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Simplification of UK Partnership Tax Reporting for Investment Fund Partnerships

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In the Finance Act 2018, the UK Government enacted a number of changes to the information required in partnership returns that raised the concern of undue and impracticable administrative burden being imposed on UK investment fund partnerships.

The changes covered a number of areas, including requiring a UK partnership that had partnerships amongst its partners and could not identify all of its "indirect partners" to provide computation statements on four bases covering UK resident individuals and companies and non-UK resident individuals and companies. Given that many fund partnerships have other partnerships amongst their investors and that it is likely to be difficult (if possible) to obtain information on all indirect partners, this change will increase the return information that must be provided to HM Revenue & Customs ("**HMRC**").

In addition, a UK fund partnership is now required to report in its partnership tax return each of its income sources (treating each income source from an underlying partnership in which it is invested as a separate source). This will add administrative complexity for those fund partnerships, such as fund of funds that invest in other partnerships.

One partially welcome change is that investment partnerships no longer have to provide unique taxpayer reference number (**UTRs**) for non-UK resident partners who are not subject to UK tax on partnership profits where the partnership reports information about them under the Common Reporting Standard (**CRS**). Unfortunately, this change did not cover the circumstance where a UK fund partnership has non-UK resident partners not subject to UK tax in respect of whom it does not have to report under the CRS for any reason.

These changes are now being applied for the first time in partnership returns being prepared for 31 January for the tax year 2018/2019.

Following extensive discussions of these issues with the British Venture Capital Association, HMRC has updated the guidance in its Partnership and Self-Assessment Manuals with the view to simplifying these new tax compliance obligations. In particular, the new guidance is intended to simplify:

(i) partnership tax return computation statements;

(ii) reports of multiple partnership income sources; and

(iii) requirements relating to UTRs for non-resident partners.

Below is a summary of the scope of each of these changes.

1. Partnership statements for indirect non-resident partners. A partnership that is unable to obtain full information on its indirect partners is no longer required to prepare computation statements for non-UK resident partners when submitting its partnership tax return on the condition that the partnership believes that no UK tax liability could be incurred by any indirect non-UK resident partner on any income generated by the partnership.

If no computations for non-UK resident partners have been submitted, HMRC will assume that there was no income (such as trading income or UK property income) that could lead to a UK tax liability for an indirect non-UK resident partner. However, should HMRC discover that the partnership had access to sufficient information to establish that there could be such income, then it would treat the relevant tax return as incorrectly submitted and could impose penalties and interest.

This is a welcome simplification of the compliance process for investment fund partnerships that have other partnerships amongst its investors and that previously had to prepare computations both for UK and non-UK resident partners. If an investment fund partnership generates only investment income and has no indirect non-UK resident partners that could suffer UK tax on such income, such fund partnership’s tax return will be simplified. This change does not affect the fund partnership’s obligation to provide computation statements for all of its direct UK and non-UK resident partners and for all indirect UK resident partners.

2. Reports on multiple partnership income sources. For partnerships that have five or more income sources (including the partnership's direct income receipts and any income from its underlying partnerships), HMRC will now permit reporting income from these sources on an HMRC-approved spreadsheet as a PDF attachment to the partnership tax return.

This is another useful administrative simplification that is likely to be helpful for fund of funds or other fund partnerships that invest in other investment funds.

Any fund partnership seeking to use this method of reporting should note, however, that if it uses the spreadsheet for reporting fewer than five partnership income sources or if it uses a non-approved spreadsheet, then HMRC would treat the partnership tax return as incorrectly submitted and could impose penalties and interest.

3. Pre-approved UTR numbers for non-resident partners. With respect to some categories of non-UK resident partners, HMRC will permit UK investment fund partnerships to use new HMRC pre-approved UTRs when submitting their partnership tax returns provided certain conditions are met.

The new pre-approved UTRs are available to be used by those investment funds that are organised as partnerships and do not generate any income from a UK trade or UK property business. These partnerships will be able to use the new pre-approved UTRs with respect to certain categories of non-UK resident partners (as further detailed below) that are not required to be reported by the partnerships under the CRS rules.

The non-UK resident partners who can use one of these pre-approved UTRs and would no longer be required to register for self-assessment with HMRC are partners who:

(i) are non-reporting persons under the CRS rules (pre-approved UTR: 8574787496 can be used for this category);

(ii) are resident in a jurisdiction that does not apply the FATCA or CRS rules (pre-approved UTR: 5876665438 can be used for this category); or

(iii) meet the CRS threshold exemption for CRS reports (pre-approved UTR: 3972584505 can be used for this category).

In order for the relevant partner to be able to use a pre-approved UTR, it would need to show that it is not subject to a UK tax liability for the relevant period for which the partnership tax return is filed. In addition, the partnership must provide to HMRC a foreign tax identification number and the country of tax residence of the relevant partner that intends to rely on a pre-approved UTR.

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