AUDIT • TAX • ADVISORY

Leaving a Professional Partnership

Partners can leave a partnership for a variety of reasons; retirement, new role or change of family circumstances. Don't let tax cause unexpected complications.

Leaving a professional partnership can be daunting, particularly if your firm handles your tax compliance on your behalf. Our dedicated Professional Practices team are here to guide you through the process and deal with any concerns you may have.

What happens after a departure?

There are many things you should consider after leaving a partnership, particularly if you are not moving to another partnership or your new firm has a different structure.

Tie up loose ends

Depending on the services your current finance team provide, you may not have a great deal to do personally However, it is a good idea to check if your firm made any professional subscriptions on your behalf or arranged any insurances for you.

Future tax returns

You may have to continue to file self-assessment tax returns depending on your income after you leave the firm. You will be required to submit tax returns if:

- You are self-employed
- You receive £2,500 or more in untaxed income, for example from tips or renting out a property
- You receive income from investments or savings of £10,000 or more
- You receive dividend income of £10,000 or more
- You made a profit from selling shares, property or other chargeable assets
- You are a company director
- You claimed child benefit and your (or your partner's) income is over £50,000
- You receive income from abroad
- You receive taxable income over £100,000

The deadline to file your tax return is 31 January following the end of the tax year e.g. the filing deadline for 2018/19 is 31 January 2020. A paper tax return must be submitted by 31 October following the end of the relevant tax year.

Overlap relief

You only pay tax on your total adjusted profits earned over your life with the business. However, in your earlier years with the firm, your tax payments are usually based on the same profits more than once.

This is because of accounting methods and opening year rules that determine which profits are taxable in the early years as a partner. These are called 'overlap profits' and they are used as 'overlap relief' in your final year. This is discussed further below.

This document is for guidance only and you should consult your MHA Tait Walker contact for specific advice or queries.

Future income and expenses

Depending on your career change, you may or may not be self-employed. The below gives guidance on the difference between employed and self-employed income and the expenses that can be claimed:

- **Self-employment**
  If you are acting in a self-employment capacity, then the expenses need to be incurred wholly and exclusively for business purposes. Therefore, any expenses incurred which relate to your business activities should be recorded and claimed in order to reduce your tax liability. Capital allowances are available on items of capital expenditure and you need to keep evidence of the expenditure.

- **Employment**
  If you are acting in an employed capacity, then expenses need to be incurred wholly, exclusively and necessarily in the performance of the duties of your employment to be allowable. Business mileage, professional subscriptions and business travelling which is not reimbursed by your employer can generally be claimed against income, thereby reducing your tax liability.

This is a brief overview of income and expenses. Please contact us if you would like more details.

Cashflow

After leaving the partnership you may have to consider your future tax liabilities and cashflow. Depending on your career move, you may no longer have the security of a firm reserving for tax purposes on your behalf. It is important to understand the potential future tax liabilities that will be due.

Your tax rates

You are entitled to a personal allowance (an amount you can earn before you start paying tax) if your income is below £100,000. The personal allowance for 2018/19 is £11,850. Income tax is due on your income above the personal allowance (if applicable) at the following rates:

Income up to £34,500	**Basic rate band**	**20%**
Income from £34, 501 to £150,000	**Higher rate band**	**40%**
Income above £150,000	**Additional rate band**	**45%**

Dividend income up to £2,000 is tax free. However, if dividend income falls within the basic rate band, the tax rate is 7.5%. If it falls within the higher band, it is 32.5%, and if it falls within the additional rate band, it is 38.1%. National insurance contributions for self-employed earnings are 9% and 2% depending on your income.

Due dates for tax payments

If you are filing a self-assessment tax return, you must pay your tax liability by 31 January following the end of the tax year e.g. the deadline to pay for 2018/19 is 31 January 2020.

You may be required to make payments on account towards your tax liability. The payments are due 31 January and 31 July e.g. the payments for 2018/19 are due 31 January 2019 and 31 July 2019.

Self-assessment payments on account

If you are required to continue to file tax returns there may be scope to reduce your payments on account if your income is going to be lower after your departure.

Tax relief

You may be able to reduce your tax liability if you make pension contributions, Gift Aid donations, and tax efficient investments, for example investing in a qualifying Enterprise Investment Scheme company. MHA Tait Walker Wealth Management can provide advice to you if you are considering making investments.

Pension contributions

Your previous firm may have arranged to make payments into a scheme on your behalf and may now be responsible for making payments personally. Pensions can be a complex area, particularly if you have a high level of income. We can offer advice and planning in this area.

Is my date of departure important?

Depending on your overlap relief and income level, your departure date can be crucial for tax savings. When you join the partnership, depending on your start date and the firm's accounting date, the profits assessable in the opening years can be taxed more than once.

These profits are referred to as 'overlap profits' and relief is given in the final year as a partner, referred to as 'overlap relief'. Please see our 'New to the partnership' guide for further explanations on the opening years and overlap relief.

If your partnership reserves funds for tax liabilities

Overlap relief is usually valued at your marginal rate of tax. If the partnership reserves for your tax liabilities this is likely to be the amount they will reflect in your reserves. If you have significant partnership profit share compared to your overlap profit figure, and your profits in your final year remain high, it is likely that the deduction for overlap relief will save you tax at your highest rate of tax e.g. 47% for additional rate taxpayers.

However, particularly when approaching retirement, you may have an arrangement with the firm and agree to reduce your profits leading up to your departure. If you take a lower profit share in your final year(s) to cessation, it is possible that the tax savings from your overlap relief have reduced depending on your total income in the year e.g. only 42% for higher rate taxpayers. Depending on the partnership tax reserves, it may mean that your tax reserves become overdrawn and you have to pay sums back to the partnership or pay the liability personally. MHA Tait Walker can assist with reserving calculations if we are aware of your cessation date.

There can also be other complications due to personal allowances, loan interest, pension contributions etc.

You should plan in advance if you want to ensure the correct tax reserves are made and to make sure you are aware of your total tax savings through overlap profits.

Profits taxable in your final year

Your actual date of departure determines your final tax year. For example, any cessation date on or between 6 April 2018 and 5 April 2019 will fall in to the tax year 2018/19. In that final year, all profits not previously assessed will be taxable in the year. However, a deduction is made for overlap relief.

Many partners choose to leave on the accounting year end date of the partnership. As such, taxable profits are based on the final accounting year (in the usual way) less overlap relief.

Where a partner leaves on a date other than the accounting date, then the final taxable profits will be the sum of the taxable profits for the accounting period ending in the year, plus the taxable profits for the period to the date of cessation, less overlap relief.

For example, if a partner leaves a firm on 30 November 2018 and the firm has an accounting year end of 30 April, the following profits would be assessable:

Taxable profits to 30 April 2018	x
Plus taxable profits from May 2018 to 30 November 2018	x
Less overlap relief	(x)
Taxable profit	**x**

About MHA Tait Walker

We can provide assistance with your tax affairs, whether it is preparing company accounts and tax returns, preparing self-assessment tax returns, or providing wealth management assistance or tax advice when needed.

We are an expert team offering great value services and we will be happy to assist with your tax and business needs.

Your team

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