

Admission and departure of partners

(Lecture B1151 – 11.52 minutes)

Partnerships are always treated as continuing for any person who was a member both before and after the change in personnel. For such partners, the only effect is a change in profit share arrangements, as they continue to be assessed under current year basis rules.

Changing from a sole trader to a partnership (by taking on a partner), or becoming a sole trader when the other partner leaves, are covered under the above rules. The business is treated as continuing for the person who was, or is becoming, a sole trader.

For any outgoing partners, the closing year rules for unincorporated businesses apply. Their final accounting period will end on the day they left the partnership.

New joiners are taxed under the opening year rules, their first accounting period beginning on the date they joined the partnership.

Practical issues – example

Consider a partnership with a December year-end and a new joiner on 1 November 2018. Why does this provide a practical problem?

The partnership will only provide figures to December, so an estimate will be needed for the joiner's assessable profits and basis periods.

2018/19 – “Actual basis” (1.11.18-5.4.19) - 2m to 31.12.18 plus (approx.) 3m of y/e 31.12.19

The joiner's tax return needs to be marked as containing provisional figures and a disclosure note needs to be added to the return, stating the:

- basis for the estimate, and
- anticipated date when the final trading profit figure will be known.

Contributed by Kevin Read