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VALID FROM 01/04/2018

SCHEDULE 7
PARTNERSHIPS

PART 4

TRANSACTIONS INVOLVING TRANSFERS TO A PARTNERSHIP

Introduction

- 12 In this Part of this Schedule—
- (a) paragraphs 13 to 17 make provisions about the treatment of certain land transactions involving the transfer of a chargeable interest to a partnership, and
 - (b) paragraphs 18 and 19 provide for certain events following such transactions to be treated as land transactions.

Transfer of chargeable interest to a partnership: general

- 13 (1) This paragraph applies where—
- (a) a partner transfers a chargeable interest to the partnership,
 - (b) a person transfers a chargeable interest to a partnership in return for an interest in the partnership, or
 - (c) a person connected with—
 - (i) a partner, or
 - (ii) a person who becomes a partner as a result of or in connection with the transfer,transfers a chargeable interest to the partnership.
- (2) This paragraph applies whether the transfer is in connection with the formation of the partnership or is a transfer to an existing partnership.
- (3) The chargeable consideration for the transaction is taken to be equal to—

$$MV \times (100 - SLP)\%$$

Figure 9 where—

MV is the market value of the chargeable interest transferred, and

SLP is the sum of the lower proportions.

- (4) Paragraph 14 provides for determining the sum of the lower proportions.
- (5) Part 7 applies if the whole or part of the chargeable consideration for the transaction is rent.

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- (6) Paragraphs 9 to 11 (responsibility of partners) have effect in relation to a transaction to which this paragraph applies, but the responsible partners are—
- (a) those who were partners immediately before the transfer and who remain partners after the transfer, and
 - (b) any person becoming a partner as a result of, or in connection with, the transfer.

(7) This paragraph has effect subject to any election under paragraph 36.

Transfer of chargeable interest to a partnership: sum of the lower proportions

14 The sum of the lower proportions in relation to a transaction to which paragraph 13 applies is determined as follows—

Step 1 Identify the relevant owner or owners (see paragraph 15).

Step 2 For each relevant owner, identify the corresponding partner or partners (see paragraph 16). If there is no relevant owner with a corresponding partner, the sum of the lower proportions is zero.

Step 3 For each relevant owner, find the proportion of the chargeable interest to which the owner was entitled immediately before the transaction. Apportion that proportion between any one or more of the relevant owner's corresponding partners.

Step 4 Find the lower of the following (“the lower proportion”) for each corresponding partner—

- (a) the proportion of the chargeable interest attributable to the partner (see paragraph 17);
- (b) the partner's partnership share immediately after the transaction.

Step 5 Add together the lower proportions of each corresponding partner. The result is the sum of the lower proportions.

Relevant owner

- 15 (1) For the purposes of paragraph 14 (see Step 1), a person is a relevant owner if—
- (a) immediately before the transaction, the person was entitled to a proportion of the chargeable interest, and
 - (b) immediately after the transaction, the person is a partner or is connected with a partner.
- (2) For the purposes of paragraph 14 and this paragraph, persons who are entitled to a chargeable interest as beneficial joint tenants are taken to be entitled to the chargeable interest as beneficial tenants in common in equal shares.

Corresponding partner

- 16 (1) For the purposes of paragraph 14 (see Step 2), a person is a corresponding partner in relation to a relevant owner if, immediately after the transaction—
- (a) the person is a partner, and
 - (b) the person is the relevant owner or is an individual connected with the relevant owner.
- (2) For the purpose of sub-paragraph (1)(b), a company is to be treated as an individual connected with the relevant owner if it—

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- (a) holds property as trustee, and
- (b) is connected with the relevant owner only because of section 1122(6) of the Corporation Tax Act 2010 (c. 4) (as it has effect with the omission of subsection (6)(c) to (e)).

Proportion of chargeable interest attributable to corresponding partner

17 For the purposes of paragraph 14 (Step 4), the proportion of the chargeable interest attributable to a corresponding partner is—

- (a) if the partner is a corresponding partner in relation to only one relevant owner, the proportion (if any) of the chargeable interest apportioned to that partner (at Step 3) in respect of that owner;
- (b) if the partner is a corresponding partner in relation to more than one relevant owner, the sum of the proportions (if any) of the chargeable interest apportioned to that partner (at Step 3) in respect of each of those owners.

Transfer of partnership interest pursuant to tax avoidance arrangements

18 (1) This paragraph applies where—

- (a) there is a transfer of a chargeable interest to a partnership (“the land transfer”);
- (b) the land transfer falls within paragraph 13(1);
- (c) there is subsequently a transfer of an interest in the partnership (“the partnership transfer”);
- (d) the partnership transfer is made—
 - (i) if the land transfer falls within paragraph 13(1)(a) or (b), by the person who makes the land transfer;
 - (ii) if the land transfer falls within paragraph 13(1)(c), by the partner concerned;
- (e) the partnership transfer is made pursuant to arrangements which are, or form part of, tax avoidance arrangements that were in place at the time of the land transfer;
- (f) the partnership transfer is not (apart from this paragraph) a chargeable transaction.

(2) For the purposes of this Act, the partnership transfer—

- (a) is taken to be a land transaction, and
- (b) is a chargeable transaction.

(3) The partners are taken to be the buyers in the transaction.

(4) The chargeable consideration for the transaction is taken to be equal to a proportion of the market value, as at the date of the transaction, of the interest transferred by the land transfer.

(5) That proportion is—

- (a) if the person making the partnership transfer is not a partner immediately after the partnership transfer, that person's partnership share immediately before that transfer;

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(b) if the person is a partner immediately after the partnership transfer, the difference between the person's partnership share before and after that transfer.

(6) The partnership transfer and the land transfer are taken to be linked transactions.

(7) Paragraphs 9 to 11 (responsibility of partners) have effect in relation to the partnership transfer, but the responsible partners are—

- (a) those who were partners immediately before the transfer and who remain partners after the transfer, and
- (b) any person becoming a partner as a result of, or in connection with, the transfer.

(8) In this paragraph, “tax avoidance arrangements” has the meaning given by section 31.

Withdrawal of money etc. from partnership after transfer of chargeable interest

19 (1) This paragraph applies where—

- (a) there is a transfer of a chargeable interest to a partnership (“the land transfer”);
- (b) the land transfer falls within paragraph 13(1);
- (c) during the period of 3 years beginning with the effective date of the land transfer, a qualifying event within sub-paragraph (2) occurs;
- (d) the qualifying event is, or forms part of, a tax avoidance arrangement;
- (e) at the time of the qualifying event, an election has not been made in respect of the land transfer under paragraph 36.

(2) A qualifying event is—

- (a) a withdrawal from the partnership of money or money's worth which does not represent income profit, by the relevant person—
 - (i) withdrawing capital from the relevant person's capital account,
 - (ii) reducing the relevant person's interest in the partnership, or
 - (iii) ceasing to be a partner, or
- (b) in a case where the relevant person has made a loan to the partnership—
 - (i) the repayment (to any extent) by the partnership of the loan, or
 - (ii) a withdrawal by the relevant person from the partnership of money or money's worth which does not represent income profit.

(3) For the purposes of sub-paragraph (2), the relevant person is—

- (a) where the land transfer falls within 13(1)(a) or (b), the person who makes the land transfer, and
- (b) where the land transfer falls within paragraph 13(1)(c), the partner concerned or a person connected with that partner.

(4) For the purposes of this Act, the qualifying event—

- (a) is taken to be a land transaction, and
- (b) is a chargeable transaction.

(5) The partners are taken to be the buyers under the transaction.

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- (6) Paragraphs 9 to 11 (responsibility of partners) have effect in relation to the transaction.
- (7) The chargeable consideration for the transaction is taken to be—
- (a) in a case falling within sub-paragraph (2)(a), equal to the value of the money or money's worth withdrawn from the partnership;
 - (b) in a case falling within sub-paragraph (2)(b)(i), equal to the amount repaid;
 - (c) in a case falling within sub-paragraph (2)(b)(ii), equal to so much of the value of the money or money's worth withdrawn from the partnership as does not exceed the amount of the loan.
- (8) But the chargeable consideration determined under sub-paragraph (7) is not to exceed the market value, as at the effective date of the land transfer, of the chargeable interest transferred by the land transfer, reduced by any amount previously chargeable to tax.
- (9) Where—
- (a) a qualifying event gives rise to a charge under this paragraph, and
 - (b) the same event gives rise to a charge under paragraph 34 (transfer of interest in property investment partnership),
- the amount of the charge under this paragraph is reduced (but not below zero) by the amount of the charge under that paragraph.
- (10) In this paragraph, “tax avoidance arrangement” has the meaning given by section 31.

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