

## **PRESS NOTE**

### **SUBJECT : Taxation of Limited Liability Partnerships**

LLP is a new corporate form that enables professional expertise and entrepreneurial initiative to combine, organize and operate in an innovative and efficient manner. In India, this need has long been recognised for businesses which may require a framework that provides flexibility suited to requirements of service, knowledge and technology based enterprises. Services sector is playing a major role in the national economy and there is a growing diversity in the range of services being offered. The services sector also finds this form very useful.

2. Government had introduced the Limited Liability Partnership Bill, 2006 in the Rajya Sabha on 15<sup>th</sup> December, 2006. It was later referred to the Department Related Parliamentary Standing Committee on Finance for examination and report. The Committee submitted its recommendations in its report to both Houses of Parliament on 27<sup>th</sup> November, 2007. Keeping in view the recommendations made by the Standing Committee and other relevant inputs, the Government had finalized the LLP Bill, 2008. Based on such report the Ministry of Corporate Affairs revised the LLP Bill and the revised LLP Bill, 2008 was introduced in the Rajya Sabha on 21<sup>st</sup> October, 2008. This was passed by the Rajya Sabha on 24<sup>th</sup> October, 2008. The Bill was passed by Lok Sabha on 12<sup>th</sup> December, 2008. The President gave assent to this Bill on 7<sup>th</sup> January, 2009.

3. The rules in respect of registration and operational aspects under the LLP Act, 2008 viz. LLP Rules, 2009, were issued on 1<sup>st</sup> April, 2009. The rules in respect of conversion of a partnership firm, a private company and an unlisted public company into LLPs were made effective w.e.f. 31<sup>st</sup> May, 2009. The Government has also launched a website namely, [www.llp.gov.in](http://www.llp.gov.in) on 1<sup>st</sup> April, 2009 for operationalization of various processes provided under the LLP Rules, 2009. The rules under LLP Act, 2008 in respect of winding up and dissolution of LLPs are also under preparation and would be prescribed shortly.

### **Taxation of LLPs**

4. Since the taxation related matters in India are provided under Tax Laws, the taxation of LLPs was not provided in the LLP Act. The Finance Bill, 2009 has made provisions in this regard, pursuant to which the taxation scheme of LLPs has been proposed to be introduced in the Income Tax Act. It has been proposed to tax LLPs on the lines similar to general partnerships under Indian Partnership Act, 1932, i.e. taxation in the hands of the entity and exemption from tax in the hands of its partners. The Finance Bill, 2009 has accorded a “limited liability partnership” and a general partnership the same tax treatment. Consequent changes in the Income-tax Act, 1961 like (i) the word ‘partner’ to include within its meaning a partner of a limited liability partnership, (ii) the word ‘firm’ to include within its meaning a limited liability partnership and (iii) the word ‘partnership’ to include within its meaning a limited liability partnership as these terms have been defined in the Limited Liability Partnership Act, 2008 have also been proposed in the Finance Bill, 2009.

5. It has also been proposed in the Finance Bill, 2009 that the designated partner shall sign the income tax return of an LLP, or, where, for any unavoidable reason such designated partner is not able to sign the return or where there is no designated partner as such, any partner shall sign the return. The Finance Bill has also proposed that in case of liquidation of an LLP, every partner will be jointly and severally liable for payment of tax unless he proves that non-recovery cannot be attributed to any gross neglect, misfeasance or breach of duty on his part.

6. The Bill further provides that as an LLP and a general partnership is being treated as equivalent (except for recovery purposes) in the Income-tax Act, the conversion from a general partnership firm to an LLP will have no tax implications if the rights and obligations of the partners remain the same after conversion and if there is no transfer of any asset or liability after conversion. The Finance Bill, 2009 also provides that if there is a violation of these conditions, the provisions of section 45 of Income-tax Act shall apply. The Finance Bill, 2009 has further proposed to make the amendments effective from the 1st day of April 2010 i.e. assessment year 2010-11.

-----  
No. 1/16/2007-CL.V Dated the 10<sup>th</sup> July, 2009

Ministry of Corporate Affairs

The Press Information Officer, Press Information Bureau, Ministry of Information and Broadcasting, with the request that the above mentioned Press Note may be given wide publicity.

(Renuka Kumar)  
Joint Secretary to the Government of India  
Tel.: 2307 4056