These notes will help you to complete the *Partnership disposal of chargeable assets* pages of your Partnership Tax Return.

Contents

Filling in the *Partnership disposal of chargeable assets* pages

Gather together the material you need, such as:
- contracts for the purchase and sale of assets
- invoices for allowable expenditure.

You must complete these pages if the partnership disposed of any chargeable assets in 2011–12. You should also complete these pages if the partnership carries on its business as a Limited Liability Partnership and has disposed of any chargeable assets in the period. If the partnership is a 'CT Partnership' see page PTRG 4 of the Partnership Tax Return Guide.

You may need to provide each partner with additional information, for example, the incidental costs of buying or selling an asset, so that they can calculate their own chargeable gains. You can find details of the information the partners may need when filling in their own tax returns in the Capital Gains Tax *notes* and helpsheets for the personal tax return. To get copies go to **www.hmrc.gov.uk**

An introduction to Capital Gains Tax

These *notes* are a simplified summary of the Capital Gains Tax law as it applies in some common cases. If you are in any doubt about their relevance to your partnership, ask us or your tax adviser.

Need help?

Go to our website at
www.hmrc.gov.uk

Phone
The number printed on your tax return

SA Helpline
0845 9000 444

SA Orderline
0845 9000 404

Chargeable assets

Any form of property, wherever it is situated, may be a chargeable asset. The most common assets include:
- stocks, shares and units in unit trusts
- land and buildings
- business assets such as goodwill.

Some assets are exempt from Capital Gains Tax but most of these exemptions are unlikely to apply to partnership assets. If you are in any doubt, ask us or your tax adviser.

What is a chargeable gain?

A chargeable gain is made when something a person owns (an asset):
- is wholly or partly disposed of (or treated as disposed of), and
- its value has increased since it was acquired, or since 31 March 1982 if that is later, or
- as a result of a claim to relief, their acquisition costs have been reduced and the proceeds of disposal are greater than this reduced amount.

We may also treat a person as making a gain in other circumstances, for example, where:
- a gain on an earlier disposal of an asset has been deferred and the deferral period has come to an end, or
- the value of an asset has increased by a transfer of rights, or by any other means that would not by itself be regarded as a disposal, or
- a wasting asset is disposed of that has not diminished in value as quickly as was expected, or
- a capital sum is derived from ownership of an asset, for example, compensation for damage or an insurance receipt.

We will normally treat each of the members of the partnership as owning a proportionate interest in the partnership's assets. When an asset is disposed of, each partner may make a chargeable gain on the disposal of their interest in that asset. But the gains made by each partner may vary; for example, because one partner is entitled to a smaller or larger interest in the asset than the other partners or because one partner has been entitled to an interest in the asset for a shorter or longer period than the other partners.

Because the gains are chargeable on the partners rather than the partnership, there is no such thing as a 'partnership chargeable gain'. Therefore, you are required simply to make a return of the information included in a partnership account for the period from 6 April 2011 to 5 April 2012, namely the proceeds from any disposals of partnership assets.

Exempt assets

Exemptions that might apply to the partnership assets include:
- motor cars
- UK Government stocks (gilts) and certain corporate bonds
- life assurance policies and deferred annuity contracts, unless at any time acquired for actual consideration.

If the only disposals are of assets in the list above, you do not need to complete these pages.

Gains from the disposal of personal effects or goods, each of which was worth £6,000 or less when disposed of, are exempt. You can find more details in Helpsheet 293 *Chattels and Capital Gains Tax*.

Information about disposals

Disposals

Tax is payable on gains from the disposal of chargeable assets. A disposal will occur when the partnership:
- sells, or
- gives away, or
- exchanges an asset, or
- receives a capital sum from the ownership of an asset, or
- the value of an asset it owns has been increased at the expense of an asset owned by some other person.

A capital sum is a sum that is not part of the partnership's taxable income.

The tax due, if any, arises on the disposal of the partners' interests in the partnership asset. This is a matter for the partners themselves.

There are a number of special rules for chargeable disposals which, although not relevant to the Partnership Tax Return, the partners may need to consider. These include:
- claims that an asset has become of negligible value, or
- disposals of interests in partnership assets (for example, when a partner's proportionate interest in a partnership asset is reduced even though there has been no disposal of the asset by the partnership itself), or

- occasions when the market value of an asset must be taken into account rather than the actual disposal proceeds ('market value' is defined on page PAN 4 of these *notes*), or
- a part disposal of an asset, or
- disposals to a connected person ('connected persons' is defined on page PAN 5 of these *notes*).

Building society mergers, conversions and takeovers

If the partnership has:

- received cash as a result of a merger of two or more building societies, or
- received cash, or been issued with shares, or received both cash and shares, as a result of either
  - a conversion of a building society to a company, or
  - a takeover of a building society by a company,

there may be liability to either Income Tax or Capital Gains Tax. The building society may be able to tell you whether there is any tax liability. If not, ask us or your tax adviser.

Share reorganisations, company reconstructions and takeovers

If shares in a company held by the partnership have changed because the company has reorganised its share capital or if the partnership has exchanged shares in a company for other shares or securities as part of a company reconstruction or takeover, the partners will not be treated as if they had made a disposal of their original interests in the shares. Instead the chargeable gain or allowable loss in respect of the interest in the original shares will arise when the partnership makes a disposal of the new shares or securities. The two main exceptions to this general approach where the partners may be treated as having made a disposal on which there is a chargeable gain or allowable loss are:

- where they receive anything else in addition to the new shares or securities, such as a sum of money, or
- where a company reconstruction or takeover is not carried out for commercial reasons, or is made in order to avoid tax. Companies can apply for clearance in advance in respect of these anti-avoidance rules. The clearance will only be valid if the takeover or reconstruction is carried out in accordance with the clearance application.

If you think that the partnership has obtained shares or securities as part of a company reconstruction or takeover, or you need advice about the anti-avoidance rules, go to **www.hmrc.gov.uk/sa** or ask the SA Orderline for Helpsheet 285 *Share reorganisations, company takeovers and Capital Gains Tax*.

What is the date of disposal?

If the disposal was made by way of a contract, the date of disposal is usually the date of the contract.

In a small number of cases the contract may be conditional. This will apply if one or more conditions have to be met before the contract becomes binding. In these cases the date of disposal is the date on which the last of the conditions is met.

In other cases the date of disposal will usually be the date when ownership of the asset was effectively transferred.

There may be exceptions, particularly if the asset is land that has been compulsorily purchased.

Example 1

The partnership sells a piece of land under an unconditional contract dated 2 April 2012. The land was conveyed to the purchaser on 2 May 2012. The disposal is treated as taking place on 2 April 2012. This date falls in the tax year ending on 5 April 2012 and you should return the disposal in the Partnership Tax Return for that year.

What are the disposal proceeds?

The total amount of disposal proceeds may include:

- cash payable now or in the future, or
- the value of any asset received in exchange for the asset disposed of, or
- the right to receive future payments.

Any amount received in cash or which can be turned into cash should be included in the disposal proceeds. But you should not include anything that is partnership income, with the exception of any premium received for the grant of a sublease out of a short lease.

Example 2

The partnership exchanges a piece of land worth £30,000 for a painting worth £33,000. The disposal proceeds of the land are £33,000, the value of the consideration received.

The distinction between future payments and the right to receive future payments is important when the partnership does not receive all of the money it is entitled to straightaway.

If the amount to which the partnership is entitled is known or can be calculated, you should bring in the full amount. No allowance can be made for the possibility that the whole sum may not be paid.

However, if it becomes clear later on that the partnership will never receive some part of the total amount originally due, the calculation of the partners' gains can be adjusted.

If the partnership receives the total amount due in instalments over a period exceeding 18 months, the partners may not have to pay the tax which is due on their gains in one sum. Ask us for details.

Example 3

The partnership sells shares in a company in December 2011 for £50,000, plus a sum equal to 10% of the profits made by the company in the year ended 30 June 2011. You should begin the calculation by bringing in the £50,000 and the sum equal to the percentage of profits to which the partnership is entitled. The sum can be calculated by reference to the company accounts for the period ended 30 June 2011.

If some part of the amount to which the partnership is entitled cannot yet be calculated when the disposal is made because some factor is not yet known, you should include the value of the right to that future sum.

When the partnership receives the amount it is entitled to, there will be a further disposal of that right.

Example 4

The partnership sells land for £40,000 and will also be entitled to receive 50% of any increase in the value of the land if the purchaser is able to obtain planning permission for a housing development. When the disposal is made you cannot know whether planning permission will be granted or what effect that will have on the value of the land. So you do not know how much the partnership will finally get. The disposal proceeds are £40,000 plus your estimate of the value of the right to receive more money.

In some circumstances, the amount that the partnership is to receive is taken to be the market value of the asset it has disposed of.

Market value will apply where the disposal is, for example:

- to a connected person, or
- otherwise than by a bargain made at arm's length, for example, a gift (unless 'no gain/no loss' applies), or
- wholly or partly for consideration which cannot be valued.

A disposal which is otherwise than by way of a bargain made at arm's length, is a disposal in which one or other of the parties did not intend to get the best commercial return that could have been obtained. It is a disposal in which one of the parties intends in that transaction to confer a gratuitous benefit on the other.

Example 5

The partnership sells land worth £40,000 to the husband or wife or civil partner of a partner for £25,000. The disposal proceeds are £40,000, the market value.

What is meant by 'market value' and 'connected persons'

Market value

In some cases the price the partnership paid when it obtained the asset or the price it received when it disposed of the asset may be replaced by the market value of the asset in working out the gain or loss. The market value is the price the asset might reasonably have been expected to fetch on the open market at the date of acquisition or disposal.

There is a special rule that applies if the partnership has disposed of assets by a series of linked disposals to connected persons so that the value of the assets transferred taken separately is less than their combined value. When calculating the gain, the value of each separate asset is replaced by a proportion of the total market value of the assets in the series. Any disposal which took place more than six years before the next disposal in the series can be excluded.

Example 6

The partnership owns the freehold interest in a piece of land. That interest is worth £100,000.

Four years later the partnership grants the brother of one of the partners a lease over that land. The lease is worth £20,000.

The partnership then sells the brother the freehold reversion for its market value of £60,000. Because the freehold and the lease considered separately are worth less than the unrestricted freehold, the partnership has only realised a total of £80,000 in disposing of land worth £100,000. Because this was a series of transactions, the £20,000 the partnership got from the grant of the lease must be replaced by £25,000 in working out the gain.

The £60,000 which the partnership got for the freehold reversion must be replaced by £75,000 in working out any gain on that disposal.

In the case of shares or securities quoted on the Stock Exchange Daily Official List (SEDOL) the market value is the lower of:

- a figure one-quarter up from the lower of the two prices in the quotation for the relevant day, and
- the figure halfway between the highest and the lowest prices of recorded bargains for that day.

If you make an estimate of market value, give details in box 4.2 on page PA 2 of the *Partnership disposal of chargeable assets* pages. We may need to check if that value is accurate. We approach specialist valuers to value some assets, mainly unlisted shares, land, goodwill and works of art. You will be able to discuss the values you have used with our valuers and if we cannot agree after discussion the partners will be able to appeal to an independent tribunal. If we do not check the computation of a chargeable gain, you should not assume that valuations used in that computation are agreed.

Connected persons

If an asset is disposed of to a connected person, the price paid or received is replaced by the market value of the asset in working out any gain or loss on the disposal of that asset.

Connected persons are:

- the husband or wife or civil partner of a partner
- a partner's brother or sister, or the partner's spouse's or civil partner's brother or sister
- a partner's parents, grandparents or other ancestors or the partner's spouse's or civil partner's parents, grandparents or other ancestors
- a partner's children and other lineal descendants or the partner's spouse's or civil partner's children and other lineal descendants
- the husbands or wives or civil partners of any of the relatives quoted above
- business partners and their relatives, together with the husbands and wives and civil partners of those partners, except for genuine commercial acquisitions or disposals of partnership assets
- any company controlled either by a partner or any of the persons quoted above
- the trustees of a settlement of which a partner, or any person connected with the partner, is the settlor.

If a loss is made on the disposal of an asset to a connected person, that loss can only be set against gains the partner makes on disposals to that same connected person.

Filling in pages PA 1 and PA 2

Filling in page PA 1

Fill in page PA 1 to give details about the partnership's disposals in the year ended 5 April 2012. The information you provide helps us to decide if we need to ask you any more questions about the Partnership Tax Return.
If there is not enough space on the page for all of the disposals, photocopy it before filling it in and continue on the photocopy.

Column 1

Enter in this column details of each chargeable asset the partnership has disposed of. For example, if the partnership disposed of land or buildings, give the address and a description of the property. If the partnership disposed of shares, give the name of the company, the type of shares disposed of and how many were disposed of.

Column 2

This column is only relevant if the asset you quoted in column 1 is shares or securities.

Tick the box in this column unless the shares or securities were quoted shares or other securities as defined on page PAN 6. You will also need to tick the box if you obtained the shares or securities on a share exchange, or other company reorganisation, and the shares or securities you originally held were not quoted shares or other securities throughout the period you held them.

Definition of quoted shares or other securities for the *Partnership disposal of chargeable assets* pages

For the purpose of completing the *Partnership disposal of chargeable assets* pages only, 'listed shares or other securities of a company' means any of the following.

- Shares or securities of a company which were either listed on a recognised stock exchange throughout the period the partnership owned them – ignoring any period when the listing or quotation was temporarily suspended (please go to **www.hmrc.gov.uk** for more details).
- Shares in a company which was a UK open-ended investment company (OEIC) throughout the period the partnership held them.
- Units in a unit trust that was an authorised unit trust throughout the partnership period of ownership.

Any shares or securities not within the 'listed shares and securities' definition above are to be treated as 'unlisted'.

A list of recognised stock exchanges is available on our website at **www.hmrc.gov.uk** or you can ask us.

Column 3

Enter in this column the total amount of disposal proceeds the partnership has received or will receive from each disposal. Pages PAN 3 to PAN 5 explain what to include in disposal proceeds.

Box 4.1

Enter in box 4.1 the total proceeds from all disposals. Make sure that you enter the gross disposal proceeds. Do not deduct incidental disposal proceeds. The partners should make deductions (for their share of the costs) in their personal tax returns.

Column 4

Use this space to provide other information. For example:

- why you use valuations
- whether the value you transfer is chargeable under Section 29 or 30 TCGA 1992
- whether there has been a part disposal
- whether there has been an exchange of shares or securities in a company reconstruction or takeover.

Filling in page PA 2

You may use box 4.2 on page PA 2 to give any more information that you think will help us to understand the entries on page PA1.

Transfer of information to the *Partnership Statement (full)*

Transfer the total proceeds from all disposals of chargeable assets to box 30 in the *Partnership Statement (full)*.

You may need to allocate shares of the proceeds from each disposal to the appropriate partners before you can complete the rest of the Partnership Statement. Even if you do not need to do this to complete the Partnership Statement, the partners will need this information to calculate the chargeable gains arising to them, if any, on the disposals of their interests in partnership assets. See the notes on pages PTRG 14 to PTRG 17 of the Partnership Tax Return Guide for more details, including an example.

Helpsheets

Helpsheets give more detailed information about particular tax rules. You might find them useful even though their principal purpose is to help people with their own, personal tax return. They explain about the additional information partners may need to calculate their chargeable gains. Copies are available from our website at **www.hmrc.gov.uk** or from the SA Orderline.

- Helpsheet 275 *Entrepreneurs' Relief*
- Helpsheet 276 *Incorporation Relief*
- Helpsheet 278 *Temporary non-residents and Capital Gains Tax*
- Helpsheet 281 *Husband and wife, civil partners, divorce, dissolution and separation*
- Helpsheet 282 *Death, personal representatives and legatees*
- Helpsheet 283 *Private Residence Relief*
- Helpsheet 284 *Shares and Capital Gains Tax*
- Helpsheet 285 *Share reorganisations, company takeovers and Capital Gains Tax*
- Helpsheet 286 *Negligible value claims and Income Tax losses on disposals of shares you have subscribed for in qualifying trading companies*
- Helpsheet 287 *Employee share and security schemes and Capital Gains Tax*
- Helpsheet 288 *Partnerships and Capital Gains Tax*
- Helpsheet 290 *Business Asset Rollover Relief*
- Helpsheet 292 *Land and leases, the valuation of land and Capital Gains Tax*
- Helpsheet 293 *Chattels and Capital Gains Tax*
- Helpsheet 294 *Trusts and Capital Gains Tax*
- Helpsheet 295 *Relief for gifts and similar transactions*
- Helpsheet 296 *Debts and Capital Gains Tax*
- Helpsheet 297 *Enterprise Investment Scheme and Capital Gains Tax*
- Helpsheet 298 *Venture capital trusts and Capital Gains Tax*

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 **www.hmrc.gov.uk**