SCHEDULES

SCHEDULE 17

Section 74

PARTNERSHIPS

PART 1

LIMITED LIABILITY PARTNERSHIPS: TREATMENT OF SALARIED MEMBERS

Main provision

1 In Part 9 of ITTOIA 2005 (partnerships) after section 863 (limited liability partnerships) insert—

"**863A Limited liability partnerships: salaried members**

(1) Subsection (2) applies at any time when conditions A to C in sections 863B to 863D are met in the case of an individual ("M") who is a member of a limited liability partnership in relation to which section 863(1) applies.

(2) For the purposes of the Income Tax Acts—

(a) M is to be treated as being employed by the limited liability partnership under a contract of service instead of being a member of the partnership, and

(b) accordingly, M's rights and duties as a member of the limited liability partnership are to be treated as rights and duties under that contract of service.

(3) This section needs to be read with section 863G (anti-avoidance).

863B Condition A

(1) The question of whether condition A is met is to be determined at the following times—

(a) if relevant arrangements are in place—

(i) at the beginning of the tax year 2014-15, or

(ii) if later, when M becomes a member of the limited liability partnership,

at the time mentioned in sub-paragraph (i) or (ii) (as the case may be);

(b) at any subsequent time when relevant arrangements are put in place or modified;

(c) where—

(i) the question has previously been determined, and

(ii) the relevant arrangements which were in place at the time of the previous determination do not end, and are not modified, by the end of the period which was the relevant period for the purposes of the previous determination (see step 1 in subsection (3)),

immediately after the end of that period.

(2) "Relevant arrangements" means arrangements under which amounts are to be, or may be, payable by the limited liability partnership in respect of M's performance of services for the partnership in M's capacity as a member of the partnership.

(3) Take the following steps to determine whether condition A is met at a time ("the relevant time").

Step 1

Identify the relevant period by reference to the relevant arrangements which are in place at the relevant time.

"The relevant period" means the period—

(a) beginning with the relevant time, and

(b) ending at the time when, as at the relevant time, it is reasonable to expect that the relevant arrangements will end or be modified.

Step 2

Condition A is met if, at the relevant time, it is reasonable to expect that at least 80% of the total amount payable by the limited liability partnership in respect of M's performance during the relevant period of services for the partnership in M's capacity as a member of the partnership will be disguised salary.

An amount within the total amount is "disguised salary" if it—

(a) is fixed,

(b) is variable, but is varied without reference to the overall amount of the profits or losses of the limited liability partnership, or

(c) is not, in practice, affected by the overall amount of those profits or losses.

(4) If condition A is determined to be met, or not to be met, at a time, the condition is to be treated as met, or as not met, at all subsequent times until the question is required to be re-determined under subsection (1)(b) or (c).

(5) In this section "arrangements" includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable).

863C Condition B

Condition B is that the mutual rights and duties of the members of the limited liability partnership, and of the partnership and its members, do not give M significant influence over the affairs of the partnership.

863D Condition C

(1) Condition C is that, at the time at which it is being determined whether the condition is met ("the relevant time"), M's contribution to the limited liability partnership (see sections 863E and 863F) is less than 25% of the amount given by subsection (2) (subject to subsection (7)).

(2) That amount is the total amount of the disguised salary which, at the relevant time, it is reasonable to expect will be payable by the limited liability partnership in respect of M's performance during the relevant tax year of services for the partnership in M's capacity as a member of the partnership.

In this section "the relevant tax year" means the tax year in which the relevant time falls and an amount is "disguised salary" if it falls within any of paragraphs (a) to (c) at step 2 in section 863B(3).

(3) The question of whether condition C is met is to be determined—

(a) at the beginning of the tax year 2014-15 or, if later, the time at which M becomes a member of the limited liability partnership;

(b) after that, at the beginning of each tax year.

(4) If in a tax year—

(a) there is a change in M's contribution to the limited liability partnership, or

(b) there is otherwise a change of circumstances which might affect the question of whether condition C is met,

the question of whether the condition is met is to be re-determined at the time of the change.

This subsection is subject to section 863F(3).

(5) If condition C is determined to be met (including by virtue of subsection (7)), or not to be met, at the relevant time, the condition is to be treated as met, or as not met, at all subsequent times until the question is required to be re-determined under subsection (3)(b) or (4).

(6) Subsection (7) applies if—

(a) the relevant time coincides with an increase in M's contribution to the limited liability partnership, and

(b) apart from subsection (7), that increase would cause condition C not to be met at the relevant time.

(7) Condition C is to be treated as met at the relevant time unless, at that time, it is reasonable to expect that condition C will not be met for the remainder of the relevant tax year (ignoring this subsection).

(8) If there are any excluded days in the relevant tax year (see subsections (9) to (11)), in subsection (1) the reference to M's contribution to the limited liability partnership is to be read as a reference to that contribution multiplied by the following fraction—

$$\frac{D - E}{D}$$

where—

D is the number of days in the relevant tax year, and

E is the number of excluded days in the relevant tax year.

(9) Any day in the relevant tax year—

(a) which is before the day on which the relevant time falls, and

(b) on which M is not a member of the limited liability partnership,

is an "excluded" day for the purposes of subsection (8).

(10) If, at the relevant time, it is reasonable to expect that M will not be a member of the limited liability partnership for the remainder of the relevant tax year, any day in the relevant tax year—

(a) which is after the day on which the relevant time falls, and

(b) on which it is reasonable to expect that M will not be a member of the limited liability partnership,

is an "excluded" day for the purposes of subsection (8).

(11) If the relevant time coincides with an increase in M's contribution to the limited liability partnership, any day in the relevant tax year—

(a) which is before the day on which the relevant time falls, and

(b) on which condition C is met,

is an "excluded" day for the purposes of subsection (8).

(12) In subsections (6) and (11) references to an increase in M's contribution to the limited liability partnership include (in particular)—

(a) the making of M's first contribution to the capital of the limited liability partnership, and

(b) M being treated as having made a contribution by section 863F(2).

863E M's contribution to the limited liability partnership: the basic calculation

(1) For the purposes of condition C in section 863D M's contribution to the limited liability partnership at a time is amount A.

(2) Amount A is the total amount which M has contributed to the limited liability partnership as capital less so much of that amount (if any) as is within subsection (6).

(3) In particular, M's share of any profits of the limited liability partnership is to be included in the amount which M has contributed to the partnership as capital so far as that share has been added to the partnership's capital.

(4) In subsection (3) the reference to profits is to profits calculated in accordance with generally accepted accounting practice (before any adjustment required or authorised by law in calculating profits for income tax purposes).

(5) Subsection (3) applies as well for the purpose of construing references to contributions to the capital of the limited liability partnership in sections 863D(12)(a) and 863F.

(6) An amount of capital is within this subsection if it is an amount which—

(a) M has previously drawn out or received back,

(b) M is or may be entitled to draw out or receive back at any time when M is a member of the limited liability partnership, or

(c) M is or may be entitled to require another person to reimburse to M.

(7) In subsection (6) any reference to drawing out or receiving back an amount is to doing so directly or indirectly.

863F M's contribution to the limited liability partnership: deemed contributions

(1) This section applies if—

(a) by the time mentioned in section 863D(3)(a), M has given an undertaking (whether or not legally enforceable) to make a contribution to the capital of the limited liability partnership but has not made the contribution,

(b) the undertaking requires M to make the contribution by the end of—

(i) the period of 3 months ending with 5 July 2014, or

(ii) if it ends after that date, the period of 2 months beginning with the date on which M becomes a member of the limited liability partnership, and

(c) when it is made, the contribution will be included in amount A under section 863E.

In the following subsections "the relevant period" means the period mentioned in paragraph (b)(i) or (ii) (as the case may be).

(2) For the purpose of determining whether condition C in section 863D is met—

(a) at the time mentioned in section 863D(3)(a), or

(b) at any subsequent time during the relevant period,

M is to be treated as having made the contribution at the time mentioned in section 863D(3)(a) (so far as M has not (actually) made the contribution at the time at which it is being determined whether condition C is met).

(3) If M (actually) makes the contribution (in whole or in part) during the relevant period, the question of whether condition C is met is not to be re-determined under section 863D(4) just because of the making of the contribution (in whole or in part).

(4) If M does not (actually) make the contribution (in whole or in part) by the end of the relevant period, any determination in relation to which subsection (2) applied is to be made again (as at the time at which it was originally made).

(5) In making a determination again—

(a) if it is the whole of the contribution which M does not make by the end of the relevant period, subsection (2) is to be ignored;

(b) if M makes part of the contribution by the end of the relevant period, in subsection (2) references to the contribution are to be read as references to that part of it.

863G Anti-avoidance

(1) In determining whether section 863A(2) applies in the case of an individual who is a member of a limited liability partnership, no regard is to be had to

any arrangements the main purpose, or one of the main purposes, of which is to secure that section 863A(2) does not apply in the case of—

(a) the individual, or

(b) the individual and one or more other individuals.

(2) Subsection (4) applies if—

(a) an individual ("X") personally performs services for a limited liability partnership at a time when X is not a member of the partnership,

(b) X performs the services under arrangements involving a member of the limited liability partnership ("Y") who is not an individual,

(c) the main purpose, or one of the main purposes, of those arrangements is to secure that section 863A(2) does not apply in the case of X or in the case of X and one or more other individuals, and

(d) in relation to X's performance of the services, an amount falling within subsection (3) arises to Y in respect of Y's membership of the limited liability partnership.

(3) An amount falls within this subsection if—

(a) were X performing the services under a contract of service by which X were employed by the limited liability partnership, and

(b) were the amount to arise to X directly from the limited liability partnership,

the amount would be employment income of X in respect of the employment.

(4) If this subsection applies, in relation to X's performance of the services, X is to be treated on the following basis—

(a) X is a member of the limited liability partnership in whose case section 863A(2) applies,

(b) the amount arising to Y arises instead to X directly from the limited liability partnership,

(c) that amount is employment income of X in respect of the employment under section 863A(2) accordingly, and

(d) neither that amount, nor any amount representing that amount, is to be income of X for income tax purposes on any other basis.

(4A) Section 863A(2) does not apply in the case of a member of a limited liability partnership if, apart from this subsection, it would apply in consequence of arrangements the main purpose, or one of the main purposes, of which is to secure that section 850C does not apply for one or more periods of account in relation to—

(a) the member, or

(b) the member and one or more other members of the limited liability partnership.

(5) In this section "arrangements" includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable)."

2 In Part 17 of CTA 2009 (partnerships) after section 1273 (limited liability partnerships) insert—

"**1273A Limited liability partnerships: salaried members**

(1) Subsection (2) applies at any time when section 863A(2) of ITTOIA 2005 (limited liability partnerships: salaried members) applies in the case of an individual ("M") who is a member of a limited liability partnership in relation to which section 1273(1) applies.

(2) In relation to the charge to corporation tax on income, for the purposes of the Corporation Tax Acts—

(a) M is to be treated as being employed by the limited liability partnership under a contract of service instead of being a member of the partnership, and

(b) accordingly, M's rights and duties as a member of the limited liability partnership are to be treated as rights and duties under that contract of service."

Supplementary provision: deductions

3 (1) ITTOIA 2005 is amended as follows.

(2) At the end of Chapter 5 of Part 2 (trade profits: rules allowing deductions) insert—

"Limited liability partnerships: salaried members

94AA Deductions in relation to salaried members

(1) This section applies in relation to a limited liability partnership if section 863A(2) (limited liability partnerships: salaried members) applies in the case of a member of the partnership ("M").

(2) In calculating for a period of account under section 849 (calculation of firm's profits and losses) the profits of a trade carried on by the limited liability partnership, a deduction is allowed for expenses paid by the partnership in respect of M's employment under section 863A(2) if no deduction would otherwise be allowed for the payment.

(3) This section is subject to section 33 (capital expenditure), section 34 (expenses not wholly and exclusively for trade etc), section 45 (business entertainment and gifts) and section 53 (social security contributions)."

(3) In Chapter 3 of Part 3 (profits of property businesses: basic rules), in the table in section 272(2) (application of trading income rules), after the entry for section 94A insert—

"section 94AA	deductions in relation to salaried members of limited liability partnerships".

4 (1) CTA 2009 is amended as follows.

(2) At the end of Chapter 5 of Part 3 (trade profits: rules allowing deductions) insert—

"Limited liability partnerships: salaried members

92A Deductions in relation to salaried members

(1) This section applies in relation to a limited liability partnership if section 1273A(2) (limited liability partnerships: salaried members) applies in the case of a member of the partnership ("M").

(2) In calculating for an accounting period under section 1259 (calculation of firm's profits and losses) the profits of a trade carried on by the limited liability partnership, a deduction is allowed for expenses paid by the partnership in respect of M's employment under section 1273A(2) if no deduction would otherwise be allowed for the payment.

(3) This section is subject to—

(a) section 53 (capital expenditure),

(b) section 54 (expenses not wholly and exclusively for trade etc),

(c) section 1298 (business entertainment and gifts), and

(d) section 1302 (social security contributions)."

(3) In Chapter 3 of Part 4 (profits of property businesses: basic rules), in the table in section 210(2) (application of trading income rules), after the entry for section 92 insert—

"section 92A	deductions in relation to salaried members of limited liability partnerships".

(4) In Chapter 2 of Part 16 (companies with investment business: management expenses) —

(a) in section 1224(1) (accounting period to which expenses are referable) for "1227" substitute "1227A", and

(b) after section 1227 insert—

"**1227A Management expenses in relation to salaried members of limited liability partnerships**

(1) This section applies in relation to a company if—

(a) as a member of a limited liability partnership, the company is a company with investment business,

(b) section 1273A(2) (limited liability partnerships: salaried members) applies in the case of a member of the partnership ("M"), and

(c) expenses of management of the company's investment business are paid in respect of M's employment under section 1273A(2) but are not referable to any accounting period under sections 1225 to 1227.

(2) The expenses are to be treated as referable to the accounting period in which they are paid."

Supplementary provision: arrangements made by intermediaries

5 In Chapter 8 of Part 2 of ITEPA 2003 (application of provisions to workers under arrangements made by intermediaries) in section 54 (deemed employment payment) after subsection (1) insert—

"(1A) For the purposes of step 1 of subsection (1), any payment or benefit which is employment income of the worker by virtue of section 863G(4) of ITTOIA 2005 (salaried members of limited liability partnerships: anti-avoidance) is to be ignored."

Commencement

6 (1) Subject to what follows, the amendments made by this Part are treated as having come into force on 6 April 2014.

(2) Section 863G(4A) of ITTOIA 2005 (as inserted by paragraph 1) comes into force on the day after the day on which this Act is passed.

PART 2

PARTNERSHIPS WITH MIXED MEMBERSHIP

Main provision

7 (1) Part 9 of ITTOIA 2005 (partnerships) is amended as follows.

(2) In section 850 (allocation of firm's profits and losses between partners) in subsection (1) for "and 850B" substitute "to 850D".

(3) After section 850B insert—

"**850C Excess profit allocation to non-individual partners**

(1) Subsections (4) and (5) apply if—

(a) for a period of account ("the relevant period of account")—

(i) the calculation under section 849 in relation to an individual partner ("A") (see subsection (6)) produces a profit for the firm, and

(ii) A's share of that profit determined under section 850 or 850A ("A's profit share") is a profit or is neither a profit nor a loss,

(b) a non-individual partner ("B") (see subsection (6)) has a share of the profit for the firm mentioned in paragraph (a)(i) ("B's profit share") which is a profit (see subsection (7)), and

(c) condition X or Y is met.

(2) Condition X is that it is reasonable to suppose that—

(a) amounts representing A's deferred profit (see subsection (8)) are included in B's profit share, and

(b) in consequence, both A's profit share and the relevant tax amount (see subsection (9)) are lower than they would otherwise have been.

(3) Condition Y is that—

(a) B's profit share exceeds the appropriate notional profit (see subsections (10) to (17)),

(b) A has the power to enjoy B's profit share ("A's power to enjoy") (see subsections (18) to (21)), and

(c) it is reasonable to suppose that—

(i) the whole or any part of B's profit share is attributable to A's power to enjoy, and

(ii) both A's profit share and the relevant tax amount (see subsection (9)) are lower than they would have been in the absence of A's power to enjoy.

(4) A's profit share is increased by so much of the amount of B's profit share as, it is reasonable to suppose, is attributable to—

(a) A's deferred profit, or

(b) A's power to enjoy,

as determined on a just and reasonable basis.

But any increase by virtue of paragraph (b) is not to exceed the amount of the excess mentioned in subsection (3)(a) after deducting from that amount any increase by virtue of paragraph (a).

(5) If B is chargeable to income tax, in applying sections 850 to 850B in relation to B for the relevant period of account, such adjustments are to be made as are just and reasonable to take account of the increase in A's profit share under subsection (4).

(This subsection does not apply for the purposes of subsection (7) or section 850D(7).)

(6) A partner in a firm is an "individual partner" if the partner is an individual and "non-individual partner" is to be read accordingly; but "non-individual partner" does not include the firm itself where it is treated as a partner under section 863I (allocation of profit to AIFM firm).

(7) B's profit share is to be determined by applying section 850 and, if relevant, section 850A in relation to B for the relevant period of account (whether or not B is chargeable to income tax) on the assumption that the calculation under section 849 in relation to B produces the profit for the firm mentioned in subsection (1)(a)(i).

(8) "A's deferred profit"—

(a) is any remuneration or other benefits or returns the provision of which to A has been deferred (whether pending the meeting of any conditions (including conditions which may never be met) or otherwise), and

(b) includes A's share (as determined on a just and reasonable basis) of any remuneration or other benefits or returns the provision of which to A and one or more other persons, taken together, has been deferred (whether pending the meeting of any conditions (including conditions which may never be met) or otherwise).

(9) "The relevant tax amount" is the total amount of tax which, apart from this section, would be chargeable in respect of A and B's income as partners in the firm.

(10) "The appropriate notional profit" is the sum of the appropriate notional return on capital and the appropriate notional consideration for services.

(11) "The appropriate notional return on capital" is—

(a) the return which B would receive for the relevant period of account in respect of B's contribution to the firm were the return to be calculated on the basis mentioned in subsection (12), less

(b) any return actually received for the relevant period of account in respect of B's contribution to the firm which is not included in B's profit share.

(12) The return mentioned in subsection (11)(a) is to be calculated on the basis that it is a return which is—

(a) by reference to the time value of an amount of money equal to B's contribution to the firm, and

(b) at a rate which (in all the circumstances) is a commercial rate of interest.

(13) For the purposes of subsections (11) and (12) B's contribution to the firm is amount A determined under section 108 of ITA 2007 (meaning of "contribution to the LLP").

(14) That section is to be applied—

(a) reading references to the individual as references to B and references to the LLP as references to the firm, and

(b) with the omission of—

(i) subsections (5)(b) and (9), and

(ii) in subsection (6) the words from "but" to the end.

(15) "The appropriate notional consideration for services" is—

(a) the amount which B would receive in consideration for any services provided to the firm by B during the relevant period of account were the consideration to be calculated on the basis mentioned in subsection (16), less

(b) any amount actually received in consideration for any such services which is not included in B's profit share.

(16) The consideration mentioned in subsection (15)(a) is to be calculated on the basis that B is not a partner in the firm and is acting at arm's length from the firm.

(17) Any services, the provision of which involves any partner in the firm in addition to B, are to be ignored for the purposes of subsection (15).

(18) A has the power to enjoy B's profit share if—

(a) A is connected with B by virtue of a provision of section 993 of ITA 2007 (meaning of "connected" persons) other than subsection (4) of that section,

(b) A is a party to arrangements the main purpose, or one of the main purposes, of which is to secure that an amount included in B's profit share—

(i) is charged to corporation tax rather than income tax, or

(ii) is otherwise subject to the provisions of the Corporation Tax Acts rather than the provisions of the Income Tax Acts, or

(c) any of the enjoyment conditions (see subsection (20)) is met in relation to B's profit share or any part of B's profit share.

(19) In subsection (18)(b) "arrangements" includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable).

(20) The enjoyment conditions are—

(a) B's profit share, or the part, is in fact so dealt with by any person as to be calculated at some time to enure for the benefit of A, whether in the form of income or not;

(b) the receipt or accrual of B's profit share, or the part, by or to B operates to increase the value to A of any assets held by, or for the benefit of, A;

(c) A receives or is entitled to receive at any time any benefit provided or to be provided (directly or indirectly) out of B's profit share or the part;

(d) A may become entitled to the beneficial enjoyment of B's profit share, or the part, if one or more powers are exercised or successively exercised by any person;

(e) A is able in any manner to control (directly or indirectly) the application of B's profit share or the part.

(21) In subsection (20) references to A include any person connected with A apart from B.

(22) Subsection (23) applies if—

(a) the increase under subsection (4), or any part of it, is allocated by A to the firm itself under section 863I (allocation of profit to AIFM firm), and

(b) B makes a payment to the firm representing any income tax for which the firm is liable by virtue of section 863I in respect of the amount of the increase allocated to it.

(23) For income tax purposes, the payment—

(a) is not to be income of any partner in the firm, and

(b) is not to be taken into account in calculating any profits or losses of B or otherwise deducted from any income of B.

850D Excess profit allocation: cases involving individuals who are not partners

(1) Subsections (4) and (5) apply if—

(a) at a time during a period of account ("the relevant period of account") in respect of a firm, an individual ("A") personally performs services for the firm,

(b) if A had been a partner in the firm throughout the relevant period of account, the calculation under section 849 in relation to A for the relevant period of account would have produced a profit for the firm,

(c) a non-individual partner ("B") in the firm (see subsection (6)) has a share of that profit ("B's profit share") which is a profit (see subsection (7)),

(d) it is reasonable to suppose that A would have been a partner in the firm at a time during the relevant period of account or any earlier period of account but for the provision contained in section 850C (see also subsections (8) to (10)), and

(e) condition X or Y is met.

(2) Condition X is that it is reasonable to suppose that amounts representing A's deferred profit (see subsection (11)) are included in B's profit share.

(3) Condition Y is that—

(a) B's profit share exceeds the appropriate notional profit (see subsection (12)),

(b) A has the power to enjoy B's profit share ("A's power to enjoy") (see subsection (13)), and

(c) it is reasonable to suppose that the whole or any part of B's profit share is attributable to A's power to enjoy.

(4) A is to be treated on the following basis—

(a) A is a partner in the firm throughout the relevant period of account (but not for the purposes of section 863I (allocation of profit to AIFM firm)),

(b) A's share of the firm's profit for the relevant period of account is so much of the amount of B's profit share as, it is reasonable to suppose, is attributable to—

(i) A's deferred profit, or

(ii) A's power to enjoy,

as determined on a just and reasonable basis, and

(c) A's share of the firm's profit is chargeable to income tax under the applicable provisions of the Income Tax Acts for the tax year in which the relevant period of account ends.

But A's share of the firm's profit by virtue of paragraph (b)(ii) is not to exceed the amount of the excess mentioned in subsection (3)(a) after deducting from that amount A's share of the firm's profit (if any) by virtue of paragraph (b)(i).

(5) If B is chargeable to income tax, in applying sections 850 to 850B in relation to B for the relevant period of account, such adjustments are to be made as are just and reasonable to take account of A's share of the firm's profit under subsection (4).

(This subsection does not apply for the purposes of subsection (7) or section 850C(7).)

(6) "Non-individual partner" is to be read in accordance with section 850C(6).

(7) B's profit share is to be determined by applying section 850 and, if relevant, section 850A in relation to B for the relevant period of account (whether or not B is chargeable to income tax) on the assumption that the calculation under section 849 in relation to B produces the profit for the firm mentioned in subsection (1)(b).

(8) The requirement of subsection (1)(d) is to be assumed to be met if, at a time during the relevant period of account, A is a member of a partnership which is associated with the firm.

(9) A partnership is "associated" with the firm if—

(a) it is a member of the firm, or

(b) it is a member of a partnership which is associated with the firm (whether by virtue of paragraph (a) or this paragraph).

(10) In subsections (8) and (9) "partnership" includes a limited liability partnership whether or not section 863(1) applies in relation to it.

(11) "A's deferred profit" is to be read in accordance with section 850C(8).

(12) Section 850C(10) to (17) applies for the purpose of determining "the appropriate notional profit"; and A is to be treated as a partner in the firm for the purposes of section 850C(17).

(13) Section 850C(18) to (21) applies for the purpose of determining if A has the power to enjoy B's profit share.

850E Payments by B out of the excess part of B's profit share

(1) Subsection (2) applies in a case in which section 850C(4) or section 850D(4) applies if—

(a) there is an agreement in place in relation to the excess part of B's profit share,

(b) as a result of the agreement, B makes a payment to another person out of the excess part of B's profit share, and

(c) the payment is not made under any arrangements the main purpose, or one of the main purposes, of which is the obtaining of a tax advantage for any person.

(2) For income tax purposes, the payment—

(a) is not to be income of the recipient,

(b) is not to be taken into account in calculating any profits or losses of B or otherwise deducted from any income of B, and

(c) is not to be regarded as a distribution.

(3) In this section—

"arrangements" includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable),

"B's profit share" has the same meaning as in section 850C or 850D (as the case may be),

"the excess part of B's profit share" means so much of the amount of B's profit share as is represented by the amount of, as the case may be—

(a) the increase under section 850C(4), or

(b) A's share of the firm's profit under section 850D(4), and

"tax advantage" has the meaning given by section 1139 of CTA 2010."

8 (1) Chapter 3 of Part 4 of ITA 2007 (trade loss relief: restrictions for certain partners) is amended as follows.

(2) In section 102 (overview of Chapter) after subsection (2) insert—

"(2A) This Chapter also provides for no relief to be given for a loss made by an individual in a trade carried on by the individual as a partner in a firm in certain cases where some or all of the loss is allocated to the individual rather than a person who is not an individual (see section 116A)."

(3) At the end insert—

"Partnerships with mixed membership etc

116A Excess loss allocation to partners who are individuals

(1) Subsection (2) applies if—

(a) in a tax year, an individual ("A") makes a loss in a trade as a partner in a firm, and

(b) A's loss arises, wholly or partly—

(i) directly or indirectly in consequence of, or

(ii) otherwise in connection with,

relevant tax avoidance arrangements.

(2) No relevant loss relief may be given to A for A's loss.

(3) In subsection (1)(b) "relevant tax avoidance arrangements" means arrangements—

(a) to which A is party, and

(b) the main purpose, or one of the main purposes, of which is to secure that losses of a trade are allocated, or otherwise arise, in whole or in part to A, rather than a person who is not an individual, with a view to A obtaining relevant loss relief.

(4) In subsection (3)(b) references to A include references to A and other individuals.

(5) For the purposes of subsection (3)(b) it does not matter if the person who is not an individual is not a partner in the firm or is unknown or does not exist.

(6) In this section—

"arrangements" includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable), and

"relevant loss relief" means—

(a) sideways relief,
(b) relief under section 83 (carry-forward trade loss relief),
(c) relief under section 89 (terminal trade loss relief), or
(d) capital gains relief.

(7) This section applies to professions as it applies to trades."

9 (1) Chapter 4 of Part 4 of ITA 2007 (losses from property businesses) is amended as follows.

(2) In section 117 (overview of Chapter) in subsection (3) for "and 127B" substitute "to 127C".

(3) After section 127B insert—

"**127C Excess loss allocation to partners who are individuals**

(1) Subsection (2) applies if—
(a) in a tax year, an individual ("A") makes a loss in a UK property business or an overseas property business as a partner in a firm, and
(b) A's loss arises, wholly or partly—
(i) directly or indirectly in consequence of, or
(ii) otherwise in connection with,
relevant tax avoidance arrangements.

(2) No relevant loss relief may be given to A for A's loss.

(3) In subsection (1)(b) "relevant tax avoidance arrangements" means arrangements—
(a) to which A is party, and
(b) the main purpose, or one of the main purposes, of which is to secure that losses of a UK property business or an overseas property business are allocated, or otherwise arise, in whole or in part to A, rather than a person who is not an individual, with a view to A obtaining relevant loss relief.

(4) In subsection (3)(b) references to A include references to A and other individuals.

(5) For the purposes of subsection (3)(b) it does not matter if the person who is not an individual is not a partner in the firm or is unknown or does not exist.

(6) In this section—
"arrangements" includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable), and
"relevant loss relief" means relief under section 118 (carry-forward property loss relief) or section 120 (property loss relief against general income)."

10 (1) Part 17 of CTA 2009 (partnerships) is amended as follows.

(2) In section 1262 (allocation of firm's profits and losses between partners) in subsection (1) for "and 1264" substitute "to 1264A".

(3) After section 1264 insert—

"**1264A Excess profit allocation to non-individual partners etc**

(1) Subsection (2) applies in a case in which—

(a) section 850C(4) or 850D(4) of ITTOIA 2005 applies for a period of account ("the relevant period of account"), and

(b) the partner who is "B" for the purposes of section 850C or 850D of that Act (as the case may be) is a company.

(2) In applying sections 1262 to 1264 in relation to the company—

(a) for the accounting period of the firm which coincides with the relevant period of account, or

(b) if no accounting period of the firm coincides with the relevant period of account, for accounting periods of the firm in which the relevant period of account falls,

such adjustments are to be made as are just and reasonable to take account of the increase under section 850C(4) of ITTOIA 2005 or A's share of the firm's profit under section 850D(4) of that Act.

(3) Sections 850C(23) and 850E(2) of ITTOIA 2005 apply for corporation tax purposes as they apply for income tax purposes."

Commencement

11 (1) Subject to sub-paragraph (2), the amendments made by paragraphs 7 and 10 are treated as having come into force on 5 December 2013 and have effect in accordance with paragraphs 12 and 13.

(2) Section 850C(8)(b), (18)(b) and (19) of ITTOIA 2005 is treated as having come into force on 6 April 2014.

12 (1) Section 850C of ITTOIA 2005 has effect for periods of account beginning on or after 6 April 2014 (and section 850E of ITTOIA 2005 and section 1264A of CTA 2009 have effect accordingly).

(2) Sub-paragraphs (3) and (4) apply in relation to a firm where a period of account ("the straddling period") begins before 6 April 2014 but ends on or after that date.

(3) Assume that the part of the straddling period falling on or after 6 April 2014 is a separate period of account.

(4) If section 850C(4) of ITTOIA 2005 would apply in relation to one or more partners in the firm for the assumed separate period of account, Part 9 of that Act has effect as if that part of the straddling period were a separate period of account.

13 (1) Section 850D of ITTOIA 2005 has effect for periods of account beginning on or after 6 April 2014 (and section 850E of ITTOIA 2005 and section 1264A of CTA 2009 have effect accordingly).

(2) Sub-paragraphs (3) and (4) apply in relation to a firm where a period of account ("the straddling period") begins before 6 April 2014 but ends on or after that date.

(3) Assume that the part of the straddling period falling on or after 6 April 2014 is a separate period of account.

(4) If section 850D(4) of ITTOIA 2005 would apply in relation to one or more individuals for the assumed separate period of account, Part 9 of that Act has effect as if that part of the straddling period were a separate period of account.

14 (1) The amendments made by paragraphs 8 and 9 have effect in relation to losses made in the tax year 2014-15 and subsequent tax years.

(2) Sub-paragraphs (3) and (4) apply for the purposes of section 116A or 127C of ITA 2007 if a loss made by an individual as a partner in a firm arises in a period of account ("the straddling period") which begins before 6 April 2014 but ends on or after that date.

(3) The loss is to be apportioned between the part of the straddling period falling before 6 April 2014 and the part falling on or after that date—

(a) on a time basis according to the respective lengths of those parts of the straddling period, or

(b) if that method produces a result that is unjust or unreasonable, on a just and reasonable basis.

(4) Section 116A or 127C of ITA 2007 does not apply in relation to the loss so far as it is apportioned to the part of the straddling period falling before 6 April 2014.

PART 3

ALTERNATIVE INVESTMENT FUND MANAGERS: DEFERRED REMUNERATION ETC

Main provision

15 At the end of Part 9 of ITTOIA 2005 (partnerships) insert—

"Alternative investment fund managers

863H Election for special provision for alternative investment fund managers to apply

(1) Section 863I applies in relation to an AIFM trade of an AIFM firm if the AIFM firm elects for that section to apply.

(2) An election under this section must be made within 6 months after the end of the first period of account for which the election is to have effect.

(3) An "AIFM firm" is a firm—

(a) the regular business of which is managing one or more AIFs, or

(b) which carries out one or more functions of managing one or more AIFs—

(i) as the delegate of, or

(ii) as the sub-delegate of a delegate of,

a person whose regular business is managing one or more AIFs.

(4) An "AIFM trade" is a trade of an AIFM firm which involves the firm's activities mentioned in subsection (3)(a) or (b).

(5) Subsection (3)(a) and (b) is to be construed as if it were contained in regulation 4 of the Alternative Investment Fund Managers Regulations 2013 (S.I. 2013/1773).

863I Allocation of profit to the AIFM firm

(1) This section applies for a period of account of the AIFM trade if—

(a) the calculation under section 849 in relation to a partner ("P") in the AIFM firm produces a profit, and

(b) P's share of that profit determined under section 850, 850A or 850C would, apart from this section, be a profit consisting (wholly or partly) of relevant restricted profit (see subsections (6) to (9)) chargeable to income tax under Chapter 2 of Part 2.

(2) P may allocate all or a part of the relevant restricted profit ("the allocated profit") to the AIFM firm itself.

(3) If P does so—

(a) the allocated profit is to be excluded from P's share of the AIFM firm's profit mentioned in subsection (1)(b),

(b) the AIFM firm is to be treated in accordance with subsection (4) as if it were itself a person who is a partner in the AIFM firm (and for this purpose, in the case of a limited liability partnership, it is the body corporate which is to be treated as that person), and

(c) all enactments applying generally to income tax are to apply accordingly with any necessary modifications (subject to subsection (5)).

(4) The AIFM firm is treated on the following basis—

(a) the calculation under section 849 in relation to the AIFM firm for the period of account produces the profit mentioned in subsection (1)(a),

(b) the AIFM firm's share of that profit determined under section 850 is the allocated profit (and sections 850A and 850C are to be ignored),

(c) that share is chargeable to tax under Chapter 2 of Part 2 for the tax year in which the period of account ends (with the person liable for the tax charged being the AIFM firm), and

(d) the tax is charged at the additional rate.

(5) The Commissioners for Her Majesty's Revenue and Customs may make regulations modifying any of the following enactments applying to income tax as they apply by virtue of this section in relation to the AIFM firm—

(a) those relating to returns of information and supply of accounts, statements and reports,

(b) those relating to the assessing, collecting and receiving of income tax,

(c) those conferring or regulating a right of appeal, and

(d) those concerning administration, penalties, interest on unpaid tax and priority of tax in cases of insolvency under the law of any part of the United Kingdom.

(6) P's profit determined under section 850, 850A or 850C is "relevant restricted profit" so far as it represents variable remuneration awarded to P—

(a) as deferred remuneration (including deferred remuneration which, if it vests in P, will vest in the form of instruments), or

(b) as upfront remuneration which vests in P in the form of instruments with a retention period of at least 6 months.

(7) In order for any variable remuneration to count for the purposes of subsection (6) it must be awarded to P in accordance with arrangements which are consistent with the AIFMD remuneration guidelines (see section 863L).

(8) In the case of a firm which is an AIFM firm by virtue of section 863H(3)(b) only, this section applies only in relation to partners who fall within a category of staff which is classified as identified staff.

(9) Terms used in subsections (6) to (8) have the same meaning as in the AIFMD remuneration guidelines.

863J Vesting of remuneration represented by the allocated profit

(1) Subsection (2) applies if all or a part of the variable remuneration represented by the allocated profit vests in P at a time when P is carrying on the AIFM trade (whether as a partner in the AIFM firm or otherwise).

(2) The amount given by subsection (5) is treated as a profit of the relevant tax year (see subsection (7)) made by P in the AIFM trade chargeable to income tax under Chapter 2 of Part 2.

(3) Subsection (4) applies if all or a part of the variable remuneration represented by the allocated profit vests in P at a time when P is no longer carrying on the AIFM trade (whether as a partner in the AIFM firm or otherwise).

(4) If this subsection applies—

(a) P is treated as receiving, in the relevant tax year (see subsection (7)), income of the amount given by subsection (5),

(b) income tax is charged under this subsection on that income, and

(c) P is the person liable for that tax.

(5) The amount to be treated as a profit or as income received by P is—

(a) the amount of the allocated profit, or the part of it representing the part of the variable remuneration, net of the income tax for which the AIFM firm is liable by virtue of section 863I in respect of the allocated profit or the part of it, plus

(b) an amount equal to—

(i) so much of the income tax mentioned in paragraph (a) as is paid by the AIFM firm by the time the vesting occurs, or

(ii) if the vesting occurs in the tax year for which the allocated profit is chargeable to tax under Chapter 2 of Part 2 by virtue of section 863I, so much of the income tax mentioned in paragraph (a) as is paid by the AIFM firm.

(6) Further—

(a) P is treated as paying, when the vesting occurs, an amount of income tax equal to the amount given by subsection (5)(b), and

(b) that amount is accordingly to be taken into account in determining the income tax payable by, or repayable to, P.

(7) "The relevant tax year" is—

(a) if the variable remuneration or the part of it is deferred remuneration, the tax year in which the vesting occurs, or

(b) if the variable remuneration or the part of it is upfront remuneration, the tax year for which the allocated profit would have been chargeable to income tax under Chapter 2 of Part 2 as mentioned in section 863I(1)(b).

(8) Terms used in this section have the same meaning as in the AIFMD remuneration guidelines (see section 863L).

(9) Section 850E (payment from B to other persons after application of section 850C(4) or 850D(4)) is to be ignored for the purposes of this section.

863K Vesting statements

(1) This section applies if all or a part of the variable remuneration represented by the allocated profit vests in P.

(2) If P requests it in writing, the AIFM firm must provide P with a statement showing—

(a) the amount of the allocated profit, or the part of it representing the part of the variable remuneration, gross of the income tax for which the AIFM firm is liable by virtue of section 863I in respect of the allocated profit or the part of it,

(b) the amount of the income tax for which the AIFM firm is liable, and

(c) so much of that amount of income tax as is paid by the AIFM firm by the time the vesting occurs or, if section 863J(5)(b)(ii) applies, as is paid by the AIFM firm.

(3) The duty to comply with a request under this section is enforceable by P.

(4) In the case of a limited liability partnership, the duty is enforceable against the body corporate.

863L The AIFMD remuneration guidelines

In sections 863I to 863K "the AIFMD remuneration guidelines" means the "Guidelines on Sound Remuneration Policies under the AIFMD" issued by the European Securities and Markets Authority on 3 July 2013 (ESMA/2013/232)."

Supplementary provision

16 (1) TMA 1970 is amended as follows.

(2) In Part 2 (returns of income and gains) after section 12AD insert—

"**12ADA AIFM firms**

(1) An officer of Revenue and Customs may by notice require a partnership which has made an election under section 863H of ITTOIA 2005 (whether or not the election has been revoked) to provide the officer with such information as the officer may reasonably require for purposes connected with the operation of sections 863H to 863K of ITTOIA 2005.

(2) The information must be provided within such reasonable time as the officer may specify in the notice."

(3) In column 2 of the Table in section 98 (special returns etc), at the appropriate place, insert "section 12ADA of this Act".

17 In Part 3 of TCGA 1992 (which makes special provision about partnerships etc) after section 59A insert—

"**59B Alternative investment fund managers (1)**

(1) Subsection (2) applies if—

(a) under section 863I of ITTOIA 2005, a partner ("P") in a partnership allocates to the partnership an amount of profit ("the allocated profit") representing variable remuneration which, if it vests in P, will vest in the form of instruments,

(b) there is a disposal to P of instruments which are partnership assets of the partnership for the purposes of section 59, and

(c) by virtue of that disposal the variable remuneration vests in P.

(2) Both the persons making the disposal and P are to be treated as if the instruments were acquired by P from those persons for a consideration of an amount equal to the allocated profit net of the income tax for which the partnership is liable by virtue of section 863I of ITTOIA 2005 in respect of the allocated profit.

(3) Terms used in this section which are also used in section 863I or 863J of ITTOIA 2005 have the same meaning as in that section.

59C Alternative investment managers (2)

(1) Subsection (2) applies if—

(a) under section 863I of ITTOIA 2005, a partner ("P") in a partnership allocates to the partnership an amount of profit ("the allocated profit") representing variable remuneration which, if it vests in P, will vest in the form of instruments,

(b) there is a disposal to P of instruments by a company which is a partner in the partnership,

(c) by virtue of that disposal the variable remuneration vests in P, and

(d) the company would, as a partner in the partnership, have been charged to tax on the allocated profit but for adjustments made in the case of the company under section 1264A(2) of CTA 2009 or section 850C(5) of ITTOIA 2005.

(2) Both the company and P are to be treated as if the instruments were acquired by P from the company for a consideration of an amount equal to the allocated profit net of the income tax for which the partnership is liable by virtue of section 863I of ITTOIA 2005 in respect of the allocated profit.

(3) Terms used in this section which are also used in section 863I or 863J of ITTOIA 2005 have the same meaning as in that section."

18 In Part 4 of FA 2004 (pensions) in section 189 (relevant UK individual) after subsection (2A) insert—

"(2B) The income covered by subsection (2)(b) includes—

(a) an amount treated as a profit under section 863J(2) of ITTOIA 2005, and

(b) income treated as received under section 863J(4) of that Act."

19 In section 23 of ITA 2007 (calculation of income tax liability) at the end of Step 4 insert—

"See also section 863I of ITTOIA 2005 which provides for certain partnership profits to be charged at the additional rate."

Power to apply amendments to other types of firms carrying on regulated activities

20 (1) The Commissioners for Her Majesty's Revenue and Customs may by regulations amend any Act—

(a) so as to apply (with or without modifications), in relation to regulated firms of a specified description, the provision made by the amendments made by this Part, or

(b) so as to make, in relation to regulated firms of a specified description, provision corresponding to the provision made by the amendments made by this Part.

(2) "Regulated firm" means a firm carrying on a regulated activity within the meaning of the Financial Services and Markets Act 2000 (see section 22 of that Act); and "firm" has the same meaning as in ITTOIA 2005 (see section 847 of that Act) (and includes a limited liability partnership in relation to which section 863(1) of that Act applies).

(3) Regulations under this paragraph may—

(a) make different provision for different cases or different purposes;

(b) make incidental, consequential, supplementary and transitional provision and savings.

Commencement

21 The amendments made by this Part have effect for the tax year 2014-15 and subsequent tax years.

PART 4

DISPOSALS OF ASSETS THROUGH PARTNERSHIPS

Income tax

22 Part 13 of ITA 2007 (tax avoidance) is amended as follows.

23 (1) In Chapter 5A (transfers of income streams) section 809AZF (partnership shares) is amended as follows.

(2) In subsection (1) omit "if condition A or B is met".

(3) Omit subsections (2) and (3).

(4) The amendments made by this paragraph have effect for cases where the transfer of a right to relevant receipts occurs on or after 6 April 2014.

24 (1) After Chapter 5A insert—

"CHAPTER 5AA

DISPOSALS OF INCOME STREAMS THROUGH PARTNERSHIPS

809AAZA Application of Chapter

(1) This Chapter applies (subject to subsection (2)) if directly or indirectly in consequence of, or otherwise in connection with, arrangements involving a person within the charge to income tax ("the transferor") and another person ("the transferee")—

(a) there is, or is in substance, a disposal of a right to relevant receipts by the transferor to the transferee,

(b) the disposal is effected (wholly or partly) by or through a partnership ("the relevant partnership"),

(c) at any time—

(i) the transferor is a member of the relevant partnership or of a partnership associated with the relevant partnership, and

(ii) the transferee is a member of the relevant partnership or of a partnership associated with the relevant partnership, and

(d) the main purpose, or one of the main purposes, of one or more steps taken in effecting the disposal is the obtaining of a tax advantage for any person.

(2) This Chapter does not apply if—

(a) the transferor is the spouse or civil partner of the transferee and they are living together, or

(b) the transferor is a brother, sister, ancestor or lineal descendant of the transferee.

(3) In subsection (1)(a) the reference to a disposal of a right to relevant receipts includes anything constituting a disposal of such a right for the purposes of TCGA 1992.

(4) For the purposes of subsection (1)(b) the disposal might, in particular, be effected by an acquisition or disposal of, or an increase or decrease in, an interest in the relevant partnership (including a share of the profits or assets of the relevant partnership or an interest in such a share).

(5) For the purposes of subsection (1)(c) it does not matter if the transferor and the transferee are not members of a partnership as mentioned at the same time.

(6) For the purposes of subsection (1)(c) a partnership is "associated" with the relevant partnership if—

(a) it is a member of the relevant partnership, or

(b) it is a member of a partnership which is associated with the relevant partnership (whether by virtue of paragraph (a) or this paragraph).

(7) In subsections (1)(c) and (5) references to the transferor include a person connected with the transferor and references to the transferee include a person connected with the transferee.

(8) In this Chapter—

"arrangements" includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable),

"partnership" includes a limited liability partnership whether or not section 863(1) of ITTOIA 2005 applies in relation to it,

"relevant receipts" means any income—

(a) which (but for the disposal) would be charged to income tax as income of the transferor (whether directly or as a member of a partnership), or

(b) which (but for the disposal) would be brought into account as income in calculating profits of the transferor (whether directly or as a member of a partnership) for income tax purposes, and

"tax advantage" means a tax advantage, as defined in section 1139 of CTA 2010, in relation to income tax or the charge to corporation tax on income.

809AAZB Relevant amount to be treated as income

(1) The relevant amount is to be treated as income of the transferor chargeable to income tax in the same way and to the same extent as that in which the relevant receipts—

(a) would have been chargeable to income tax as income of the transferor, or

(b) would have been brought into account as income in calculating profits of the transferor for income tax purposes,

but for the disposal.

(2) In subsection (1) "the relevant amount" is to be read in accordance with section 809AZB(2) and section 809AZB(3) to (6) applies for the purpose of determining when income under subsection (1) is treated as arising.

(3) For this purpose, in section 809AZB(2) to (6) references to the transfer of the right are to be read as references to the disposal of the right.

(4) If, apart from this subsection and section 809DZB(3)—

(a) both this Chapter and Chapter 5D would apply in relation to the disposal, and

(b) Chapter 5D would give a greater amount of income of the transferor chargeable to income tax,

this Chapter is not to apply in relation to the disposal."

(2) The amendment made by this paragraph has effect for cases where the arrangements mentioned in section 809AAZA(1) of ITA 2007 are made on or after 6 April 2014.

25 (1) After Chapter 5C insert—

"**CHAPTER 5D**

DISPOSALS OF ASSETS THROUGH PARTNERSHIPS

809DZA Application of Chapter

(1) This Chapter applies if conditions A and B are met.

(2) Condition A is (subject to subsection (3)) that directly or indirectly in consequence of, or otherwise in connection with, arrangements involving a person within the charge to income tax ("the transferor") and another person ("the transferee")—

(a) there is, or is in substance, a disposal of an asset ("the transferred asset") by the transferor to the transferee,

(b) the disposal is effected (wholly or partly) by or through a partnership ("the relevant partnership"),

(c) at any time—

(i) the transferor is a member of the relevant partnership or of a partnership associated with the relevant partnership, and

(ii) the transferee is a member of the relevant partnership or of a partnership associated with the relevant partnership, and

(d) the main purpose, or one of the main purposes, of one or more steps taken in effecting the disposal is the obtaining of a tax advantage for any person.

(3) Condition A is not met if—

(a) the transferor is the spouse or civil partner of the transferee and they are living together, or

(b) the transferor is a brother, sister, ancestor or lineal descendant of the transferee.

(4) In subsection (2)(a) the reference to a disposal of an asset includes anything constituting a disposal of an asset for the purposes of TCGA 1992.

(5) For the purposes of subsection (2)(b) the disposal might, in particular, be effected by an acquisition or disposal of, or an increase or decrease in, an

interest in the relevant partnership (including a share of the profits or assets of the relevant partnership or an interest in such a share).

(6) For the purposes of subsection (2)(c) it does not matter if the transferor and the transferee are not members of a partnership as mentioned at the same time.

(7) For the purposes of subsection (2)(c) a partnership is "associated" with the relevant partnership if—

(a) it is a member of the relevant partnership, or

(b) it is a member of a partnership which is associated with the relevant partnership (whether by virtue of paragraph (a) or this paragraph).

(8) In subsections (2)(c) and (6) references to the transferor include a person connected with the transferor and references to the transferee include a person connected with the transferee.

(9) Condition B is that it is reasonable to assume that, had the transferred asset instead been disposed of directly by the transferor to the transferee, the relevant amount (or any part of it)—

(a) would have been chargeable to income tax as income of the transferor, or

(b) would have been brought into account as income in calculating profits of the transferor for income tax purposes.

(10) In this Chapter "the relevant amount" means the amount of the consideration received by the transferor for the disposal.

(11) If the transferor receives—

(a) no consideration for the disposal, or

(b) consideration which is substantially less than the market value of the transferred asset,

assume for the purposes of subsection (10) that the transferor receives consideration of an amount equal to the market value of the transferred asset.

(12) In subsection (11) references to the market value of the transferred asset are to that value at the time of the disposal.

(13) In this Chapter—

"arrangements" includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable),

"partnership" includes a limited liability partnership whether or not section 863(1) of ITTOIA 2005 applies in relation to it, and

"tax advantage" means a tax advantage, as defined in section 1139 of CTA 2010, in relation to income tax or the charge to corporation tax on income.

809DZB Relevant amount to be treated as income

(1) The relevant amount is to be treated as income of the transferor chargeable to income tax in the same way and to the same extent as that in which it—

(a) would have been chargeable to income tax as income of the transferor, or

(b) would have been brought into account as income in calculating profits of the transferor for income tax purposes,

as mentioned in section 809DZA(9).

(2) Section 809AZB(3) to (6) applies for the purpose of determining when income under subsection (1) is treated as arising (reading references to the transfer of the right as references to the disposal of the transferred asset).

(3) If, apart from this subsection and section 809AAZB(4)—

(a) both this Chapter and Chapter 5AA would apply in relation to the disposal, and

(b) Chapter 5AA would give the same amount, or a greater amount, of income of the transferor chargeable to income tax,

this Chapter is not to apply in relation to the disposal."

(2) The amendment made by this paragraph has effect for cases where the arrangements mentioned in section 809DZA(2) of ITA 2007 are made on or after 6 April 2014.

Corporation tax

26 Part 16 of CTA 2010 (factoring of income etc) is amended as follows.

27 (1) In Chapter 1 (transfers of income streams) section 756 (partnership shares) is amended as follows.

(2) In subsection (1) omit "if condition A or B is met".

(3) Omit subsections (2) and (3).

(4) The amendments made by this paragraph have effect for cases where the transfer of a right to relevant receipts occurs on or after 1 April 2014.

28 (1) After Chapter 1 insert—

"**CHAPTER 1A**

DISPOSALS OF INCOME STREAMS THROUGH PARTNERSHIPS

757A Application of Chapter

(1) This Chapter applies if directly or indirectly in consequence of, or otherwise in connection with, arrangements involving a company within the charge to corporation tax ("the transferor") and another person ("the transferee")—

(a) there is, or is in substance, a disposal of a right to relevant receipts by the transferor to the transferee,

(b) the disposal is effected (wholly or partly) by or through a partnership ("the relevant partnership"),

(c) at any time—

(i) the transferor is a member of the relevant partnership or of a partnership associated with the relevant partnership, and

(ii) the transferee is a member of the relevant partnership or of a partnership associated with the relevant partnership, and

(d) the main purpose, or one of the main purposes, of one or more steps taken in effecting the disposal is the obtaining of a tax advantage for any person.

(2) In subsection (1)(a) the reference to a disposal of a right to relevant receipts includes anything constituting a disposal of such a right for the purposes of TCGA 1992.

(3) For the purposes of subsection (1)(b) the disposal might, in particular, be effected by an acquisition or disposal of, or an increase or decrease in, an interest in the relevant partnership (including a share of the profits or assets of the relevant partnership or an interest in such a share).

(4) For the purposes of subsection (1)(c) it does not matter if the transferor and the transferee are not members of a partnership as mentioned at the same time.

(5) For the purposes of subsection (1)(c) a partnership is "associated" with the relevant partnership if—

(a) it is a member of the relevant partnership, or

(b) it is a member of a partnership which is associated with the relevant partnership (whether by virtue of paragraph (a) or this paragraph).

(6) In subsections (1)(c) and (4) references to the transferor include a person connected with the transferor and references to the transferee include a person connected with the transferee.

(7) In this Chapter—

"arrangements" includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable),

"partnership" includes a limited liability partnership whether or not section 1273(1) of CTA 2009 applies in relation to it,

"relevant receipts" means any income—

(a) which (but for the disposal) would be charged to corporation tax as income of the transferor (whether directly or as a member of a partnership), or

(b) which (but for the disposal) would be brought into account as income in calculating profits of the transferor (whether directly or as a member of a partnership) for corporation tax purposes, and

"tax advantage" means a tax advantage, as defined in section 1139, in relation to income tax or the charge to corporation tax on income.

757B Relevant amount to be treated as income

(1) The relevant amount is to be treated as income of the transferor chargeable to corporation tax in the same way and to the same extent as that in which the relevant receipts—

(a) would have been chargeable to corporation tax as income of the transferor, or

(b) would have been brought into account as income in calculating profits of the transferor for corporation tax purposes,

but for the disposal.

(2) In subsection (1) "the relevant amount" is to be read in accordance with section 753(2) and section 753(3) and (4) applies for the purpose of determining when income under subsection (1) is treated as arising.

(3) For this purpose, in section 753(2) to (4) references to the transfer of the right are to be read as references to the disposal of the right.

(4) If, apart from this subsection and section 779B(3)—

(a) both this Chapter and Chapter 4 would apply in relation to the disposal, and

(b) Chapter 4 would give a greater amount of income of the transferor chargeable to corporation tax,

this Chapter is not to apply in relation to the disposal."

(2) The amendment made by this paragraph has effect for cases where the arrangements mentioned in section 757A(1) of CTA 2010 are made on or after 1 April 2014.

29 (1) After Chapter 3 insert—

"**CHAPTER 4**

DISPOSALS OF ASSETS THROUGH PARTNERSHIPS

779A Application of Chapter

(1) This Chapter applies if conditions A and B are met.

(2) Condition A is that directly or indirectly in consequence of, or otherwise in connection with, arrangements involving a company within the charge to corporation tax ("the transferor") and another person ("the transferee")—

(a) there is, or is in substance, a disposal of an asset ("the transferred asset") by the transferor to the transferee,

(b) the disposal is effected (wholly or partly) by or through a partnership ("the relevant partnership"),

(c) at any time—

(i) the transferor is a member of the relevant partnership or of a partnership associated with the relevant partnership, and

(ii) the transferee is a member of the relevant partnership or of a partnership associated with the relevant partnership, and

(d) the main purpose, or one of the main purposes, of one or more steps taken in effecting the disposal is the obtaining of a tax advantage for any person.

(3) In subsection (2)(a) the reference to a disposal of an asset includes anything constituting a disposal of an asset for the purposes of TCGA 1992.

(4) For the purposes of subsection (2)(b) the disposal might, in particular, be effected by an acquisition or disposal of, or an increase or decrease in, an

interest in the relevant partnership (including a share of the profits or assets of the relevant partnership or an interest in such a share).

(5) For the purposes of subsection (2)(c) it does not matter if the transferor and the transferee are not members of a partnership as mentioned at the same time.

(6) For the purposes of subsection (2)(c) a partnership is "associated" with the relevant partnership if—

(a) it is a member of the relevant partnership, or

(b) it is a member of a partnership which is associated with the relevant partnership (whether by virtue of paragraph (a) or this paragraph).

(7) In subsections (2)(c) and (5) references to the transferor include a person connected with the transferor and references to the transferee include a person connected with the transferee.

(8) Condition B is that it is reasonable to assume that, had the transferred asset instead been disposed of directly by the transferor to the transferee, the relevant amount (or any part of it)—

(a) would have been chargeable to corporation tax as income of the transferor, or

(b) would have been brought into account as income in calculating profits of the transferor for corporation tax purposes.

(9) In this Chapter "the relevant amount" means the amount of the consideration received by the transferor for the disposal.

(10) If the transferor receives—

(a) no consideration for the disposal, or

(b) consideration which is substantially less than the market value of the transferred asset,

assume for the purposes of subsection (9) that the transferor receives consideration of an amount equal to the market value of the transferred asset.

(11) In subsection (10) references to the market value of the transferred asset are to that value at the time of the disposal.

(12) In this Chapter—

"arrangements" includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable),

"partnership" includes a limited liability partnership whether or not section 1273(1) of CTA 2009 applies in relation to it, and

"tax advantage" means a tax advantage, as defined in section 1139, in relation to income tax or the charge to corporation tax on income.

779B Relevant amount to be treated as income

(1) The relevant amount is to be treated as income of the transferor chargeable to corporation tax in the same way and to the same extent as that in which it—

(a) would have been chargeable to corporation tax as income of the transferor, or

(b) would have been brought into account as income in calculating profits of the transferor for corporation tax purposes,

as mentioned in section 779A(8).

(2) Section 753(3) and (4) applies for the purpose of determining when income under subsection (1) is treated as arising (reading references to the transfer of the right as references to the disposal of the transferred asset).

(3) If, apart from this subsection and section 757B(4)—

(a) both this Chapter and Chapter 1A would apply in relation to the disposal, and

(b) Chapter 1A would give the same amount, or a greater amount, of income of the transferor chargeable to corporation tax,

this Chapter is not to apply in relation to the disposal."

(2) The amendment made by this paragraph has effect for cases where the arrangements mentioned in section 779A(2) of CTA 2010 are made on or after 1 April 2014.