



Income Under the head Profit & Gains from Business & Profession

Part -6 -Taxation of Partnership Firm & its
Partners

Meaning of Partnership



Two or more Business Persons
Share & management of Profits



Partnership Firm



A Partnership Firm is taxed as a separate entity



Scheme of Taxation of Partnership Firm



Firm



Salary , Bonus , Commission or Remuneration
etc to its Partners



Tax Treatment in hands of Firm



Interest / Remuneration deduction to firm only if:

- Conditions of Section 184 & 40(b) are satisfied.
- Deduction given u/s 36 & 37.



Section 184



1. A firm must be evidenced by an instrument.
2. Individual share of partners must be specified in instrument.
3. Revision of instrument in case of change in PSR.



Section 40(b)



1. Interest

- Interest must be authorised by Partnership Deed
- Deduction available to Non - Working/Working Partners
- Max interest rate allowed for deduction is 12%.



Section 40(b)

2. Remuneration :

Deduction available only to Working Partners
Deduction is allowed as follows:

Particulars	Amount
Loss or Profit Up to ₹ 300000	90% of Book Profit or 150000, Whichever is Higher
Balance Profits	60% Of Book Profits



Section 40(b)



BOOK PROFITS	ACTUAL REMUNERATION	REMUNERATION ALLOWED
-40000	200000	150000
20000	50000	50000
150000	180000	150000
1000000	500000	500000



Section 40(b)



Meaning of Book Profits:

Net Profit as per Income Tax Act

Add- Remuneration to Partners

Add - Interest to Partners in excess of 12%

Book Profits



Tax Liability of a Firm



Tax Rate	30%
Surcharge	12%
(If Total Income is more than ₹ 1 Crore)	
Cess	4%

Taxable Income of Partners of a Firm



- ***Share of Profit***
Exempt from Tax u/s 10(2A)





Taxable Income of Partners of a Firm

- **Remuneration & Interest**



*Deductible in hands of Co.
Subject to Section 40(b) limits.*

Not deductible in hands of Co.



Taxable in hands of Partner

Not taxable in hands of Partner