



RAMA UNIVERSITY

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FACULTY OF COMMERCE AND MANAGEMENT

COURSE: B.COM III SEM.

SUBJECT: Direct Tax Laws and Practice

SUBJECT CODE: BCH 302

LECTURE: 33

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LECTURE-33



UNIT-4

ASSESSMENT OF PARTNERSHIP FIRM

Firm is an association of two or more than two persons, who came together to do a business and share profits thereof. Section 4 of the Partnership Act, 1932 defines Partnership as “relationship between persons who have agreed to share the profits of business carried on by all or any of them acting for all.”

The persons who have agreed to do business together are personally called “Partners” and collectively called a “Firm”. They are abiding by a deed called “Partnership Deed”. A Partnership Deed for partnership is same as Articles of Association, Trust Deed for companies and Trust respectively.

From Assessment Year 1993-94 the Partnership Firms are classified as;

1. Partnership Firms Assessed as Such (PFAS)
2. Partnership Firms Assessed as an Association of Person (PFAOP)

Scheme of Taxation of Firms:

1. The firm is taxed as a separate entity i.e. separate from its partners. No matter whether the firm is registered or not.
2. The definition of firm includes a Limited Liability Partnership and LLP is treated same as firm.
3. The share of partners in the income of the firm is exempted, while computing his individual income or share of partners in the firm is exempted in his hand.
4. Salary, Bonus, Commission or remuneration (by whatever name called) paid /payable to partners is allowed as deduction to the firm and same will be taxable in the hand of partners. These expenses are allowed as deduction subject to certain restriction under the Income Tax Act, 1961.
5. The interest to partners paid by firm is deductible subject to maximum rate of interest @12% pa. The amount is taxable in the hand of partners.

6. The firm is taxed at flat 30% plus 4% Cess plus Surcharge at 12% of taxable income if net income exceed 1 crore. However, the surcharge shall be subject to marginal relief (where income exceeds one crore rupees, the total amount payable as income-tax and surcharge shall not exceed total amount payable as income-tax on total income of one crore rupees by more than the amount of income that exceeds one crore rupees).