

## Partnerships and Capital Gains Tax

### **Contacts**

Please phone:

- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to [hmrc.gov.uk](http://hmrc.gov.uk)

This helpsheet explains how partners are treated for Capital Gains Tax. But it is only an introduction. If you are in any doubt about your circumstances you should ask your tax adviser. We will also be pleased to help. You can also consult our Capital Gains Manual, which explains the rules in more detail. Go to [hmrc.gov.uk/manuals/cgmanual](http://hmrc.gov.uk/manuals/cgmanual)

This helpsheet will help you fill in the *Capital gains summary* pages of your tax return.

### **How are partnerships treated for Capital Gains Tax?**

Partnerships (including those carrying on a business as a Limited Liability Partnership) are treated as transparent for Capital Gains Tax. Each partner is responsible for returning any capital gains arising on the disposal of their interests in the assets of the partnership.

This applies to Scottish partnerships as well as those in England, Wales and Northern Ireland.

While this also applies to partnerships which include companies as members, the rules for computing gains of companies, which are chargeable to Corporation Tax, are different from those for individuals. The contents of this helpsheet do not therefore apply to companies who are members of partnerships.

### **When we should be given details of any capital gains**

You should fill in the *Capital gains summary* pages if you were a member of a partnership during the year and any of the following happened:

- the partnership disposed of an asset during the year (for example, it sold part of its business premises), or
- you left the partnership during the year, or
- there was a change in the partnership during the year and you now have a reduced interest in the partnership assets (for example, a new partner joined).

### **How do you know what your interest in the assets is?**

Partners are treated as owning a fractional interest in each of the assets of the partnership. The amount of your interest will be decided by:

- any written agreement showing how you and your partners will share the assets, or
- any written agreement showing how you and your partners will share the profits, or
- the rules in the 1890 Partnership Act which treat you all as having equal shares.

#### **Example 1**

Bill and Ted are in partnership and agree to share profits equally. This means that they are each treated as having a 50% interest in the assets of the partnership.

## When you dispose of all of your interest

You dispose of all of your interest if a partnership asset is disposed of to someone outside the partnership.

### Example 2

Jack and Jill are equal partners in a farm. They sell part of the farmland to their neighbour in May 2012. Each has disposed of all of their 50% interest in the land that is sold.

You also dispose of all your interest if you leave the partnership completely, for example, when you retire.

### Example 3

Jack reaches retiring age and leaves the partnership in December 2012. He disposes of all of his 50% interest in the partnership assets to Jill.

## When you dispose of part of your interest

You may dispose of part of your interest in an asset if the original agreement is altered. This most commonly happens when a new partner joins.

### Example 4

Bill and Ted are joined by a new partner, Alice, in July 2012. They now agree to share profits on a 40%:40%:20% basis. This means that Bill and Ted have each disposed of  $\frac{1}{5}$  ( $\frac{10}{50}$ ) of their original interests.

It may also happen when the partners rearrange matters between themselves.

### Example 5

After six months, Bill, Ted and Alice become equal partners. Each partner is now entitled to  $33\frac{1}{3}\%$  of the profits. Bill and Ted have now made an additional disposal of  $6\frac{2}{3}\%$  of their 40% interests.

## When you acquire your interest

If the asset is acquired from someone outside the partnership, you acquire your original interest in it at that time.

### Example 6

The partnership of Bill, Ted and Alice buys a new piece of machinery in March 2013. Each now has a  $33\frac{1}{3}\%$  interest in that asset.

## When you acquire additional interest

You may acquire an interest or an additional interest in the asset if the original agreement is altered. This most commonly happens when a partner leaves.

It may also happen when the partners agree to revise their sharing arrangements.

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## **Example 7**

Bill resigns from the partnership on 5 April 2013 and disposes of his interest in the assets to Ted and Alice. At the same time, they agree to revise their interests to 40%:60%. As a result, Ted acquires an additional  $6\frac{2}{3}\%$  interest from Bill, Alice acquires an additional  $26\frac{2}{3}\%$ .

## **What do you need to do if you have disposed of part of your interest?**

If you have disposed of any part, or all, of your interest in a partnership asset, you need to calculate any chargeable gain and enter it in your *Capital gains summary* pages.

### ***Points to remember***

- You are treated as having a fractional interest in the partnership assets.
- You can acquire that interest
  - when an asset is acquired from someone outside the partnership
  - when there is a reorganisation within the partnership.
- You can dispose of that interest
  - when an asset is disposed of to someone outside the partnership
  - when there is a reorganisation within the partnership.

## **How you calculate any chargeable gains**

Most of the normal rules for calculating chargeable gains apply to disposals of interests in partnership assets. This helpsheet explains these briefly.

If you need help, you should ask us or your tax adviser.

The normal rules do not apply if you acquired your interest in the asset from, or disposed of it to, another partner. See 'The special rules' section on page 4 of this helpsheet.

## **The normal rules**

There are rules which you have to use if you are calculating a chargeable gain on the disposal of an interest in a partnership asset. These affect:

- the amount you should include for the disposal proceeds of your interest in the asset
- the amount you can deduct for the allowable cost of your interest in the asset
- the amount you can deduct if you held your interest in the asset on 31 March 1982.

### ***The amount to be included for the proceeds of disposal***

In calculating your chargeable gain on the disposal of your interest in the asset to someone outside the partnership, you normally include your share of the actual disposal proceeds minus any incidental expenses.

## **Example 8**

When Jack and Jill sold the part of the farmland to their neighbour in May 2012, they received £25,000 for it and incurred legal fees of £5,000. In calculating their chargeable gains, each should include disposal proceeds of £12,500 minus expenses of £2,500.

In certain circumstances, you may have to include your share of the market value of the asset at the date of disposal, rather than the actual disposal proceeds. If you think this might apply, you should consult us or your tax adviser.

The normal rules do not apply if you have disposed of your interest in the asset to another partner. See 'The special rules' section below.

## **How much should you deduct for the cost of the asset?**

### ***Assets acquired after 31 March 1982***

If the asset was acquired from someone outside the partnership after 31 March 1982 and you acquired your interest at that time, you should deduct your share of the original acquisition cost, plus any incidental expenses.

#### **Example 9**

When Bill, Ted and Alice bought their new machinery in March 2013, they paid £30,000 for it with incidental expenses of £750. If they sell it, each will be able to deduct acquisition costs of £10,000 and expenses of £250.

In certain circumstances, you may have to deduct your share of the market value of the asset at the date of acquisition, rather than the actual cost. If you think this might apply, you should consult us or your tax adviser.

### ***Assets acquired on or before 31 March 1982***

If the asset was acquired from someone outside the partnership on or before 31 March 1982 and you acquired your interest at that time, you should deduct your share of the market value of the asset at 31 March 1982, rather than the actual cost.

The normal rules do not apply if you acquired your interest in the asset from another partner. See 'The special rules' section below.

### ***Points to remember***

- You should include your share of the disposal proceeds, less any incidental expenses.
- If you acquired your interest in the asset
  - after 31 March 1982, you should deduct your share of the original acquisition cost, plus any incidental expenses
  - on or before 31 March 1982, you should deduct your share of the market value of the asset at that date.

## **The special rules**

There are special rules that apply if you acquired your interest in the asset from another partner or have disposed of it to another partner. These affect:

- the amount you should include for the disposal proceeds
- the amount you can deduct for the allowable cost
- whether you should use your share of the 31 March 1982 value of the asset.

This helpsheet summarises the way the special rules work. If you need more help, ask us or your tax adviser.

### ***Disposal proceeds***

If you dispose of your interest in the asset to another partner, the special rules treat the disposal proceeds as your share of the balance sheet value of the asset.

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## **Example 10**

When Bill resigns from the partnership, the chargeable assets in the balance sheet are:

Property	£240,000
Machinery	£180,000
Goodwill	£60,000

Bill had a  $33\frac{1}{3}\%$  interest in the assets, so his disposal proceeds are:

Property	£80,000
Machinery	£60,000
Goodwill	£20,000

This rule does not apply if you have received actual consideration from the other partners. In that case, ask us or your tax adviser.

This rule may not apply if you and the other partners are connected persons, for example, father and son. In that case, you should ask us or your tax adviser.

### ***Acquisition cost***

If you acquire your interest in the asset from another partner, the special rules treat the acquisition cost as your share of the balance sheet value of the asset.

## **Example 11**

When Bill resigned, Ted acquired an additional  $6\frac{2}{3}\%$  interest in the assets. His acquisition cost of that interest will be:

Property	£16,000
Machinery	£12,000
Goodwill	£4,000

This rule does not apply if you have given actual consideration to the other partners. In that case, ask us or your tax adviser.

This rule may not apply if you and the other partners are connected persons, for example, father and son. In that case, ask us or your tax adviser.

This rule may not apply where the asset was acquired by the partnership on or before 31 March 1982. In that case, ask us or your tax adviser.

### ***Transfers at balance sheet value***

Because the special rules treat acquisitions and disposals as taking place at balance sheet value, you may have to use the same figure for both disposal consideration and acquisition cost.

This will depend on whether the assets have been revalued since you acquired your interest in them.

### Example 12 – Assets not revalued

Charles became a member of a partnership in 1990. He was entitled to a 25% interest in the assets. In the balance sheet, these were shown as:

Property	£400,000
Goodwill	£80,000

Charles made no payment for his interest, so his acquisition costs are:

Property	£100,000
Goodwill	£20,000

In June 2011, Andrew joins as a partner and Charles reduces his interest to 20%.

The assets are still in the balance sheet at £400,000 and £80,000, so Charles will use 5% of those values as both his acquisition costs and disposal proceeds for the 5% he transfers to Andrew. He therefore makes neither a gain nor a loss.

A situation such as this is referred to as a no gain/no loss disposal. If, however, the assets in the balance sheet have been revalued, then gains or losses may arise.

### Example 13 – Assets revalued

In October 2012, Edward joins the partnership and Charles makes an additional 5% reduction in his interest. By now the assets have been revalued to:

Property	£1,000,000
Goodwill	£10,000

As the assets have been revalued, Charles' acquisition costs and disposal proceeds are now different:

Property	acquisition	5% x £400,000	£20,000
	disposal	5% x £1,000,000	£50,000
	gain		£30,000
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Goodwill	acquisition	5% x £80,000	£4,000
	disposal	5% x £10,000	£500
	loss		£3,500

### Point to remember

Transfers of interests between partners take place at balance sheet value unless actual consideration is paid.

These notes are for guidance only and reflect the position at the time of writing. They do not affect any rights of appeal. Any subsequent amendments to these notes can be found at [hmrc.gov.uk](http://hmrc.gov.uk)