HMRC - VATSC68000 - Consideration: Partnership Contributions

Persons joining partnerships will make a capital contribution towards the partnership assets in return for being admitted into the partnership. In KapHag Renditefonds (Case C-442/01) the ECJ ruled that there is no supply from the partnership to the incoming partner when admission to a partnership is so granted.

Non-monetary partnership contributions

In the ECJ case KapHag Renditefonds (Case C-442/01), the capital contributed by the incoming partner was money. Although that will usually be the position, it may be the case that the new partner contributes goods or services instead of, or additional to, cash. Where the partnership contribution does consist of goods or services, neither admission into the partnership nor any consequent share of partnership profits constitute consideration provided to the new partner for the goods or services that he has contributed. However, if the incoming partner is a taxable person, he will need to be treated as making a “deemed supply” of goods or services if the “deemed supply” criteria contained in Schedule 4 Paragraph 5 of the VAT Act 1994 and/or the Supply of Services Order are satisfied.

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