



Partnerships review: disposals of assets through partnerships

Who is likely to be affected?

This change will affect those who use partnerships, including limited liability partnerships, to dispose of income streams or assets without triggering a charge to tax on income.

General description of the measure

The legislation will apply where a person disposes of all or part of an asset or income stream by or through a partnership if the main purpose, or one of the main purposes, of the disposal, or any of the steps by which the disposal is effected, is to secure a tax advantage in relation to the charge to income tax or the charge to corporation tax on income.

The legislation will impose a charge to tax on income on the person making the disposal.

Policy objective

This change makes the tax system fairer by preventing tax-motivated disposals of income streams or assets through partnerships giving rise to tax advantages.

Background to the measure

This change is part of a wider review of certain parts of the partnership rules announced in Budget 2013. A consultation document, *Partnerships: A review of two aspects of the tax rules*, was published on the GOV. UK website on 20 May 2013 and the consultation closed on 9 August 2013.

This element of the partnerships review measure is discussed in the consultation document under the heading: *Partnership members with differing tax attributes*.

Detailed proposal

Operative date

The legislation will have effect in relation to arrangements entered into on and after 6 April 2014 for income tax payers and 1 April 2014 for persons within the charge to corporation tax.

Current law

The arrangements covered by this change are similar to those dealt with by the legislation concerning transfers of income streams (Chapter 1 in Part 16 of Corporation Taxes Act 2010 and Chapter 5A of Part 13 Income Tax Act 2007). However, the transfer of income stream provisions currently apply to partnerships only in very limited circumstances.

Proposed revisions

Legislation will be introduced in Finance Bill 2014. The legislation will apply if directly or indirectly in consequence of or otherwise in connection with an arrangement:

- there is a disposal of an asset (in whole or part) or a right to income by or through a partnership from a member of the partnership or a connected person (the transferor) to another member; and
- the main purpose, or one of the main purposes, of one or more steps taken in effecting the disposal is the obtaining of a tax advantage in relation to the charge to income tax or the charge to corporation tax on income.

'Disposal' takes the same meaning as in the Taxation of Chargeable Gains Act 1992 and includes both part disposal and in substance disposals such as may be effected by (for example) a change of partnership profit sharing ratios.

The legislation will not apply if the transferor and transferor are relatives.

Where the legislation applies the 'relevant amount' is to be charged to tax as if it were income of the transferor. The relevant amount is the consideration given for the asset or income stream, unless the consideration given is much less than the value of the asset in which case the charge to tax will be based on a deemed market value disposal.

Summary of impacts for the review

The following table is a summary of impacts for the partnership review announced in Budget 2013 of which the change described above is a part.

Exchequer impact (£m)		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	Budget	nil	+125	+365	+300	+285	+270
	Extra	nil	nil	+680	+430	+410	+400
	Total	nil	+125	+1045	+730	+695	+670
	<p>The first row presents the figures published at Budget 2013 that were set out in Table 2.1 of the Budget Report and certified by the Office of Budget Responsibility (OBR) at that time. More details about the original figures can be found in the policy document published alongside the Budget.</p> <p>The second row presents the extra costing attributable to the alternative investment fund management (AIFM) sector and has been estimated using information gathered during the consultation carried out over the summer. These figures are set out in Table 2.1 of the Autumn Statement 2013 and have been certified by the OBR. The policy document published alongside the Autumn Statement provides further details.</p>						
Economic impact	<p>This measure will result in a more level playing field through reducing distortions to competition and to the allocation of resources among sectors driven by tax planning. It may also result in an increase in labour costs and a decrease in post-tax profits levied on selected partnerships in certain industries. Overall, the impact on the economy should be small.</p>						
Impact on individuals and households	<p>Those individuals who are affected members of partnerships will now be required to pay the correct amount of tax and National Insurance contributions (NICs) at broadly the right time. It is possible that there is a modest reduction in administrative burden for some individuals who will pay through Pay As You Earn rather than having to fill in a self assessment return. Overall the impact is expected on individuals and households to be negligible.</p>						

Equalities impact	No impact is expected on any protected equality groups.
Impact on businesses including civil society organisations	<p>This measure will have a negligible impact on businesses and civil society organisations.</p> <p>The existing evidence suggests that the majority of partnerships will not be affected by the consultation proposals. Those partnerships affected are likely to be limited in number and they are primarily large professional or AIFM partnerships.</p> <p>There would be some one off costs as professions and taxpayers need to understand the new rules and communicate them to their partnership members.</p> <p>For those AIFM partnerships which choose to use a new paper-based process to account for tax and NICs, administrative costs are expected to be negligible as they are already required to record and process the information in order to comply with the regulatory and tax requirements.</p>
Operational impact (£m) (HMRC or other)	<p>The AIFM process requires changes to HM Revenue & Customs' (HMRC) systems and these are estimated to cost up to £1.6 million. There will also be some extra administrative costs to be borne by HMRC, currently estimated at £260,000 per annum.</p> <p>There would also be some additional operational costs associated with the monitoring and checking records of notional and actual partners of partnerships but these are expected to be minimal.</p> <p>For the relatively few public sector organisations using the partnership model, there would be administrative costs to understand the new rules.</p>
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

The partnership review measure will be monitored and assessed alongside other measures in the Government packages for fairer taxation and avoidance.

Further advice

If you have any questions about this change, please contact James Ewington on 03000 553788 (email: partnership.review@hmrc.gsi.gov.uk).