A guide to partnership tax returns

If you're a partner in a business partnership, it's in your interests to make sure your partnership tax return is correctly completed and submitted on time to avoid a penalty. Saffery, the accounting and business advisory firm in High Wycombe, explores what you need to consider.

What is a Partnership Tax Return?

UK partnerships, including ordinary partnerships, limited partnerships, and limited liability partnerships or 'LLPs' (if run with the aim of making a profit), are transparent for tax purposes. This means that partnerships themselves don't pay tax but instead each partner (or 'member' as they're referred to in LLPs) is separately taxed on their profit share. Partnerships must however send tax returns to HM Revenue and Customs (HMRC), detailing the partnership's income and expenses and how any profits or losses are shared between the partners.

Do partnerships need to file tax returns if they don't pay tax?

Partnership tax returns are needed to make sure the partners are taxed on the correct amount of partnership income.

Who needs to file a partnership tax return?

When HMRC sends a notice to file a partnership return, it may either be given to the partnership or to a named partner. Where the notice is given to the partnership, the partner who's been nominated by the other partners, is responsible for completing, signing and filing the return. Where the notice is given to a named partner, that person's responsible for the return.

If a partnership return isn't filed on time each partner will be charged a penalty.

What to include in a partnership return?

The partnership return is made up of an eight-page form covering the most common types of partnership income and if needed supplementary pages covering other types of income and disposals.

The details required for trading partnerships include:

- Trading or professional income and expenses (including capital allowances),
- Savings, investments and other income,
- Foreign income (including interest, dividends and rental income),
- UK property income,
- Details of chargeable asset disposals,
- Partnership statement giving the name, address (or registered office) and tax reference of each partner and their share of partnership profits, losses, other income and any tax deducted, and
- A signed declaration by the person making the tax return that to the best of their knowledge and belief the return is correct and complete.

Do accounts need to be submitted with a partnership return?

If a partnership's annual turnover is more than £15 million, accounts and computations must be submitted to HMRC with the return. Otherwise, accounts don't need to be submitted unless HMRC asks for them, although you may want to submit them to support the figures in the return.

Some other issues to consider

A separate return is required for each accounting period ending in the tax year.

Some types of income must be reported for the tax year of the return, while others are reported for partnership accounting periods ending in the tax year.

If a partnership is a mixed member partnership (ie includes both individuals and non-individuals, such as companies or trusts, as partners):

- The profit allocated to partners subject to income tax must be calculated based on the income tax rules, and the profit allocated to partners subject to corporation tax must be calculated based on the corporation tax rules, and
- The profit share calculations must take into account any reallocation of profits under anti-avoidance rules aimed at preventing profits being shifted, for example, from individual partners to corporate partners to reduce the overall tax payable. The rules are widely drawn and therefore should be considered even where tax avoidance isn't the reason for the profit sharing structure.

If an LLP has members who for tax purposes are considered to be employees, under the salaried member rules their income from the LLP is treated as employment income and therefore subject to employment taxes under PAYE and employer's National Insurance Contributions (NICs), rather than income from self-employment. As salaried members aren't treated as partners for tax purposes, they shouldn't be included on the partnership return. For more on the salaried member rules, see our article here.

The partnership must give the partners the information needed for them to complete their own tax returns.

In a change from the previous rules, from the 2024-25 tax year, partnerships which draw up their accounts to a date not between 31 March and 5 April inclusive, must apportion their profits or losses for a tax year based on the profits or losses arising in the tax year. As part of this change transitional rules apply so that 2023-24 tax returns will include:

- Income and expenses for the partnership's accounting period ending in 2023-24 (as usual under the old rules), plus
- Any income and expenses for the period from the end of that accounting period until 5 April 2024 (the 'transition' profits).

Transition profits should be reduced by any unused overlap profit from the opening years of the partnership, and any remaining transition profits can be spread over up to five years.

For more on these changes see our article on basis period reform.

Also, from the 2024-25 tax year, the cash basis is the default method of calculating trading profits.

Partners' tax returns

Each partner is responsible for completing and submitting their own tax return, which will include their allocated partnership profit share based on the Partnership Statement. The partners pay income tax and self-employed NICs, or corporation tax, as relevant.

To find out more about the partnership tax return deadline, read our full article at **www.saffery.com**.

How we can help

If you'd like to discuss your partnership's tax compliance obligations, the partners' personal tax compliance, tax return deadlines, or the many other ways we can support your business, please get in touch with your usual Saffery contact or speak to **Sheryl Davis**, Partner in Saffery's High Wycombe team.