VIVA IMR International Journal of Management

Vol. 01 (01), JUL 2022, pp.29-31

Understanding Tax Liability of Limited Liability Partnership

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Abstract :

The tax issues of an LLP are resolved by equating it to a firm in the manner of the UK and Singapore structures. a 30% success rate Direct taxes place an immediate burden on the payer. According to Ravi Agrawal, the business decision to use an LLP or not is not influenced by taxing criteria. The tax formula/slab, he claims, is not a deterrent to this type of business organisation.

The amended definitions of 'firm,' 'partner,' and 'partnership' are as follows: A firm must meet the criteria outlined be considered. such as documented The partnership agreement undoubtedly specifies the partners' individual shares.

Keywords : Tax, LLP, Partnership, Formula, Income, Act.

Introduction

After deducting tax liability under taxation laws, the actual profit entity is what remains. Income tax implies income one of the types. Income taxes are the most common type of direct tax, whereas indirect taxes, such as excise, customs, and service taxes, are paid by customers.

Just as taxation concerns and and 1932, respectively, was fated to an LLP. The 1961 IT Act governs the taxation of all individuals and businesses. The taxation issues of an LLP are resolved by equating it to a firm in the manner of the UK and Singapore structures. According to the Union Budget 2009-10, LLP is taxed as a firm as defined by The IT Act of 1961, giving LLP the same status as a traditional partnership. Because it uses the flow-through system for taxation, the tax formula/slab does not act as a deterrent to this type of business organisation. It implies that, similar to a corporation, an LLP will pay taxes on profits after deducting business expenses, salaries, and partners. Partners will then be taxed on their salary and interest receipts, but their share in will not be included in computing total income 1961 tax of 30% rate.

The burden falls squarely on the payer.

As a result, all provisions applicable to would be applicable to way. The decision to use an LLP or not is not influenced by taxing criteria. Sections 182–189 of Chapter XVI of 1961 are concerned with businesses and their partners. Section 182 specifies how businesses are taxed; a similar provision for unregistered firms is also important. Partnership firms register Authorities under Sections 184 and 185.

The amended definitions of 'firm,' 'partner,' and 'partnership' are as follows:

1)Firms were established in 1932 and include LLPs.

2) The term "partner" meaning given of 1932 and shall include

3) The partnership was formed in 1932 and includes an LLP.

Criteria under IT Act, 1961

Because of the tasks, any partner will sign the The IT return of an LLP. An LLP must meet the following criteria to be considered a firm under The IT Act:

I. a written LLP Agreement, for example

II. The deed expressly states.

III. filed LLP's income tax return

Tax Benefits

Among the tax advantages that an LLP structure has over a corporation are the following:

iv. Furthermore, prerequisite for completing DDT.

v. The deemed dividend (22) (e) does not have to be paid.

vi. No carry forward or set off under Section 79 in the event of a significant change in ownership.

vii. Profits distributed partners are tax-free.

r. No.	asis of Divergence	IAT	MT
	pplicability	IAT is applicable to Companies.	MT is applicable to LLPs.
	elevant Chapter nd Section	hapter XII-B, Section 115JB.	hapter XII-BA, Section 115JC.
	ax on	axable on Book Profits.	axable on Adjusted Total Income.
	ource of Tax	ompanies are required to pay MAT n book profits if the income tax ayable on the total income, omputed under the Income Tax Act, less than MAT.	'here the regular income tax ayable for a previous year by a LP is less than AMT payable for ich previous year, Adjusted Total come shall be deemed to be the tal income of the LLP for such evious year and LLP will be able to pay income tax on such djusted total income.
	ax Rate	IAT Rate - 18% + surcharge @ 5% book profit exceeds Rs. 1 crore + ducation Cess @ 3% ***Effective Rate ncluding surcharge) 19.5%.***	MT Rate - 18.5% + Education ess @ 3% ***Effective rate 19.05%*** Surcharge is not applicable to LPs).
	ax Credit *Credit for Tax)*	IAT paying companies can claim e credit for 10 assessment years arting from the year in which the edit becomes allowable.	MT paying LLPs can claim credit r 10 assessment years starting om the year in which the credit ecomes allowable.
	xemption	ompanies are liable to pay MAT on come exempt under Section 10(38) nd 10(34).	LPs are not liable to pay AMT on comes exempt from tax.

Conclusion

Because no such tax is levied on business organisations firms, sole proprietorships, and so on, it is analysed that while the imposition of the AMT on LLPs may be perceived as a disadvantage to the LLP business form, the LLP remains an appealing flexibility.

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