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B.Com Honours | Semester VI | Calicut University

INCOME TAX ASSESSMENT

Course Code: COM6EJ314 • Module 2 Notes

Module II: Assessment of Firms & AOP / BOI

Covers assessment of partnership firms & LLPs under Scheme of Assessment (Sec 184/185), computation of Book Profit, partner remuneration limits under Section 40(b), partner capital interest, and assessment of AOP/BOI.

Unit 4: Assessment of Partnership Firms & LLPs (Sec 40(b))

Firm Assessment Rules: Partnership Firm assessed as separate entity at flat $ 30\% $ tax rate (+ Surcharge > ₹1 Cr + 4% Cess).
- **Sec 40(b) Partner Remuneration Limits:**
1. On first ₹3,00,000 Book Profit (or in case of loss): Maximum $ 90\% $ of Book Profit OR $ ₹1,50,000 $, whichever is higher.
2. On balance Book Profit: Maximum $ 60\% $ of balance Book Profit.
- **Partner Interest Limit:** Interest on capital allowable up to maximum $ 12\% \text{ p.a.} $ simple interest.

Unit 5: Assessment of Association of Persons (AOP) & BOI

AOP / BOI Assessment: Taxed at individual slab rates or Maximum Marginal Rate (MMR 30%) depending on whether members' shares are defined or indeterminate. Share of profit received by member exempt under Sec 86 if AOP paid tax at MMR.

Practical Solved Firm Remuneration & Tax Problem (Sec 40(b) Working Partner Remuneration Calculation): A partnership firm has Net Profit as per P&L = $ ₹5,00,000 $ after deducting Interest on Capital @ 15% (Excess 3% = $ ₹30,00,00 $) and Working Partner Remuneration = $ ₹4,00,000 $.
Calculate maximum allowable partner remuneration under Sec 40(b) and Total Taxable Income of the firm.

Book Profit = Net Profit + Remuneration Paid + Disallowed Interest (3%)

Step-by-Step Sec 40(b) Working:
1. Net Profit as per P&L = $ ₹5,00,000 $.
2. Add: Remuneration added back = $ ₹4,00,000 $.
3. Add: Excess Interest disallowed ($ 15\% - 12\% = 3\% $) = $ ₹30,000 $.
4. **Book Profit** = $ ₹5,00,000 + ₹4,00,000 + ₹30,000 = \mathbf{₹9,30,000} $.
5. **Max Allowable Remuneration (Sec 40(b)):**
   - On first ₹3,00,000 Book Profit @ 90% = $ \mathbf{₹2,70,000} $.
   - On balance ₹6,30,000 (₹9,30,000 - ₹3,00,000) @ 60% = $ \mathbf{₹3,78,000} $.
   Total Allowable Remuneration = $ ₹2,70,000 + ₹3,78,000 = \mathbf{₹6,48,000} $.
   Actual Remuneration Paid = ₹4,00,000 (Fully Allowable since ₹4,00,000 < ₹6,48,000).
6. **Total Taxable Income of Firm** = Book Profit (₹9,30,000) - Allowable Remuneration (₹4,00,000) = $ \mathbf{₹5,30,000} $.

Practical Case Framework 2 (Section 40(b) Deductibility Statutory Limits Matrix): Compare partner payment type, statutory ceiling limit rule, conditions for allowance, and taxability in partner hands.

Section 40(b) Deduction Limits Reference Table:

Partner Payment Type	Statutory Ceiling Limit (Sec 40(b))	Taxability in Partner Hands (Sec 28(v))
Interest on Capital	Max 12% p.a. simple interest authorized by deed	Taxable as PGBP up to allowed 12% limit
Remuneration (1st ₹3 Lakh Book Profit)	Max 90% of Book Profit OR ₹1,50,000 (higher)	Taxable as PGBP to extent allowed to firm
Remuneration (Balance Book Profit)	Max 60% of balance Book Profit	Taxable as PGBP to extent allowed to firm