



John Whiting
Office of Tax Simplification
HM Treasury
1 Horse Guards Rd
London
SW1A 2HQ

29 August 2014

Dear Mr Whiting

I am writing on behalf of the British Private Equity and Venture Capital Association (the "**BVCA**"), which represents the interests of members of the private equity and venture capital industry. The BVCA is the industry body and public body advocate for the private equity and venture capital industry in the UK. More than 500 firms make up the BVCA members, including over 250 private equity, mid-market, venture capital firms and angel investors, together with over 250 professional advisory firms, including legal, accounting, regulatory and tax advisers, corporate financiers, due diligence professionals, environmental advisers, transaction services providers, and placement agents. Additional members include international investors and funds-of-funds, secondary purchasers, university teams and academics and fellow national private equity and venture capital associations globally.

This letter has been formulated by the BVCA's Taxation Committee, whose remit is to represent the interests of members of the industry in taxation matters. The BVCA welcomes the opportunity to submit comments on the Office of Tax Simplification "Review of partnerships: update and call for evidence" paper released on 25th July 2014 (the "**Update Report**").

Please find our comments set out below. For simplicity we have used the same paragraph numbers as in Chapter 2 of the Update Report.

As you have discussed with my colleague Tim Hughes, the BVCA would be delighted to meet with you to discuss your ongoing work on the partnerships review and particularly in respect of the comments below.

Short-term fixes

2.3 - Free software

While many of the partnerships operated by our members may not be considered to be "simple" and therefore may not benefit from the introduction of the software, some of our members would appreciate free software to allow partnerships to file electronically. We therefore support your proposal.

Medium-term recommendations

2.4-2.5 – Statement of Practice D12

As you are aware, Partnerships are a fundamental aspect of our industry and as such Statement of Practice D12 is well understood by our members. We would welcome an opportunity to discuss with you in person certain points within D12 which we consider could usefully be clarified.

2.8 – Developing business structures

A specialist partnerships team within HMRC could potentially be helpful. However we do not feel that the current HMRC structure is an impediment to our members or the operation of the wider private equity industry. It may therefore be that such a change would mainly benefit those partnerships which for reasons of scale or complexity do not have access to specialist professional advice.

2.9 – Simplifying opening year calculations and overlap relief

These provisions are relevant to our industry because many private equity funds are advised or managed by LLPs. However, the provisions are not a particular area of concern for our members and the existing rules do not present a particular issue for our industry. That said, we would welcome simplification of the rules provided that the objective of the relief is maintained. We note that it would be unhelpful to create a discrepancy in treatment between sole traders and partnerships and therefore any amendment to the existing rules would need to apply to both groups of taxpayers.

2.10 - Gift Aid

Gift Aid should be encouraged and we would naturally welcome the extension of gift aid claims to LLPs.

2.11 - Business property relief s.105(4)(b) IHTA

We support the OTS suggestion that an equivalent to s.105(4)(b) IHTA should be introduced for partnerships and particularly LLPs. It is unfair that a partner in a partnership may be entitled to BPR where that partner holds shares in a holding company directly whereas shares held via a partnership interest would not qualify for the relief.

Longer-term areas to investigate

2.12-2.13 – Education for smaller partnerships

This is not generally a matter of concern to our members who generally have access to specialist professional advice; however we do support greater education and guidance for individuals at the point of partnership registration.

We support the proposal for a default partnership agreement and would be happy to share the BVCA standard form partnership agreement with you if you think this would be helpful.

2.14 – The Annual Investment Allowance and Mixed Member Partnerships

Mixed member partnerships are common in our industry and, as noted in your report, such partnerships are unable to benefit from the AIA. It is not clear to us why this should be the case as our members operate businesses which require capital investment like any other, and incentivizing that investment would be in line with the broader policy objective of the AIA. We therefore support the OTS request for the AIA rules to be reviewed to allow mixed member partnerships to benefit from AIA.

2.15-2.17 - Double reporting of income figures (partnership return and individual's return pages)

We are sympathetic to HMRC's point that the completion of a partnership tax return can provide a 'cross-check' to allow HMRC to check the profit figures reported on the partners' return against allocations in the partnership return.

We note that a significant number of partners in the partnerships operated by our members do not have UK filing obligations such that HMRC cannot perform this cross check, but it is not apparent to us that this creates any particular challenge for HMRC in practice. In this respect, were the requirement to complete a partnership return removed it should not create any additional risk for HMRC and further, where the majority (or all) partners in a UK partnership do not have any UK tax to pay, the requirement to complete a partnership return only adds unnecessary administrative burden and cost.

Linked to this point, we disagree with HMRC's comments with respect to penalties for the late filing of partnership returns (please refer to paragraph 21, page 15 of the Update Report). HMRC note that "Every partner has a responsibility to ensure that the partnership's obligations are met". This may be the case for the smallest trading partnerships but it is not accurate or realistic for larger businesses. In the example of an investment partnership where the limited partners are external investors, the limited partners have no direct means of compelling the general partner to submit a tax return on time and no way of accessing sufficient information to do it themselves. It makes no sense that they should be subject to a penalty for late submission.

2.18-2.23 - Partners' expenses

We support the OTS proposal to allow individual partners to claim expenses against their profit share and agree with the comments made in 2.18 – 2.23 of the main report. We do not agree with HMRC's point of principle that allowing relief in individual tax returns would not reflect the true partnership profit; partnerships have always had flexible profit-sharing arrangements and if the partners choose to operate their business in a manner which results in individual partners claiming partnership expenses that they have incurred personally against partnership income then this should be a matter for the partners.



2.24 – international issues

Our members are concerned about the likelihood of adverse but unintended consequences arising for the private equity industry from the BEPS project as a result of inconsistent treatment of partnerships compared to corporate vehicles in an international context, particularly in relation to accessing double tax treaties. We are seeking to meet with HMT and the OECD to discuss these concerns but would welcome an opportunity to discuss these same concerns with you.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Whitaker', followed by a period.

Steven Whitaker

Chairman, BVCA Taxation Committee