

IRAS e-Tax Guide

INCOME TAX TREATMENT OF LIMITED PARTNERSHIP (LPs)



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INTRODUCTION

1 The Government announced in 2003¹ its intent to introduce two new business vehicles, namely the Limited Partnership (LP) and Limited Liability Partnership (LLP) to give businesses more options in structuring their businesses.

2 LLPs came into being in 2005 with the enactment of the LLP Act². The law to bring LPs into effect in Singapore, the Limited Partnerships Act 2008 (“LP Act”)³, was passed by Parliament on 18 Nov 2008 and became effective from 4th May 2009.

3. This tax guide provides the details on the income tax treatment of LPs.

What is an LP?

4 An LP is a business structure that allows a business to operate and function as a partnership without a separate legal personality from the partners. It must consist of one or more general partners who have unlimited liability and one or more limited partners who enjoy limited liability. A partnership is deemed to be a general partnership unless one or more partners of the partnership are registered as limited partners under the LP Act.

5 A general partner of an LP is personally liable for all the debts incurred, obligations and liabilities of the LP. Where there are two or more general partners, then the general partners are jointly and severally liable for all debts, obligations and liabilities of the LP. A general partner can take part in the management of the LP and share the right to use partnership property as well as the profits of the firm in predefined proportion.

6 On the other hand, a limited partner of an LP is only liable for the debts incurred by the LP to the extent of his capital contributed. He is not allowed to take part in the management of the LP apart from what is stated in The First Schedule of the LP Act.

INCOME TAX TREATMENT OF LPs

7 LPs enjoy tax transparency like LLPs and general partnerships.

¹ Budget Statement 2003

² For details on the tax treatment of LLPs, please refer to IRAS Circular on “Income Tax Treatment of Limited Liability Partnerships (LLPs).”

³ The LP Act provides the legal framework governing LPs in Singapore.

8 The limited partners of an LP are treated in the same manner as the partners of an LLP for income tax purposes. Hence, the deductibility of a limited partner's share of an LP's trade loss and industrial building allowance or capital allowance ("IBA/CA") is also subject to the same relevant deduction restriction rules applicable to partners of LLPs⁴. Similarly, if the limited partner's cumulative relevant deductions were to exceed his capital contribution due to a reduction in his capital contribution, the excess is deemed income chargeable with tax to him.

9 The general partners of an LP, on the other hand, are treated in the same manner as the partners of a general partnership for income tax purposes. Hence, the relevant deduction restriction rules mentioned above do not apply to such partners.

10 Generally, apart from some differences which are highlighted in paragraphs 11 to 17 below, the tax treatment of an LP is exactly the same as that for an LLP. Please therefore refer to the IRAS e-Tax guide on "Income Tax Treatment of Limited Liability Partnerships" of 15 July 2004 and the Supplementary e-Tax guide on LLP published on 10 Jun 2005 for the common tax treatment.

(A) CONVERSION OF GENERAL PARTNER TO LIMITED PARTNER OR VICE VERSA

11 For income tax purposes, if the trade, business or profession of an LP remains unchanged, the re-registration of a general partner in an LP as a limited partner or vice versa does not affect the continuity of the trade, business or profession carried on by the partners. This is so even if the partners involved in such a conversion were subject to a new capital contribution requirement and/or profit sharing entitlement.

12 Where a general partner re-registers himself as a limited partner of the same LP, the relevant deduction restriction rules only apply to him prospectively from the YA relating to the basis period in which the re-registration takes place. The same applies when an existing partner of a general partnership re-registers himself as a limited partner upon a transfer of a general partnership business to an LP.

13 For a limited partner who re-registers himself to become a general partner of an LP, the relevant deduction restriction rules cease to apply to him from the YA relating to the basis period in which the re-registration takes place. This also means that any restriction previously applied to him as a limited partner on the deduction of CA/IBA or trade loss from the LP against his other sources of income is also lifted from that YA onwards.

(B) FILING OF CAPITAL CONTRIBUTION FORM

14 An LP which incurs a business loss is required to submit a Capital Contribution Form with its tax return for the year of assessment in which the loss is incurred, and for all subsequent years of assessments whether or not it makes a profit or loss for

⁴ Please refer to paragraphs 6 to 7 and 11 to 13 of IRAS e-Tax guide on "Income Tax Treatment of Limited Liability Partnerships" for details on the application of the relevant deduction restriction rules to partners of LLPs, which are similarly applicable to limited partners of LPs.

those years. The declaration of capital contribution is for the purpose of applying the relevant deduction restriction rules to limited partners. The capital contribution of general partners of the LP should also be declared in this form⁵.

(C) APPOINTMENT OF MANAGER

15 As all general partners of an LP are accountable as managers of the LP business, any one of them can assume the role of precedent partner for the purpose of section 62 (relating to notice of chargeability and income tax returns) and section 71 (regarding matters relating to returns to be made by a partnership) of the Singapore Income Tax Act (“ITA”). Where there are more than one general partner who are resident in Singapore, section 71 of the ITA shall apply to determine the precedent partner of the LP. The precedent partner is required to attend to the income tax matters of the LP.

16 Where none of the general partner(s) in an LP is resident in Singapore, the tax matters of the LP shall be attended to by the attorney, agent, manager or factor in Singapore. Section 71(2) of the ITA will be amended to provide for this treatment.

(D) DISSOLUTION OF LIMITED PARTNERSHIP

17 Under section 8(6) of the LP Act, in the event of dissolution of an LP, its affairs shall be wound up by the general partner(s) of the LP, unless otherwise ordered by the court. The general partner(s) or any other person(s) appointed by the court shall be responsible for complying with the provisions of the ITA in relation to the affairs of the LP under liquidation.

ENQUIRIES

18 For any enquiries or clarification on this e-tax guide, please call 1800-3568611 (individual) or 1800-3568622 (Corporate).

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⁵ This is because a general partner may re-register himself to become a limited partner at any time and hence be subject to relevant deduction restriction rules.