

Office of  
Tax Simplification

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**Review of partnerships:  
update and call for evidence**

July 2014



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# 1

## Introduction

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**1.1** In January 2014, the Office of Tax Simplification (OTS) published an interim report into the review of the taxation of partnerships. The aim of this short report is to provide stakeholders with an update of progress on our recommendations, together with an invitation to contribute to some study groups that are carrying out further work on some topics.

**1.2** The interim report summarised certain key themes emerging from the review, and set out recommendations which were grouped under three headings:

- short-term fixes
- medium-term recommendations
- longer-term areas to investigate

**1.3** The annex to this report sets out the HMRC response to each of the OTS proposals raised under the three headings above. In certain areas, we are calling for further evidence in order to test the response.

**1.4** Chapter 2 looks at the short, medium and longer term areas from the interim report, and sets out the further work being taken forward by the OTS, and chapter 3 summarises the areas where further evidence is being requested.

**1.5** A final report will then be published in late summer 2014, though its timing and format is dependent on how the various project groups progress. Recommendations in the report will be made to the Chancellor of the Exchequer in time for consideration for the Autumn Statement. It is, as always, up to ministers to decide which of our recommendations to take forward, subject to formal consultation and the normal Parliamentary process.





# 2

## Update on interim report proposals

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### Short-term

**2.1** The annex to this report sets out HMRC's responses to the various 'short-term fixes' in the interim report. As will be seen, most are being taken forward.

**2.2** In particular, the OTS feel the publication of the draft consolidated partnership manual<sup>1</sup> on the HMRC website in April 2014, will potentially save these businesses an immense amount of time and associated costs in trawling the guidance. An additional five of the remaining short term issues raised will be clarified within this new manual:

- partnerships eligibility for Entrepreneurs' Relief, particularly regarding possible relief on subsidiary companies held by an LLP
- Stamp Duty Land Tax (SDLT) liabilities following changes in the profit share ratio
- inheritance tax for partnerships
- VAT registration, involving limited partnerships and joint ventures
- VAT grouping for LLPs

**2.3** The main exception to this general taking forward is the idea of creating free software to enable the smallest partnerships to file electronically without having to buy a commercial package. HMRC explain the reasons for this and we are sympathetic to the cost issue in particular. However, we, and no doubt many small partnerships will find this disappointing: we would hope that future digitisation in this area may help (see comments around recommendation 27 in the annex).

### Medium-term

#### Statement of Practice (SP) D12

**2.4** The interim report set out the background to capital gains tax on partnerships, and the areas that are covered by SP D12. The OTS identified there was little enthusiasm from either practitioners or HMRC for complex legislation to be written to replace the statement of practice. However, the statement needed to be tidied up to reflect modern day business practices, and amended to remove out of date references.

**2.5** A sub-group of the OTS consultative committee has been formed to take forward the amendments necessary with HMRC. The sub-group would welcome input from interested parties.

### VAT

**2.6** The OTS will include an update in the final report on the HMRC review into aligning information requirements with the digital online system.

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<sup>1</sup> Comments on the manual can be sent to [hmrc.partnershipmanual@hmrc.gsi.gov.uk](mailto:hmrc.partnershipmanual@hmrc.gsi.gov.uk)

2.7 As noted in the annex, penalties will be the subject of a further OTS review later this year.

## **Developing business structures**

2.8 The OTS notes the HMRC response on working with representative bodies under 'working together' initiatives, but feels this could be complemented by a separate liaison group, introduced to look at these issues. Our point is that these are specialist areas which are likely to be outside the experience of the liaison groups HMRC note in their comment.

## **Simplifying basis periods for 'other income'**

### **Simplifying opening year calculations and overlap relief (longer-term)**

2.9 As we noted in our interim report, these issues are linked and have the potential to simplify matters for sole traders and the self employed as well as partnerships. Thus the OTS welcome the HMRC review of this area and will continue to liaise here regarding non-trading income forming part of this review.

## **Gift Aid**

2.10 A point raised by stakeholders and reported in the interim report was the fact an LLP could not claim gift aid payments, since this was a relief for an individual to claim. The OTS are reviewing this area with HMRC, and will report further within the final report.

## **Business Property Relief s105(4)(b)**

2.11 Although the Entrepreneurs' Relief point at paragraph 2.2 above falls under a separate code, the OTS will explore whether that review might encompass this point, and will report further in the final report.

## **Longer-term areas**

### **Education for smaller partnerships**

2.12 The OTS has been calling for more assistance and education for small businesses over many reports. In relation to partnerships, we are hearing that improved guidance at the point of registration would be helpful. A key issue remains alerting taxpayers to situations when a partnership is formed casually – the 'accidental partnership' – and inform them about the consequences of entering into a partnership. The OTS will be taking this forward, and would welcome more evidence under this heading.

2.13 This also links in with our recommendation on publishing a default partnership agreement based on the provisions in the 1890 Act, or if this is not possible, a list of pointers to be included within an agreement.

### **The Annual Investment Allowance and Mixed Member Partnerships**

2.14 The OTS are continuing to work with HMRC on this issue, and will report further in the final report.

## Eliminate double reporting of income figures (partnership return and individual's return pages)

**2.15** The basis of the recommendation in our interim report was that some similar information seems to be reported on both the partnership and the partners' returns. For partnerships of a significant size, this was not an issue,<sup>2</sup> but there was in effect 'double reporting' of information for the smallest partnerships, in the sense that the partnership return added little to these partners' returns. It seemed desirable to us and many of those we discussed the issue with that the duplication was removed; our proposal was that the simplest route would be to remove (or make optional) the partnership return.

**2.16** As set out in their response, HMRC accept the thrust of our point but anticipate achieving it by the route of using the information from the partnership return more fully and so obviating the need for partners to report so much information. Whilst we disagree with HMRC's assertion that our original recommendation would lead to '...duplication of effort and add to the administrative burden...' as our recommendation was geared to lead to precisely the opposite impact, we are content that HMRC's approach will achieve the same effective simplification that we had in mind.

**2.17** We will report further in our final report on progress and possible paths HMRC could take to reduce the double reporting of income figures on the SA800 and SA104.

### Partners' expenses

**2.18** The OTS received representations that obtaining each individual member's expenses details delayed the possible submission of the partnership return. A move to allowing the individuals to claim for expenses they have incurred wholly and exclusively for the purpose of the partnership business against their individual profit share, rather than submitting/claiming via the firm<sup>3</sup> would mean the partnership affairs could be finalised and submitted more quickly. There would be less need for multiple agents acting for different partners to liaise. It would be simpler to understand for many partners and also better reflect the reality of what was happening, and considerably streamline the tax computations.

**2.19** As will be seen from the Annex, HMRC reject this recommendation. Whilst we can understand their point about allowing individual claims would not reflect the true partnership profit in the sense that some expenses would be incurred by the partners rather than by the firm, we think that would in effect be a matter for the firm and its partners to choose. It is also comparable to an employer choosing not to reimburse some expenses incurred by employees who then claim any allowable expenses on their own returns.<sup>4</sup>

**2.20** We accept that there may be an Exchequer cost to this proposal – in the sense that some partners who have been unable to claim valid expenses through the partnership, possibly for lack of time, would now be able to claim through their own returns. But this seems to us a matter of fairness. We can also see that there is a risk to HMRC in that some might try – accidentally or deliberately – to claim the same expense individually and also through the partnership. But surely that is not a serious risk – and is something that would be policed through normal HMRC risk assessments?

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<sup>2</sup> Indeed most medium and large partnerships told us they would continue to generate a partnership return even if it were optional as that was the best way of agreeing the profit allocation to partners for tax purposes

<sup>3</sup> In other words, the expenses claimed by the partner would not feature at all in the partnership accounts or returns

<sup>4</sup> In saying this, we do of course recognise that the overall employee/employer relationship is very different from the partnership/individual partner relationship in strict business and tax terms. But in practical terms we believe our point, made by a range of commentators, is valid.

**2.21** Our interim report set out that the HMRC view on treatment of expenses incurred by a partner within their manuals<sup>5</sup> has been challenged and is the subject of current litigation, with the First Tier Tribunal<sup>6</sup> finding against HMRC. HMRC are appealing the decision, which is due to be heard by the Upper Tribunal later this year.

**2.22** Following the publication of our report, we have continued to hear from many advisers and partnerships<sup>7</sup> that being allowed to claim expenses as partners would be a simplification and would be welcomed. This has not been universal: some feel claiming via the firm gives greater control, while one group were unsympathetic to the argument this would speed up compliance, feeling this was a case for the firm to organise themselves properly. We also acknowledge that exceptionally an expense claim by a partner could result in a loss to one individual whilst the partnership as a whole was making a profit, and that additional calculations would then be necessary to reallocate the loss.

**2.23** Overall, we think our recommendation remains valid and we would welcome further evidence as set out in the next chapter, in order to test the opposing views.

## International issues

**2.24** We were encouraged by HMRC's willingness to consider specific problems that taxpayers or the OTS identified in this area. Consequently, a sub-committee has been formed to consider international administration and technical issues further, including the difficulties around double tax agreements in relation to partnerships, and are seeking further information from advisers and businesses to help identify the problem areas. The aim of this project will be to develop a list of specific problems that might then form something of an action list for HMRC.

## Stamp Taxes

**2.25** In the interim report, the OTS asked whether it would be possible to abolish stamp duty in relation to partnerships, and whether SDLT could be removed from applying to changes in partnership share unless cash changed hands.

**2.26** The OTS and members of the consultative committee will continue to work with HMRC and the Working Together Steering Sub-Group on progressing these proposals.

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<sup>5</sup> BIM 82075; HMRC point out that their guidance is based on legislation and case law.

<sup>6</sup> *Vaines v HMRC* [2013] UKFTT 576

<sup>7</sup> Mainly 'medium sized' partnerships- perhaps those with 5-15 partners. Large partnerships seem to manage (or sidestep) the issue by not allowing individual partners to incur personal expenses of the type that seem to cause problems for the target group. These seem to be motor related expenses in the main.

# 3

## Call for further evidence

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**3.1** Chapter 2 above sets out that further work is being taken forward by the OTS on the following areas:

- updating Statement of Practice D12
- review how gift aid may be introduced for partnerships
- better education for smaller partnerships
- allowing partners to claim their allowable expenses of the partnership business on their individual returns
- international technical and administration issues
- reviewing the current administration around stamp taxes for partnerships

**3.2** As noted, we will be assisted by sub-groups of our Consultative Committee and we will be meeting with interested parties. To assist our further work, we would welcome further input from interested parties in relations to questions such as:

- In what ways may HMRC and other departments help smaller partnerships to be more aware of their taxation compliance obligations?
- Do you consider that the Business, Innovation & Skills (BIS) department should publicise a draft partnership agreement (there are a number of comprehensive model partnership agreements already available in the public domain), or would a list of pointers to be included be sufficient?
- If your answer to the previous question is 'yes', what do you think are the most important points that need to be reflected in a model agreement, and/or publicised?
- In response to the HMRC position on partners claiming their own expenses:
  - are individual partners currently being put off claiming expenses wholly and exclusively incurred due to the adjustments then necessary to the partnership profit allocation?
  - would allowing individuals to claim these on their own return increase or reduce complexity?
  - whether partnerships which allowed individual claims would then require adjustments to be made through the partnership accounts, bearing in mind the need for LLPs to produce and file accounts?
- Which double tax agreements do not fit with partnerships liability in the UK? What other international technical and administration difficulties can apply to partnerships?
- What difficulties have you encountered when making property transactions with partnerships?

- Have you ever been charged stamp duty because of a change in partnership share?

## How to respond

Please send your comments to John Whiting and the review team at:

[OTS-partnerships@ots.gsi.gov.uk](mailto:OTS-partnerships@ots.gsi.gov.uk)

As always with our work, we welcome input at any time but as the final report is to be published in late summer, it would be most useful to receive input by 31 August 2014.

# A

# HMRC response to interim report proposals

## Key themes

OTS proposal	HMRC response
<p>1. The “one size fits all” approach of partnership tax leads to extra burdens and complexities for small partnerships, when compared to sole traders with similar sized businesses.</p> <p>The tax system needs to take a more strategic approach to partnerships.</p> <p>HMRC needs to co-ordinate its partnership work and support properly. It does not have:</p> <ul style="list-style-type: none"><li>• a partnerships customer directorate;</li><li>• a senior civil servant with sole responsibility for partnerships across the range of all taxes.</li></ul>	<p>HMRC does not agree that tax policy and administrative processes have “often been designed with sole traders and corporations in mind and with partnerships included as an afterthought.” It believes that its policy and administrative processes do take into account the fact that many types of business are carried on in partnership but it does recognise that there is always scope for improvement.</p> <p>With respect to the smallest partnerships, they have access to the same simplifications available to the smallest sole traders, including the cash basis introduced this year, and three line accounts reporting.</p> <p>HMRC operates a ‘Customer-Centric Business Strategy’ which means that it develops a deep understanding of its customers, so that it can deliver services which are based on their needs and positively influence their behaviours. HMRC’s approach puts the customer at the heart of its activities, and HMRC wants to make it as simple as possible for them to pay the tax that is due.</p> <p>HMRC has a Business Customer and Strategy Directorate, led by a Senior Civil Servant, which works with other parts of HMRC to improve the customer experience for all its business customers, including partnerships.</p> <p>HMRC is committed to continuing to reduce administrative burdens on its customers, including for partnerships, by investing in digital technology. The Department’s strategy is to make the fullest use of data from partnerships, so less is needed from individual partners. HMRC believes that this is the best way to reduce the administrative burdens on this group of customers.</p> <p>HMRC is taking forward cross-directorate work to look at what more it can do to provide a more strategic, joined-up service to its partnership customers.</p>

<p>2. External perception that HMRC generally treats partnerships, and LLPs in particular, as if they were exclusively avoidance vehicles.</p>	<p>HMRC treats partnerships in the same way as all taxpayers – it is committed to helping partnerships and partners get their tax right, but relentless in pursuing those who bend or break the rules.</p> <p>It is certainly <b>not</b> HMRC’s view that partnerships, and in particular LLPs and partnerships with corporate partners, are set up for tax avoidance purposes.</p> <p>HMRC believes that partnerships, including LLPs, are important and legitimate commercial structures and the majority do not disguise employment relationships, nor do they manipulate business profits, losses or assets in ways that reduce their tax liabilities.</p>
<p>3. Partnership tax rules are spread out across legislation and HMRC guidance.</p>	<p>The OTS states in the report that there is little desire for a consolidated taxes act for partnerships amongst external stakeholders – they felt that partnerships legislation, although disjointed, actually worked. The idea for a consolidated partnerships tax act was welcomed in theory but not in practice, as it would lead to duplication and an even longer tax code.</p>

## Short-term fixes

OTS proposal	HMRC response
<p>4. BIS to re-publish their model partnership agreement.</p>	<p>There are a number of comprehensive model partnership agreements already available in the public domain. HMRC has discussed this proposal in detail with BIS and OTS. HMRC will publish guidance outlining some of the key areas to be considered as part of any partnership agreement, and this will be included in HMRC’s consolidated guidance.</p>
<p>5. HMRC to publish a manual of consolidated guidance for partnerships.</p>	<p>HMRC published a draft consolidated partnership tax manual for external comment in April 2014. The manual provides links to relevant partnership guidance in other HMRC manuals.</p>
<p>6. HMRC should add a box to the short return for partnerships to allow gross interest to be included rather than net.</p>	<p>This would require a change to short partnership return and HMRC are examining the costs and feasibility of making the change.</p>
<p>7. HMRC should change the corporation tax self assessment return to include a section for income from a partnership.</p>	<p>HMRC are already looking at the best way for companies to report partnership income i.e. how this could best be achieved and to what timetable.</p>
<p>8. HMRC to clarify when partnerships are eligible for entrepreneurs’ relief (particularly regarding possible relief on subsidiary companies held by an LLP).</p>	<p>HMRC will revise its guidance to clarify when entrepreneurs’ relief is due. This revised guidance will then be included in the HMRC consolidated partnership tax manual.</p>
<p>9. The process for issuing unique taxpayer references (UTRs) to foreign partners needs to be streamlined.</p>	<p>HMRC has recently simplified the process for some non-UK resident partners, and will review the scope for further simplification.</p>



10. It would be useful to have a form of general remittance basis investment relief for groups of non-domiciled individuals investing in UK investment partnerships.	HMRC will need to consider this proposal in more detail, however, it is very likely that the costs associated with this change will rule out taking this proposal further.
11. HMRC to create free software for the smallest partnerships.	HMRC provides free software for the majority of its customers. For those where free software is not currently available, commercial software can be used to file online. HMRC provide links to this software on its website.  Production of free software for partnerships would involve significant costs, and other departmental priorities offer much better value for money. In addition, it may be more helpful for commercial software providers to address this more specialist area of the market.
12. HMRC guidance should be clearer on stamp duty land tax (SDLT) liabilities following changes in profit sharing ratio.	HMRC works closely with stakeholders on a continuing basis regarding SDLT rules and guidance. We will examine this area and strengthen existing guidance by autumn 2014. This will then be included in the HMRC consolidated partnership tax manual.
13. HMRC needs to review and update the guidance on inheritance tax for partnerships.	HMRC has worked with representative bodies to clarify the guidance (for example, ICAEW's Tax guide 01/14). However, HMRC will ensure that this area is also covered in the consolidated guidance.
14. HMRC to clarify their requirements as regards limited partnerships and joint ventures for the purposes of VAT registration, where the present published guidance seems unclear.	This will be covered in revised guidance on VAT registration which will be published in 2014/15. This revised guidance will then be included in the consolidated partnership tax manual.
15. HMRC to give clear guidance on VAT grouping for LLPs.	This will be covered in revised guidance on VAT registration which will be published in 2014/15. The revised guidance will then be included in the consolidated partnership tax manual.

## Medium-term recommendations

OTS proposal	HMRC response
16. HMRC's Statement of Practice D12 for capital gains of partnerships should be tidied up to reflect modern-day business practice.	HMRC recognises that the language used is dated, and it welcomes OTS comments that SoP D12 cannot feasibly be legislated.  HMRC will review SoP D12 to update and clarify the wording of those paragraphs which are causing difficulty. HMRC welcomes the offer of input from the OTS and the Consultative Committee to help identify those areas of SoP D12 which need to be looked at.

<p>17. Requirement for all partners to sign form VAT 2 needs to be removed or (probably) advantage needs to be taken of digital procedures to finesse a cumbersome requirement and eliminate duplication.</p>	<p>The VAT 2 form provides legal confirmation that all of the signatories acknowledge their status as partners in the firm. This requirement cannot be removed. If HMRC were to accept simple lists of partners, it could end up pursuing the partnership's debts against individuals who had no idea that they had been listed as partners.</p>
<p>18. VAT penalties for failure to notify a change from sole trader to partnership status need to be changed so that there is no penalty where no tax is lost, except for a repeat failure.</p>	<p>However, partnerships which use the new digital online registration service can provide an equivalent confirmation by giving specified personal details for each partner. HMRC will therefore look into aligning the information requirements on the VAT 2 form with those on the digital online registration system.</p> <p>HMRC considers that its approach to charging penalties where there has been a transfer of a going concern is reasonable and fair. However, a penalty may be reduced to an appropriate level through a special reduction in certain circumstances including where the right tax was paid at the right time (albeit via the wrong entity).</p>
<p>19a) HMRC needs to work more on ensuring double taxation agreements fully deal with partnerships.</p>	<p>The OTS will be taking forward a review on penalties in 2014/15, and HMRC will work closely with them on this review.</p> <p>The UK works closely with the OECD and EU. It has an extensive network of tax treaties which prevent double taxation of individual partners. The UK follows the conclusions of the OECD's 1999 review of the application of double taxation agreements to partnerships and has, where necessary, included provisions in its treaties to confirm their effect. In addition the UK is participating in OECD work to further clarify the application of tax treaties to partnerships and other transparent entities.</p>
<p>19b) There is a need to ensure developing business structures e.g. nested partnerships are dealt with by the tax system. The best way to do so may be a permanent HMRC/HMT/business liaison group to develop solutions on how to properly tax emerging business structures.</p>	<p>Although treaties give relief to each UK resident partner, HMRC procedures can be accessed by the partnership and generally work well. Where HMRC is made aware of difficulties it engages with the foreign tax authority to remove obstacles to obtaining any relief that is due.</p> <p>HMRC works with representative bodies under its "<i>Working Together</i>" initiative both locally and nationally. The International Sub-Group of HMRC's Business Liaison Forum also provides another avenue to discuss partnership structural and international matters.</p>
<p>20. Tax returns for partnerships can be simplified by simplifying basis periods for non-trading income for partnerships, probably by being able to sweep small amounts of interest or property income into trading income.</p>	<p>HMRC will consider this point as part of a more general review into the way the rules around basis periods and overlap relief operate.</p>

21. Penalties for partnerships around late filing of the partnership return need to be reviewed with the aim of making them fairer and easier to administer. Linked to this would be a review of appeal rights of partners.

HMRC do not believe these penalties to be unfair, and the current structure is relatively straightforward.

Every partner has a responsibility to ensure that the partnership's obligations are met. The current penalty structure was introduced as part of the review and modernisation of HMRC's powers and deterrents which were subject to extensive consultation and Parliamentary scrutiny, and received widespread external support.

Differentiating our approach to penalties between partners in any way would introduce far more complexity for everyone and be more resource intensive than the current, simple approach.

The OTS will be taking forward a review on penalties in 2014/15, and HMRC will work closely with them on this review.

22. The law on gift aid should be changed to allow partnerships to claim relief, paralleling companies.

The Gift Aid rules for companies operate in a very different way from those for individuals, and the proposal would create inconsistencies with the tax treatment for unincorporated businesses when compared to partnerships, and would involve a major change in primary legislation.

Allowing Gift Aid on donations by partnerships would require significant legislation around the Gift Aid declaration and attributing the donations and tax to individual partners. This would likely introduce complexities for the partnership and the individual partners.

The alternative might be to treat the partnership as though it were a company and provide a new tax relief against profits. This means that all the relief would go to the business and the charity wouldn't be able to claim the BR tax relief. This is very likely to reduce charity income (experience is that donors do not usually increase their donations to take account of their tax relief). It would, however, be a brand new tax relief and would very likely open up obvious questions as to why sole proprietor businesses shouldn't also get the relief. All of this means additional complexity through changes in processes, less income for charities and risks for the Exchequer.

HMRC policy and technical colleagues responsible for Gift Aid have met OTS colleagues to discuss the various issues in this area in much more detail.

23. There is a strong argument for an equivalent to s105(4)(b) IHTA to be available for partnerships, as this reflects how such entities are being used.

Any difference in treatment between a company and an LLP would involve changes to primary legislation. HMRC believes that this would need to be considered as part of a much wider review of Business Property Relief and other IHT legislative changes.

## Longer-term areas to investigate

OTS proposal	HMRC response
<p>24. How can smaller partnerships be better educated about their obligations?</p>	<p>HMRC sets out to ensure that it provides clear guidance on the tax obligations for partnerships, however, the department agrees that it would be helpful for partnerships to be better educated about all their obligations.</p> <p>HMRC would welcome working with the OTS, members of the Consultative Committee and other interested stakeholders to consider what more could be done to educate small partnerships.</p>
<p>25. Can the default partnership agreement in the 1890 Act be updated and publicised to apply in the absence of a formal agreement?</p>	<p>HMRC has discussed this proposal in detail with BIS and OTS. HMRC will publish guidance outlining some of the key areas to be considered as part of any partnership agreement, and this will be included in HMRC's consolidated guidance.</p>
<p>26. OTS would like to review how best to apply the Annual Investment Allowance (AIA) to mixed member partnerships without introducing complex anti-avoidance rules.</p>	<p>AIA is not currently available to any mixed partnerships of individuals and corporates. AIA was intended to be a simple relief and there were concerns when the legislation was introduced that complex anti avoidance rules would be needed to stop potential avoidance involving individuals setting up related corporate partners.</p> <p>HMRC is currently considering this issue further.</p>
<p>27. Is there a way of reducing the administrative burdens faced by small partnerships? The aim would be to eliminate what can be double reporting of the same income figures. One possible route would be to remove the partnership return.</p>	<p>HMRC is committed to reducing the administrative burden for all our customers, including partnerships.</p> <p>Filing partnership profits and allocation of partnership profits on the individual partners' returns would involve duplication of effort and add to the administrative burdens, especially for partnerships with large numbers of partners. In addition, removing the partnership return could potentially impact on HMRC compliance activities and the information contained within the partnership tax return would still need to be reported to HMRC.</p> <p>Our future strategy is to make the fullest use of data from partnerships and collect less data from individual partners, and we believe that this offers greater potential to reduce the administrative burdens faced by small partnerships than abolishing the partnership return.</p>
<p>28. Allowing partners to claim personal expenses would be a substantial simplification for many firms.</p>	<p>Increasing the complexity of the partnership – partner arrangement, such as allocating partnership expenses to individual partners, would be likely to add further significant burdens to the administration of partnerships and partners, and not reflect the true profit or loss of the partnership business or the individual partners. This may also have significant Exchequer costs and raise compliance issues. Given this, it is unlikely that this proposal will be taken forward.</p>

29. OTS would like to research further the international administrative and technical issues faced by partnerships so as to develop a list for taking forward.

30. There is a need to review further the complexities caused in opening years by basis periods and overlap relief to assess whether a simpler method of giving overlap relief would be sensible, fairer and appropriate. (This would also be relevant for sole traders.)

31. What circumstances, if any, would trigger a stamp duty charge on partnerships; whether these are necessary or whether it would be possible to abolish stamp duty in relation to partnerships?

32. Should there be a formal rule in SDLT that no tax will apply in partnership reorganisations unless cash changes hands?

HMRC would be happy to discuss with the OTS any concerns they may have and to investigate further on the detail that OTS may provide, if this proves necessary.

This issue is not specific to partnerships. However, HMRC will consider this point as part of a more general review into the way the rules around basis periods and overlap relief operate.

HMRC has drawn to the attention of our *'Working Together'* Steering Group the OTS partnership review stamp duty proposals. HMRC will be taking forward discussions on this proposal through a sub-group, with a view to considering with sub-group members whether this proposal could be progressed without creating inequity in treatment with other investors.

HMRC will work closely with its *'Working Together'* Steering Group to better understand the circumstances where SDLT charges can arise when cash does not change hands, and whether this should continue to be the case.





### **Office of Tax Simplification contacts**

This document can be found in full on our website at:

<https://www.gov.uk/government/organisations/office-of-tax-simplification>

If you require this information in an alternative format or have general enquiries about the Office of Tax Simplification and its work, contact:

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