Assessment of Partnership Firm

Income of Partnership firm is calculated as usual but while computing business income of partnership firm, deduction for remuneration and interest shall be allowed as deduction subject to following conditions and limits :-

Conditions :-

- As per section 184 :-

1) The firm should be evidenced by an instrument (Partnership deed)
2) Profit Sharing Ratio should be specified in such instrument
3) A certified copy of such instrument should be filed along with the first return of income & whenever there is change in constitution of the firm ,a revised copy of such instrument should be filed
4) The firm should not make an default u/s 144

Section 40 (b) Disallowance in cases of Partnership Firms

- The partnership deed should be registered.
- Remuneration should be paid only to working partners.
- The remuneration should be mentioned in the partnership deed.
- The remuneration should not relate to a period before the partnership deed.
- Interest payable to the partners in excess of 12% will be disallowed.

Minimum allowable Remuneration

Max allowable Remuneration	Book profit
90% *Book profit RS 150000	1^{ST} RS. 300000 Or Book loss
60% * Balance Book profit	Bal Book Profit

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Explanation to section 40 b (v) **Book profit**

It means the Net profit as per P & L a/c .Determine in accordance with section 28-44D .As increased by the amount of remuneration to partners which is Debited to the P& L a/c.

Computation of Book Profit

Net profit as per P& L a/c	XXX
(+) Disallowed Expenses (DR)	XXX
Remuneration to partners as per a/c	XXX
	XXX
(-)Non Business Income	(XXX)
(-)Unrecorded Business Expenses	(XXX)
(+)Unrecorded Business Income	XXX
Book Profit	XXX