

## **Partners aren't liable to pay tax on income which is exempt in hands of firm; CBDT clarifies**

**SECTION 10(2A) OF THE INCOME-TAX ACT, 1961 - FIRM - SHARE OF PROFITS TO PARTNER OF FIRM - CLARIFICATION ON INTERPRETATION OF PROVISIONS OF SECTION 10(2A) IN CASES WHERE INCOME OF FIRM IS EXEMPT**

**CIRCULAR NO. 8/2014 [F.NO.173/99/2013-ITA-I], DATED 31-3-2014**

A reference has been received in the Board in connection with the interpretation of provisions of section 10(2A) of the Income tax Act, 1961 ('Act') seeking clarification as to what will be the amount exempt in the hands of the partners of a partnership firm in cases where the firm has claimed exemption/deduction under Chapter III or VI A of the Act.

**2.** The matter has been examined. Sub section (2A) of section 10 was inserted by the Finance Act, 1992 w.e.f. 1-4-1993 due to a change in the scheme of taxation of partnership firms. Since assessment year 1993-94, a firm is assessed as such and is liable to pay tax on its total income. A partner is not liable to tax once again on his share in the said total income.

**3.** It is clarified that 'total income' of the firm for sub section (2A) of section 10 of the Act, as interpreted contextually, includes income which is exempt or deductible under various provisions of the Act. It is, therefore, further clarified that the income of a firm is to be taxed in the hands of the firm only and the same can under no circumstances be taxed in the hands of its partners. Accordingly, the entire profit credited to the partners' accounts in the firm would be exempt from tax in the hands of such partners, even if the income chargeable to tax becomes NIL in the hands of the firm on account of any exemption or deduction as per the provisions of the Act.

**4.** This may be brought to the notice of all concerned.