

The application of Unique Tax Reference (UTR) numbers

In 2008, HMRC removed the ability to submit partnership tax returns using dummy Unique Tax Reference (UTR) numbers. At the time, the BVCA lobbied for concessions, which are due to expire after FY10/11. HMRC would like General Partners (GPs) to continue to ‘bulk apply’ for UTRs, which would be issued to GPs as nominated partners. Ahead of further discussions with HMRC, the BVCA Tax Committee sought the views of tax professionals regarding this change. This note details the results from that short survey.

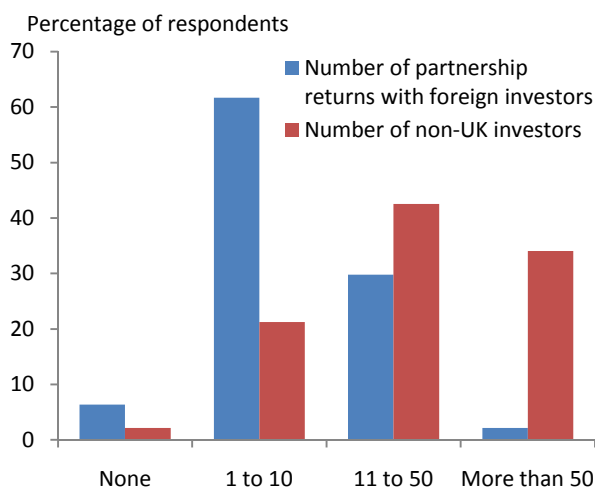
Survey methodology and coverage

HMRC’s proposal regarding the new treatment of UTRs would allow GPs to file partnership returns online, and would not affect the tax position of foreign investors. However, HMRC would like these nominated partners to disclose details about their co-investors, including overseas partners. It is important to consider the potential impact of these changes before they are finalised. To shed some light on this issue, the BVCA Research Team launched a short online survey about these changes in March 2011, which was sent to tax professionals at BVCA member firms and advisors. The survey closed on 1 April 2011, having received 47 responses; the survey questions are available in the Annex.

Survey results

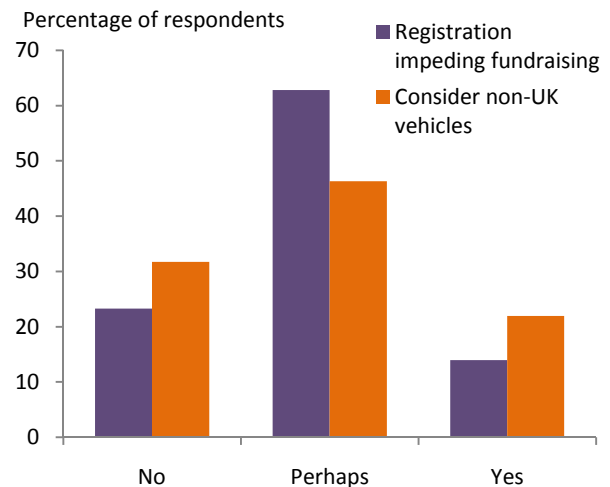
Overall, the bulk of respondents filed between 1 and 10 partnership returns a year that involved foreign partners, and those foreign investors are numerous (Chart 1). The vast majority of respondents – 83% – were aware of the previous BVCA arrangements with HMRC, and generally did not have their individual arrangements regarding tax filings. An even higher proportion of respondents (97%) were not aware of any provision that would preclude GPs from acting as nominated agents, as HMRC would like, and most respondents were unaware of any provision in the partnership agreements to avoid the disclosure of investment partners’ identities.

Chart 1: Number of returns and overseas investors



Source: BVCA.

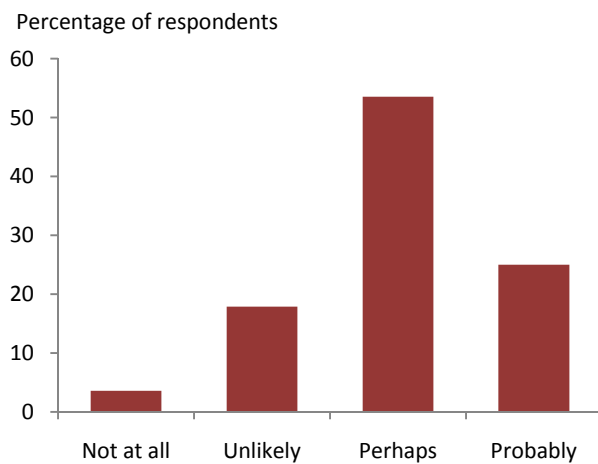
Chart 2: Registering partners and future fundraising



Source: BVCA.

However, survey respondents were less certain about the impact of registering partners with HMRC regarding future activity. The majority (63%) were unclear whether this registration would impede future fundraising, with 14% sure that it would have a negative impact (Chart 2). Furthermore, 22% of respondents thought that they would use a vehicle that was constituted outside of the UK for future funds, with almost half (46%) of respondents suggesting that they would consider it. It is therefore possible that the registration of partners, even under 'bulk' UTRs, could have a negative impact on UK private equity activity, and on HMRC's tax revenues. Almost a third of those surveyed would have to inform investors about any requirement to register them with HMRC, even via bulk UTRs, and almost four-fifths of respondents thought that registration could or probably would create difficulties with investor relations (Chart 3). Yet even if there was no obligation to inform investors about their registration with HMRC, the vast majority of respondents thought that they would inform them. This is a clear indication that GPs highly value their relationships with their investors, and would not want to disclose any information without consulting with them first.

Chart 3: Would registering investors create difficulties?



Source: BVCA.

Conclusions

Overall, HMRC's suggestion to allow UK GPs to file use bulk UTRs to file tax returns has significant merits. But, at the same time, any requirement that the individual members of the partnership should be identified by GPs, even if they were overseas investors, could pose significant difficulties in terms of future activity and fundraising. The relationship between GPs and their investors is of paramount importance in the private equity (PE) industry; any insistence that GPs divulge more information than their investors are happy with could push large swathes of the industry offshore. That would clearly have a negative impact both on the industry as a whole, and the tax revenues that PE funds provide to the Exchequer.

If you have any questions or comments, please contact Colin Ellis: cellis@bvca.co.uk

Annex: List of survey questions

1. How many partnership tax returns do you file annual for partnerships with foreign partners?
None / 1 to 10 / 11 to 50 / More than 50
2. How many non-UK resident investors are committed to your partnerships at present?
None / 1 to 10 / 11 to 50 / More than 50
3. Were you aware of the arrangement that the BVCA reached with HMRC in relation to filing returns for member firms?
Yes / No
4. If not, do you have any specific arrangements with your HMRC inspector in relation to UK tax return filings?
Yes / No
5. Are you aware of any provisions in the agreements or side letters constituting your fund that would preclude the General Partner in your fund(s) from acting as 'nominated partner' in relation to the application and issuance of UTRs?
Yes / No
6. Are you aware of any provisions in the constituent documents that require you to make 'best efforts' to ensure that there is no disclosure of a partner's identity to any tax authority as a result of its commitment to your fund, either on a voluntary or compulsory basis?
Yes / No
7. Do you believe that the requirement to register partners with HMRC and receive UTRs for them could be an impediment to future fundraising?
No / Perhaps / Yes
8. If so, would this be sufficient to make you use vehicles constituted outside of the UK for any future funds?
No / Perhaps / Yes
9. Are you aware of any agreements or understandings within your organisation that would require you to inform your investors of your obligation to register them with HMRC?
Yes / No
10. If so, do you consider that this could create significant investor relations difficulties?
Not at all / Unlikely / Perhaps / Probably / Definitely
11. If there is no obligation to inform the investors, do you believe that you would do so, anyway?
Yes / No