

REMUNERATION & INTEREST PAYABLE TO PARTNERS UNDER INCOME TAX ACT

Partnership Firms can claim deduction of Remuneration and Interest paid to Partners while computing the business income. However, this deduction is subject to the ceiling limit prescribed under **Section 40(b)** of the Income Tax.

Conditions:

1. *The payment of remuneration and interest should be mentioned in the Partnership Deed*
2. *Only working partners are eligible to get this amount*
3. *Interest should not exceed 12% per annum*
4. *It should not exceed the Maximum Permissible Limit*

BOOK PROFIT	LIMIT
On first Rs. 300,000 of Book Profit or in case of Loss	Rs. 1,50,000 or 90% of Book Profits whichever is higher
On balance Book Profit	60% of Book Profit

CALCULATION OF BOOK PROFIT	AMOUNT
Income from Profits and Gains of Business and Profession	XXXX
Add:	
Interest paid or payable	XXX
Remuneration paid or payable	XXX
Less:	
Interest under Section 40(b)	(XXX)
BOOK PROFIT	XXXX

Example:

Calculate the Book Profit, Remuneration and Interest payable from the below details under Income Tax.

1. Income from Profits and Gains from Business and Profession is Rs. 10,00,000
2. Remuneration paid to partners is Rs. 5,00,000
3. Interest paid to partners @ 15% 4,00,000

CALCULATION OF BOOK PROFIT	AMOUNT IN RS
Income from Profits and Gains of Business and Profession	10,00,000
Add:	
Interest paid @ 15%	4,00,000
Remuneration paid or payable	5,00,000
Less:	
Interest under Section 40(b) @ 12%	3,20,000
BOOK PROFIT	15,80,000

ALLOWABLE REMUNERATION	AMOUNT IN RS
On first Rs. 3,00,000 Book Profit	(1,50,000 or 90% of 3,00,000 i.e 2,70,000 whichever is higher) 2,70,000
On balance Rs. 12,80,000 (ie. Rs. 15,80,000-Rs. 3,00,000) @ 60%	7,68,000
Remuneration allowed	10,38,000

Interest disallowed is Rs. 80,000 (ie. Rs. 4,00,000-Rs. 3,20,000)