment may apply for an exemption. You may also have to pay the profit-related Class 4 contributions (see the section on Class 4 contributions).

Class 2 National Insurance contributions

All self-employed people should register to pay Class 2 contributions as soon as possible after starting self-employment. This includes people who may be able to apply for an exemption from payment. The time limit for registering is 3 months from the end of the month in which you start working for yourself. If you do not register on time you may be charged a penalty.

Class 2 contributions count towards entitlement to certain contributory benefits such as retirement pension, Maternity Allowance and Incapacity Benefit. You may lose benefit if you pay Class 2 contributions late. If you have not already registered as self-employed for National Insurance contributions you can get more information about paying by ringing the Helpline for the Newly Self-Employed on 08459 15 45 15, or by writing to:

Inland Revenue National Insurance Contributions Office
Self Employment Services,
Customer Account Section,
Benton Park View,
Newcastle upon Tyne,
NE98 1ZZ.

Please have your National Insurance number available when ringing the Helpline and include it in any correspondence with Self Employment Services, Customer Account Section.

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 (£4,535) and upper (£29,900) profit limits.

box 4.23 You are excepted from paying Class 4 contributions for 2001-02 if, on 6 April 2001, you are:

- a man aged 65 or over, or a woman aged 60 or over, **or**
- aged under 16 and the Inland Revenue National Insurance Contributions Office has granted you 'exception' (to apply for exception ask NICO for form CA2835U), **or**
- during 2001-02 you were not resident in the UK for tax purposes (contact your Inland Revenue office or tax adviser 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 require further information, please contact the Inland Revenue National Insurance Contributions Office. If you think you may be excepted because you are:

- a trustee, **or**
 - a diver or diving supervisor,
- you should ask your Inland Revenue 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 Inland Revenue National Insurance Contributions Office may agree that your Class 4 contributions may be 'deferred' until such time as your overall contributions can be determined. Only they can agree to deferment. Leaflet CA72, available from the Inland Revenue National Insurance Contributions Office, gives further details.

If you are excepted or your contributions are deferred:

- tick box 4.23, **and**
- leave boxes 4.24 and 4.25 blank, **and**
- explain in the 'Additional information' box, box 4.79, that you are excepted or deferred, and give the reason.

boxes 4.24 and 4.25 If this was your only business, use the Working Sheet aside 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 2001-02	A £ <input type="text"/>
Adjustments on change of basis (see Note 1)	B £ <input type="text"/>
Other adjustments to profits chargeable to NICs (see Note 2)	C £ <input type="text"/>
box B + box C	D £ <input type="text"/>
Profit for NICs	E £ <input type="text"/>
Exempt threshold	F £ 4,535
Amount chargeable (maximum £25,365 in box G)	G £ <input type="text"/>
Class 4 NIC due (maximum £1,775 in box H)	H £ <input type="text"/>

If you want to work out your tax, complete box H and copy it to box 4.25 in your Partnership Pages. If you want me to work out your tax, ignore boxes H and 4.25.

Note 1:

The cash basis 'adjustment' is not taken into account for Class 4 NICs so in box B enter the amount of the 'adjustment' in box 11A of your Partnership Statement (and which you entered in box 4.12A).

Note 2:

- Trading losses.** You may bring forward to set against the 2001-02 Class 4 profits of this business **trading losses** of the same business from 2000-01 and earlier years, that have not been set against profits chargeable to Class 4 NIC. (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 working out Class 4 profits if it is incurred for business purposes but you have not taken it off in working out your taxable profits. Include any such interest from 2000-01 and earlier years that you have not set against previous Class 4 profits, or which was paid in 2001-02.

Notes on **PARTNERSHIP (SHORT VERSION)****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 taken off at source is the year to 5 April 2002. 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 taken off 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 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 2001 to 5 April 2002. Get the figure from your Partnership Statement.

box 4.75A Enter in box 4.75A your share of tax deducted from trading income (not CIS25 deductions).

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 2001-02, ask your Inland Revenue office or tax adviser.

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