

## **PARTNERSHIP INCOME TAX**

Income tax on partnership profits applies in much the same way as in Ireland. Each partner is taxed individually. This applies both to partnerships formed under the Partnerships Act, and Limited Partnerships formed under the Limited Liability Partnerships (LLPs) which has no counterpart in Ireland. Each partner is assessed on his share of the partnership profits, as if he were sole trader.

In order to compute partners' profits, the trading accounts are adjusted for tax purposes as would be the case with a sole trader. The tax adjusted trade profits are allotted to the partners according to their profit sharing arrangements for that period of accounts. The partner's separate profits for the year are then computed.

Partners' salary and interest on capital paid or credited to them are not deducted since they are appropriations of profits and not expenses. Irrespective of how partners' income is described whether as salary, interest on capital or profit, the total is assessable as a trading income.

Capital allowances are computed in the same way as for a sole trader. They are deducted as an expense in calculating the profits or loss of the partnership. The profit allocated between the partners is after deducting capital allowances. Where there is a change in profit sharing ratios the accounting period is split and the position before and after the split is calculated.

Changes in the partnership which occur when a new partner joins or a partner dies or leaves are the subject to the normal opening and closing rules. The opening year rules will apply to a partner joining in the same way as a sole trader. The closing rules apply to partners ceasing and they may deduct any overlapping profits they have available.

The sole trader rules also apply to a partner leaving. The profits are allocated if there is a change the partner sharing ration.

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This Guide is intended as an overview and broad outline of the matters covered in it. Its purpose is to inform and raise awareness. We are happy to offer specific legal advice on particular circumstances.

This Guide should not be relied on as a substitute for comprehensive legal advice with reference to the particular circumstances.

While we have taken due care in the preparation of this publication, we do not accept legal liability as a result of any reliance placed on anything in this Guide. The reader should rely only on specific legal or taxation advice.

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