1.0 What is a Partnership?

A partnership can be exercised by two or more persons in a trade, business, profession or vocation. A person does not include a partnership and therefore a partnership is not required to pay income tax in terms of section 3 of the Inland Revenue Act.

1.1 Definition of Partnership (Sec 217)

“partnership” shall not include and disposition, trust, grant, covenant, agreement, assignment, settlement or other arrangement by which the share of the divisible profits or the divisible loss, of a partner of any partnership is shared with any other person or partnership.

2.0 Imposition of Income Tax on Partnership (Sec 78)

Every partnership is chargeable with income tax for every year of assessment on or after April 01, 2004.

3.0 Computation of Income Tax Liability

A partnership is liable to pay income tax in respect of the following profits.

a) Divisible profit
b) Other income

The liability is calculated at the rate of 8% on the total profits as calculated in (a) and (b) above after deducting a tax relief of Rs. 1,000,000.

Where there is divisible loss for any year of assessment, the tax shall be charged on total amount of other income without any claim of such divisible loss from other income.

3.1 Calculation of Divisible Profit or Divisible Loss of a Partnership (Sec 76)

The divisible profit or divisible loss should be computed in the same way as per the assessment of profits and income of a person in terms of section 25 or 26 of the Inland Revenue Act, subject to the following.

✓ A partnership is entitled to deduct the payment of annuity, ground rent, royalty or interest in arriving at divisible profit.
No deduction shall be made for the remuneration of partners or for interest on partners’ capital. But such sums shall be taken into account when apportioning the divisible profit or loss among the partners.

3.2 Aggregation of Spouse Income [Sec 25(6)]

Profits and income received by one spouse for services rendered in any trade, business, profession or vocation carried on or exercised.

(a) by the other spouse, or
(b) by a partnership of which other spouse is a partner

Shall be deemed to be the profits and income of that other spouse.

4.0 Distribution of Partnership Profit or Loss and Other Deductions among Partners

4.1 Profits or Income of a Partnership

Profits or income of a partnership should be divided among individual partners in the ratio in which the profits or income is shared. The following profits or income is divided accordingly.

(i) Divisible profit
(ii) Other sources, such as dividend, interest, royalties etc

4.1 Divisible Loss of a Partnership

The divisible loss of a partnership, if any, should be divided in the ratio in which the profits or income is shared.

4.2 Qualifying Payment of a Partnership

A partnership cannot make use of a qualifying payment. Such qualifying payment could be divided among individual partners in the same ratio in which the profits or income is shared.
4.3  Tax Paid by a Partnership under Section 78

✓ Income tax paid by a partnership is attributable to each partner in the ratio in which profits or loss of the partnership is shared.

✓ The amount of total income tax paid by the partnership and which is attributable to individual partners is computed as follows.

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\text{Tax Paid by Partnership - Economic Service Charge paid}
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✓ A partner may be able to set off such credit against income tax liability of such partner for the same year of assessment of such share of profits and other income. If the tax attributable as tax credit is greater than the tax liability of a partner, such partner is not entitled to the refund or carry forward of excess credit.