

IRAS e-Tax Guide

Income Tax Treatment of Limited Liability Partnerships (LLPs)

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Income Tax Treatment of Limited Liability Partnership (LLP)

1 Aim

- 1.1 This e-Tax guide explains the tax treatments of an LLP. It consolidates the two previous e-Tax guides¹ issued on income tax treatment of LLPs.
- 1.2 It will be relevant to you if you are involved with any LLP business.

2 At a glance

- 2.1 An LLP is tax transparent which means its income is not taxed at LLP level. Instead, the income will be taxed in the hands of each partner of the LLP as his² share of income from the LLP at his relevant income tax rate.
- 2.2 In each year of assessment (“YA”), each partner’s share of the following may be deducted against his income from other sources:
 - (i) Capital Allowances (“CA”) and Industrial Building Allowances (“IBA”) in excess of his LLP income;
 - (ii) Trade losses from the LLP;
 - (iii) Donations
- 2.3 The amount of a partner’s share of an LLP’s CA, IBA and trade losses that can be allowed against his income from other sources is subject to relevant deduction restriction (see paragraph 6.1).
- 2.4 A partner’s share of unabsorbed current year CA, IBA, trade losses and donations can be:
 - (i) carried forward to the next year of assessment (“YA”) for deduction against future income of the partner from the same LLP;
 - (ii) transferred to his spouse or related company/companies for the same YA; or
 - (iii) carried back for deduction from the assessable income of his or (if he is an individual), his spouse in the YA immediately preceding that YA (unabsorbed current year donations cannot be carried back).
- 2.5 Other aspects of the tax treatment of an LLP, including transfer of business or properties and certain administrative procedures are also covered.

¹The e-Tax guide is a consolidation of two previous e-Tax guides on:

- a) “Income Tax Treatment of Limited Liability Partnership (LLPs)” published on 15 Jul 2004
- b) “Income Tax Treatment of Limited Liability Partnership (LLPs) (Supplementary Circular)” published on 10 Jun 2005

² In this context, the term “his” is not confined to the male individual, but refers to a legal person who could include a female individual, a company, another LLP, and the trustee of a trust.

3 Glossary

3.1 Foreign LLPs

LLPs that are incorporated or registered under any law elsewhere that is similar to the Singapore Limited Liability Partnership Act.

3.2 Relevant Deduction

The amount of a partner's share of an LLP's capital allowances, industrial building allowances and trade losses allowed against his income from other sources (paragraph 6.1).

3.3 Past Relevant Deduction

All relevant deduction allowed in all past YAs (paragraph 6.1).

3.4 Same Business Test

This test determines if a person continues to carry on the same trade, business or profession for which the capital allowances are given when carrying forward or carrying back the unabsorbed capital allowances. This test is satisfied if the same trade, business or profession is continued.

3.5 Shareholding Test

This test compares the percentage of the shareholdings of a company (or its ultimate parent company) that is held by the same persons as at the relevant dates. If the percentage is 50% or more, there is no substantial change in the shareholders and the company is said to have satisfied the shareholding test (see paragraph 9.3 for the relevant dates).

3.6 Transferee LLP

A newly formed LLP that takes over the business of a sole proprietorship, partnership, LP, another LLP or a company.

3.7 Transferor

The person who transfers his/her business entity (in the form of a sole proprietorship, partnership, LP, LLP or company) to you so that you will be able to take over his business.

3.8 Unabsorbed capital allowances

The capital allowances claimed by a person [under section 16.17, 18A (repealed), 18B, 18C, 19, 19A, 19B, 19C, 19D or 20 of the Income Tax Act

(“ITA”)] for a YA that exceed the person’s aggregate taxable income for that YA.

3.9 Unabsorbed trade losses

The trade loss incurred by a person for a YA that exceed the person’s income from all sources for that YA.

3.10 Unabsorbed donations

The approved donations made by a person in a YA that exceeds his statutory income for that YA. Approved donations are donations approved for tax deduction and made to approved recipients under sections 37(3)(b), (c), (d), (e) or (f) of the ITA.

4 Background

- 4.1 The LLP and Limited Partnership³ (“LP”) are two business vehicles introduced in the Budget 2003 to give businesses more options in structuring their business activities.
- 4.2 In Singapore, LLPs are formed by being registered as “bodies corporate” under the Limited Liability Partnerships Act⁴. Upon registration with the Registrar of LLPs, an LLP will be recognized as a legal person.
- 4.3 An LLP structure allows a business to operate and function as a partnership, while retaining the status of a separate legal person.

5 Tax transparency treatment of LLP

- 5.1 For income tax purposes, an LLP is given tax transparency like a general partnership. This means the income from an LLP is not taxed at the LLP level. Instead, each partner is taxed separately on his share of income from the LLP. If you are an individual partner of a LLP, your share of income from the LLP will be taxed based on your personal income tax rate. If you are a corporate partner, your share of income from the LLP will be taxed based on the prevailing corporate tax rate.
- 5.2 If the LLP does not make any profit, your share of CA, IBA, trade losses from the LLP may be deducted⁵ against your income from other sources subject to relevant deduction restriction. Only your share of donation can be deducted without being subjected to this restriction.

6 Relevant deduction restriction

- 6.1 For any YA where you are a partner claiming your share of an LLP’s CA, IBA and trade losses against your income from other sources, the sum of the following deductions for that YA cannot exceed your contributed capital⁶ at the end of that YA:
- (i) your share of CA, IBA and trade losses allowed against your income from other sources (“relevant deduction”) for that YA, and

³ LPs are governed by the Limited Partnerships Act which came into force on 4 May 2009. The tax treatment of LPs is largely similar to that of LLPs. The differences in tax treatment are elaborated in IRAS e-Tax Guide on “Income Tax Treatment of Limited Partnerships” published on 30 Jun 2009.

⁴ The Limited Liability Partnership Act came into force on 11 Apr 2005.

⁵ The deduction of CA, IBA, trade losses or donations of a partner of an LLP is to be made in the order set out in the ITA. Please refer to Annex 1 for a summary of the order of deduction.

⁶ Please refer to paragraph 7 for a detailed explanation on “contributed capital”.

- (ii) your total relevant deduction allowed in all past YAs (“past relevant deduction”).

This restriction is referred to as “relevant deduction restriction”. For the restriction, your income from other sources would include non-trade income from the LLP.

- 6.2 If the amount of your share of CA, IBA and trade losses exceeds your contributed capital, the excess amount may be carried forward to the next YA to deduct against your share of future income from the same LLP⁷.

Example

Company A is a corporate partner of an LLP. As at both 31 Dec 2009 and 31 Dec 2010, its contributed capital is \$25,000. Its share of the LLP’s CA, IBA and trade losses, and its income from other sources are:

	Year ended	CA	IBA	LLP Loss	LLP Singapore Interest	Other Income
a)	31 Dec 2009	(\$5,000)	(\$13,000)	(\$3,000)	\$5,000	\$25,000
b)	31 Dec 2010	(\$5,000)	(\$6,000)	(\$8,000)	\$3,000	\$15,000

The following shows the relevant deduction restriction applied on Company A:

	<u>YA 2010</u>		<u>YA 2011</u>	
	<u>Tax Comp</u>	<u>Relevant deduction</u>	<u>Tax Comp</u>	<u>Relevant deduction</u>
LLP other income (interest)	\$5,000		\$3,000	
Other income	\$25,000		\$15,000	
Less: CA/IBA	<u>(\$18,000)</u>	\$18,000	<u>*(\$4,000)</u>	\$4,000
	\$12,000		\$14,000	
Less: LLP loss	<u>(\$3,000)</u>	\$3,000	<u>NA</u>	
Chargeable Income	<u>\$9,000</u>		<u>\$14,000</u>	
Unabsorbed LLP CA/IBA c/f			(\$7,000)	
Unabsorbed LLP Loss c/f			(\$8,000)	
Total relevant deduction for each YA		<u>\$21,000#</u>		<u>\$4,000#</u>

*Based on the relevant deduction restriction, the sum of Company A’s relevant deductions for YA 2011 and its past relevant deductions cannot exceed its contributed capital of \$25,000 as at YA 2011. Since Company A’s past relevant

⁷ This is subject to the same business test and if applicable, the shareholding test. Please refer to paragraphs 9.2 and 9.3 for detailed explanations on the same business test and shareholding test respectively.

deductions is \$21,000, only \$4,000 (\$25,000 - \$21,000) will be allowed as relevant deductions against Company A's income from other sources.
\$21,000 + \$4,000 = \$25,000 (i.e. the same amount as its contributed capital)

7 Contributed capital

- 7.1 The contributed capital of a partner of an LLP is the aggregate of –
- (i) The amount which the partner has contributed to the LLP (in cash or in kind, excluding any loan to the LLP) as capital that have not been directly or indirectly drawn out or received back by him (whether as a distribution or a loan); and
 - (ii) The amount of profits or gains⁸ of the trade, business, profession or vocation derived by the LLP from any past YA which the partner is entitled to (whether as a distribution or a loan), but he has not received.
- 7.2 When you make capital contributions to the LLP in instalments as a partner, only what you have actually contributed as capital will be considered as part of your contributed capital. What you have agreed but have not contributed will not be considered as part of your contributed capital.
- 7.3 If you make capital contributions in forms other than cash, the value of these contributions must reflect their market value, and be documented in the partnership agreement. Where you contribute capital in the form of services rendered to the LLP, the value of the services recognised must be based on the open market value of the services when they are rendered.
- 7.4 You are required to submit an independent valuation report on your contribution in kind in the form of:
- (i) Real property;
 - (ii) Shares and securities; or
 - (iii) Intellectual property (if the value exceeds \$0.5 million).

This report has to be submitted together with your Income Tax Return for the YA relating to the basis period in which the contribution was made. For other types of contribution in kind, a valuation report will only be required when requested by the Comptroller of Income Tax ("CIT").

⁸ The amount of profits or gains for a YA refers to a partner's share of the amount of accounting profit as reflected in the income statement of the LLP for the basis period relating to the YA.

8 Reduction in contributed capital of a partner of an LLP

- 8.1 Your contributed capital will be reduced if you make a withdrawal (whether as a distribution or a loan) of:
- (i) the capital you had previously contributed to the LLP, or
 - (ii) any portion of your share of the profits or gains of the trade, business, profession or vocation derived by the LLP in respect of past years which you had previously not withdrawn.
- 8.2 If as a result of such a reduction in any YA, your past relevant deduction exceeds your reduced contributed capital as at the end of the basis period relating to the YA, it will give rise to the following tax consequences:
- (i) The excess amount shall be deemed to be your income⁹, chargeable with tax under section 10(1)(g) of the ITA for this YA;
 - (ii) An equal amount shall be deemed to be your share of the loss incurred by the LLP for this YA. This amount can be used for deduction against your share of LLP profits for the YA. If this amount exceeds your share of LLP income for the YA, the excess deemed trade loss can be carried forward to subsequent YAs to deduct against your future income from the LLP¹⁰.
 - (iii) For applying the relevant deduction restriction in subsequent YA, your past relevant deduction will be reduced by the amount of deemed income as mentioned in (i).

Please refer to Annex 2 for two examples on the deduction and restriction of CA, IBA and trade losses of partners of an LLP.

9 Tax treatment of unabsorbed CA, IBA, Trade Losses or Donations of a partner of an LLP

- 9.1 As a general rule, if you are a partner of an LLP, you may carry forward, carry back or transfer the unabsorbed CA, IBA, trade losses or donations from an LLP in a YA. However, certain tests are to be satisfied in order to deduct these allowances or trade losses against the respective income.

⁹ This is because your past relevant deduction had exceeded your contributed capital as at the end of the basis period relating to this YA. This excess had been allowed as a deduction against your income from other sources in a prior YA. Therefore, in this YA, the excess is deemed to be income chargeable to tax under section 10(1)(g) of the ITA.

¹⁰ Where the partner is a company, the carry-forward of the deemed trade loss is subject to the shareholding test.

(a) Carry forward of CA, IBA, Trade Losses and Donations to the next YA

- 9.2 You can only deduct your unabsorbed CA and IBA that is being carried forward from previous YA against income from the same trade, business or profession in respect of which the CA or IBA was given. This requirement is known as the “**same business test**”. Your unabsorbed CA or IBA from an LLP will be forfeited if during the basis period relating to the YA of claim, you ceased to be a partner of the LLP.
- 9.3 If you are a company, you have to satisfy an additional test known as the “**shareholding test**” in any YA to deduct your unabsorbed CA, IBA and trade losses¹¹ that is carried forward from previous YAs. For this test, the shareholders of the company must remain substantially the same on the following two relevant dates:
- (i) The last day of the YA in which the CA or IBA was given, or last day of the year in which the trade losses were incurred; and
 - (ii) The first day of the YA in which this CA, IBA or trade losses are used for deduction against the company’s income.
- 9.4 Unabsorbed donations can only be carried forward up to a maximum of five YAs. Within the five years, you may deduct the unabsorbed donation carried forward from previous YA regardless of the business continuity test. But if you are a company, you have to satisfy the shareholding test to get a deduction.

(b) Transfer of unabsorbed CA, IBA, Trade Losses or Donations

- 9.5 As a partner of a LLP, you may transfer your current year unabsorbed CA, IBA, trade losses or donations from the LLP to the related company or companies within the same group under section 37C of the ITA, or to your spouse under section 37D of the ITA.
- 9.6 The amount to be transferred is subject to the relevant deduction restriction (where applicable) and all relevant conditions applicable to such transfer as spelt out under sections 37C or 37D.

(c) Carry back of unabsorbed CA, IBA or Trade Losses

- 9.7 Subject to all relevant conditions under sections 37E and 37F¹², you may also carry back your current year unabsorbed CA, IBA or trade loss from

¹¹ A person’s trade losses which are in excess of all his income from other sources for any YA.

¹²The carry-back is also subject to restrictions and conditions in sections 2, 10D(2)(b) and (d), 10H(1)(a) and (b), 23(3), 36A(4), 36A(10) and 37(5) of the ITA.

an LLP to deduct against your own or your spouse's assessable income¹³ of the YA immediately preceding the YA¹⁴ in which you have trade losses or CA/IBA available for carry back. The carry-back is subject to the relevant deduction restriction explained in paragraph 6.

9.8 Please refer to **Annex 3** for a summary of the relevant conditions for carry forward, transfer and carry back of the unabsorbed CA, IBA, trade losses or donations.

10 Transfer of business to an LLP

10.1 An LLP (referred to as "transferee LLP") may be formed to take over the business of a sole-proprietorship, a partnership, another LLP or a company (referred to as "transferors"). Whether the unabsorbed CA, IBA, trade losses or donations of the transferred business of each transferor can be used by the partners of the transferee LLP depends on whether the same business test and/or the shareholding test are/is satisfied for each partner. The table below shows the conditions for deducting the unabsorbed CA, IBA, trade losses and donation of the transferors by the partners of the transferee LLP:

Transferors	Sole-proprietor, individual partner of a partnership or an LLP	Company¹⁵, corporate partner of a partnership or an LLP
Deductions		
Unabsorbed CA/IBA	The sole-proprietor or the partner must become the partner of the transferee LLP which continues with the trade, business or profession taken over.	Company must become the partner of the transferee LLP and the company satisfies the shareholding test.
Unabsorbed Trade Losses	No specific conditions.	Shareholding test must be satisfied.
Unabsorbed Donations	Can be carried forward to future YA, up to a maximum period of five YAs.	Can be carried forward to future YA, up to a maximum period of five YAs, subject to shareholding test.

¹³Refers to assessable income as determined under section 37 of the ITA and after deducting:

- a) In the case of a company, CA/IBA, trade losses, approved donations (including those transferred from related companies under group relief system) and other relevant deductions like incremental research and development expenses or investment allowances;
- b) In the case of an individual, CA/IBA, trade losses or approved donations (including those transferred from spouse under section 37D).

¹⁴ For example, if you have incurred trade losses in year 2011 or have been given CA for YA 2012, the immediate preceding YA would be YA 2011.

¹⁵A company transferring a trade, business or profession to a transferee LLP may dissolve thereafter. If this happens, any unabsorbed CA or IBA of the transferred trade, business or profession will be forfeited and cannot be deducted against future income from the transferee LLP.

10.2 There is one exception to the above rule. In the case of a transferred trade, business or profession carried on through a partnership that commenced before 1 Jan 1969, a non-corporate transferor will not be able to carry forward his unabsorbed CA or IBA to a future YA even if he becomes a partner of the transferee LLP. This is because section 35A(4) of the ITA will deem the non-corporate transferor to cease his transferred trade, business or profession carried on by the partnership and thus fail the same business test.

11 Change of partner(s) of an LLP

11.1 An LLP may admit new partner(s) or its existing partner(s) may withdraw from the LLP due to retirement, death or other reasons. For income tax purposes, such a change of partners in an LLP does not necessarily mean that there is a cessation of the trade, business, profession or vocation of all the partners. This is because the trade, business, profession or vocation carried on through the LLP is considered as being carried on jointly by the partners by virtue of section 36 of ITA.

11.2 The remaining and withdrawn partners of an LLP may claim deduction of his share of unabsorbed CA, IBA, trade losses and donations brought forward from the period before the change of partners. The table below shows the conditions for these deductions to be allowed against their income after the change :

	Partner(s) who remain as partner of an LLP after the change of partner(s) in the LLP	Partner(s) who withdraw from an LLP
Unabsorbed CA/IBA	Amount brought forward can be deducted against his income from the LLP, followed by his income from other sources*, provided that the LLP continues to carry on the same trade, business or profession.	Amount brought forward will be forfeited as same business test is not met.
Unabsorbed Trade Losses	Amount brought forward can be deducted against his income from the LLP, followed by his income from other sources*. Corporate partner has to satisfy the shareholding test.	Amount brought forward can be deducted against his income from other sources. Corporate partner has to satisfy the shareholding test.

Unabsorbed Donations (up to maximum of five years)	Amount brought forward can be deducted against his income from the LLP, followed by his income from other sources. Corporate partner has to satisfy the shareholding test.
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* Subject to the relevant deduction restriction

12 Tax treatment of property sold

12.1 For income tax purposes, a property¹⁶ owned by an LLP is considered as owned by the partners of the LLP. Accordingly, a property is considered sold partly or wholly when there is any change in the composition of partners or their share of the ownership in the LLP.

Scenarios where a property used in the business of an LLP or partnership is considered to have sold/transferred wholly or partly to other parties:

	Scenario	Implications for property
1	As a partner, you withdraw from the LLP or partnership	Your share of the property in the LLP or partnership is considered sold/transferred <u>wholly</u> to the other partners of the same LLP or partnership. You have no share in the property after your withdrawal.
2	All the partners (including yourself) of the LLP or partnership transfer a property used in the business of the LLP to another LLP or partnership (buyer), and you are not one of the partners of the buyer.	Your share of the property is considered sold/transferred <u>wholly</u> to the partners of the buyer.
3	All the partners (including yourself) of the LLP or partnership transfer a property used in the business of the LLP to another LLP or partnership (buyer), and you are one of the partners of the buyer.	Your share of the property is considered sold/transferred <u>partly</u> to the buyer.
4	As a partner of an LLP or partnership, you transfer your share of the property from the LLP or partnership to a sole-proprietorship.	A sale has taken place if you are not the sole-proprietor. Otherwise, there is no sale/transfer of your share of the property that is owned by you as a partner, as you would continue to own the property after the transfer.
5	Where there is a change in the	The property is considered

¹⁶ Property refers to an asset that qualifies for CA or a building that qualifies for IBA.

	proportion of the share of a partner's ownership of the property arising from an admission of new partner(s).	sold/transferred <u>partly</u> to other partners of the same LLP or partnership.
6	Where an LLP or partnership transfers its property used in the business to a company.	The property is considered sold/transferred <u>wholly</u> to the company.

12.2 Scenarios where a business property is sold wholly or partly to an LLP or partnership:

	Scenario	Implications for property
1	A sole-proprietor sells his property used in the business to the partners of an LLP or partnership (buyer).	If the sole-proprietor is also one of the partners of the buyer, the property is considered sold <u>partly</u> to the partners of the LLP or partnership. Otherwise, the property is considered sold <u>wholly</u> to the LLP or partnership.
2	A company sells its property used in the business to an LLP or partnership	The property is considered sold <u>wholly</u> to the LLP or partnership.

12.3 Where a property is sold or transferred wholly, a balancing allowance ("BA") or charge ("BC") for the YA relating to the basis period during which the property is sold (referred to as the "YA of sale") will be computed for the seller¹⁷ by virtue of sections 17 or 20 of the ITA. The buyer can claim CA in respect of this property for the YA relating to the basis period in which the property is purchased (referred to as the "YA of purchase") based on the price paid by him for the property. However, where section 24(3)¹⁸ of the ITA is applicable and has been elected¹⁹, CA of the property for the YA of purchase will be granted to the buyer based on the tax written down value of the property. No BA or BC, nor CA of the property for the YA of sale will be made to the seller.

¹⁷This is because the sole-proprietor, the partner or the company will cease to own the property.

¹⁸Under section 24(3), a buyer and a seller under common control can elect to have actual price (at which a property is transferred between them) to be substituted by the remaining tax written down value in respect of that property.

¹⁹Section 24(4A) provides that no election may be made under section 24(3) for the sale of an industrial building or structure for which an option to purchase is granted or a sale and purchase agreement is entered into on or after 23 Feb 2010, or which is transferred on or after that date.

- 12.4 Where a property is sold or transferred partly in the circumstances referred to in paragraphs 12.1 to 12.2 (where one party to the sale is a partnership or an LLP, and the other party is an individual or another partnership or LLP), parties to the transaction are given an option²⁰ to elect for tax treatment under section 24(3) of the ITA. But where no election is made, the CIT will deem section 24(3) to be elected²¹ for administrative expediency²².
- 12.5 Where the buyer or seller of any property of the partnership explicitly indicates that he does not wish to elect for section 24(3) of the ITA, the CIT shall treat the property was sold to all the remaining and new partners of the partnership. This is provided for under section 24(5) of the ITA. The sale proceed will be the open market value of the property on the date the change occurs. Based on the open market value of the property, the CIT would compute the BA or BC to all the partners of the partnership prior to the date change, and then compute CA for the new/remaining partners.
- 12.6 The tax consequences of the election for section 24(3) for the property that qualifies for CA are as follows:

	S24(3) is elected or deemed elected	S24(3) is not elected
Seller	No CA/IBA, BA or BC will be computed in respect of the property for the YA of sale.	BA/BC will be computed based on the higher of the selling price or open market value of the property (restricted to the cost of the property) for the YA of sale.
Buyer	CA will be granted based on the property's tax written down value for the YA of purchase.	CA will be granted based on the price paid for the property in the YA of purchase.

Annex 4 provides some examples that illustrate the treatment of CA in respect of a property sold to partners of an LLP.

²⁰This arose from feedback from the public consultation. Election under section 24(3) should not be deemed when there is a sale of a property involving a partnership or LLP as the composition and profits sharing ratio may be different in the two partnerships or LLPS.

²¹The deeming of section 24(3) election is not confined to cases involving sales of properties relating to LLPs, but is also applicable to cases involving sales of properties relating to partnerships.

²² If not, difficult tax calculations would have to be presented by the partnership/LLP to show the remaining partners' continual claim of CA on the assets components belonging to them.

13. Other features of the income tax treatment of LLPs

(a) Applicability of Section 10E provisions to an LLP

- 13.1 The tax treatment of section 10E of the ITA applies if an LLP carry on a business of the making of investments. The example in Annex 4 illustrates the tax treatment of the partners of an LLP where section 10E is applicable.

(b) Assignment of economic interests

- 13.2 If a partner of an LLP assigns his economic interest to another person (“assignee”) and he remains a partner of the LLP thereafter, he is liable to tax on his share of the income of the LLP despite the assignment. The assignment of the economic interest in an LLP is not considered as a transfer of his partnership status to the assignee. Whether any sum received by the assignee pursuant to the arrangement is taxable to him will depend on the circumstances under which the assignment was made²³.

(c) LLP in liquidation

- 13.3 When an LLP is being wound up, the income of the LLP will continue to be assessed on its partners. The liquidator of the LLP shall be responsible to comply with the provisions of the ITA in relation to the affairs of the LLP under liquidation.

(d) Foreign LLPs

- 13.4 For Singapore tax purposes, the tax treatment of foreign LLPs deriving income from Singapore will be the same as that of LLPs registered under the LLP Act.

14 Administrative procedures

(a) Appointment and duties of the LLP manager

- 14.1 Under the LLP Act, any person who is concerned with or takes part in the management of the LLP is the manager (“LLP manager”) of the LLP. The LLP manager need not be a partner of the LLP and can be an employee of the LLP.

²³For example if the assignment was made in return for services to be rendered by the assignee, then the amount of the assigned LLP income received by the assignee would be taxable as service income of the assignee.

- 14.2 For income tax purposes, the LLP manager shall not be deemed to be the precedent partner for the purposes of sections 62 and 71 of the ITA. The precedent partner of the LLP is determined based on section 71(1) of the ITA. However, where no partner of the LLP is personally present in Singapore, the LLP manager will be required to undertake the role of the precedent partner in submitting the income tax return by virtue of section 71(2) of the ITA.

(b) Filing of return and accounts

- 14.3 The precedent partner of the LLP is required to make and deliver a return of the income of the LLP for every YA. The precedent partner has to report the capital contribution of the partners in the tax return for the purposes of applying the relevant deduction restriction.
- 14.4 LLPs are required to maintain proper books of account and records of their trade, business, profession or vocation.

I. LLPs with revenue of less than S\$500,000

Such LLPs need not submit financial statements of the LLP when filing their income tax returns. The following details need to be declared in their income tax returns:

- (i) Revenue;
- (ii) Gross profit;
- (iii) Allowable business expense; and
- (iv) Adjusted profit/loss.

II. LLPs with revenue of S\$500,000 or more

Such LLPs are required to submit to the CIT financial statements certified true and correct by the precedent partner.

(c) Certification of tax residence status of LLPs

- 14.5 CIT will not issue a certification of the tax resident status of an LLP for the purposes of an Agreement for the Avoidance of Double Taxation between Singapore and another country. This is because an LLP is not a separate legal person for income tax purposes. However, upon request by any partner of an LLP who is a tax resident of Singapore, CIT may issue a certificate of his tax residence status for this purpose.

15 Contact information

- 15.1 For any enquiries or clarification on this e-Tax Guide, please call
1800-3568300 (Individual) or
1800-3568622 (Corporate).

16 Updates and amendments

	Date of amendment	Amendments made
1	15 Jun 2012	The word “IBA” has been removed from paragraph 12.3 to 12.6, where applicable. Footnote 19 explains the change of legislation.
2	1 Mar 2014	Paragraph 14.3 has been amended to inform the LLP to report the capital contribution of its partners in the tax return

Order of deduction for CA, IBA, Trade Losses and Donations

ANNEX 1

The manner of deducting CA, IBA, trade losses and donation (subject to same business test and/or shareholding test, where applicable) is spelt out in the ITA in the following order:

(A) Deduction of CA and IBA: Sections 16 – 23

- (i) Both current and unabsorbed CA and IBA brought forward from prior YAs of a trade, business or profession* shall first be deducted against income of the same trade, business or profession.
- (ii) The CA and IBA in respect of earlier YA shall be deducted first.

*Where for a year of assessment (“YA”) a taxpayer has a single trade source and has common assets that are used to produce income that is exempt from tax as well as income chargeable with tax, the CA and IBA of such assets for the YA shall be made against the income exempt from tax and the income chargeable with tax in such proportion as appears reasonable to the CIT in the circumstances. The basis to be used for apportioning such CA and IBA will generally be the same basis as that for the allocation of common expenses to the different tax categories.

(B) Aggregation of income from separate sources: Section 35(Statutory Income Stage)

(C) Deduction of CA and IBA against income from other sources: Section 35(2)

- (i) Any excess CA and IBA of a trade, business or profession shall be added up with any excess CA and IBA of other trade, business or profession.
- (ii) The sum shall then be deducted proportionately against income of other trade, business or profession (where such income of a trade, business or profession shall be net of CA and IBA of that trade, business or profession). The CA and IBA in respect of earlier YA shall be deducted first.
- (iii) Any balance of the excess CA and IBA [as determined under (C)(ii)] shall then be deducted proportionately against the taxpayer’s income from other sources. The CA and IBA of earlier YA shall be deducted first.
- (iv) Any remaining of the excess CA and IBA [as determined under (C)(iii)] can, subject to satisfying the necessary conditions, be transferred as Group Relief under s36C, or transfer to spouses under s37D or carried backward under s37E /s37F.
- (v) Any remaining of the excess CA and IBA [as determined under (C)(iv)] shall be carried forward to a future YA for deduction from future income.

(D) Deduction of trade losses and donation: Section 37 (Assessable Income Stage)

- (i) Any unabsorbed trade losses brought forward from prior YAs of a trade, business, profession or vocation shall be deducted from profits of the same trade, business, or profession or vocation. The trade of earlier YA shall be deducted first.
- (ii) Any excess unabsorbed trade losses [as determined under (D)(i)] shall be added up with:
 - a. Any excess unabsorbed trade losses of other trade, business, profession or vocation; and
 - b. Any current year trade loss of other trade, business, profession or vocation.
- (iii) The sum shall be deducted proportionately against income of other trade, business, profession or vocation (where such income of a trade, business, profession or vocation shall be net of CA, IBA and unabsorbed trade losses of that trade, business, profession or vocation). The trade losses of earlier YA are to be deducted first.
- (iv) Any balance of the excess unabsorbed trade losses [as determined under (D)(iii)] shall be deducted proportionately against the taxpayer’s income from other sources. The trade losses of earlier YA shall be deducted first. Any remaining trade losses shall be carried forward to a future YA for deduction from future income.
- (v) Unabsorbed donations carried forward from the prior YA and the current year donations shall be deducted proportionately against income remaining after (D)(iv)[if any]. The donations in respect of earlier YA shall be deducted first. Any remaining donations shall be carried forward to a future YA for deduction from future income.

ANNEX 2

Illustration of deduction and restriction of CA, IBA and Trade Losses of partners of an LLP

Partnership A is an LLP and has two partners (i.e. Mr Thomas and Ms Sharon). The principal business of the LLP is the marketing of micro-chips, and the business' accounting year end is 31 December. The details of the LLP for YA 2009, 2010 and 2011 are:

	Mr Thomas (Example 1)			Ms Sharon (Example 2)		
(A) Profit sharing ratio	60%			40%		
(B) Contributed capital as at						
a) 31 Dec 2008	\$50,000			\$40,000		
b) 31 Dec 2009	\$50,000			\$30,000		
c) 31 Dec 2010	\$60,000			\$25,000		
(C) Adjusted profit/loss of LLP for :						
a) YA 2009 – Loss \$9,000	(\$5,400)			(\$3,600)		
b) YA 2010 – Loss \$5,000	(\$3,000)			(\$2,000)		
c) YA 2011 – Profit \$30,000	\$18,000			\$12,000		
(D) CA/IBA for:						
a) YA2009 - \$40,000	\$24,000			\$16,000		
b) YA2010 - \$40,000	\$24,000			\$16,000		
c) YA2011 - \$40,000	\$24,000			\$16,000		
(E) CA/IBA & losses - Cumulative	YA2009	YA2010	YA2011	YA2009	YA2010	YA2011
	\$29,400	\$56,400	\$80,400	\$19,600	\$37,600	\$53,600
(F) Contributed capital as at end of basis period	\$50,000	\$50,000	\$60,000	\$40,000	\$30,000	\$25,000
(G) Past relevant deductions b/f	\$0	\$29,400	\$50,000	\$0	\$19,600	\$30,000
(H) Excess of cumulative CA/IBA and losses over contributed capital [(E)-(F)]	0	\$6,400	\$20,400	0	\$7,600	\$28,600
(I) Past relevant deduction c/f	CA/IBA \$24,000 Loss <u>\$5,400</u> <u>\$29,400</u>	CA/IBA 44,600 Loss <u>\$5,400</u> <u>\$50,000</u>	CA/IBA \$54,000 Loss <u>\$6,000</u> <u>\$60,000</u>	CA/IBA \$16,000 Loss <u>\$3,600</u> <u>\$19,600</u>	CA/IBA \$26,400 Loss <u>\$3,600</u> <u>\$30,000</u>	CA/IBA \$26,400 Loss <u>\$3,600</u> \$30,000 Less: Deemed Income <u>(\$5,000)</u> <u>\$25,000</u>

As the contributed capital as at 31.12.2010 is lower than the past relevant deduction, the difference of \$5,000 will be deemed as income chargeable with tax under section 10(1)(g) of the ITA

Example 1- Tax computations for Mr Thomas for the YAs 2009, 2010 and 2011

	YA 2009			YA 2010			YA 2011		
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Trade income			Restrict			Restrict			Restrict
- LLP		0			0		18,000		
Less: CA/IBA b/f		0			0		(3,400)		
Current capital allowance		(24,000)	#		(20,600)	(3,400)*	(24,000)	(9,400)	@
- Partnership	20,000			30,000			12,000		
Less: CA/IBA	(5,000)	15,000		(9,000)	21,000		(8,000)	4,000	
- Sole-proprietorship	8,000			24,000			15,000		
Less: CA/IBA	(30,000)	(22,000)		(9,000)	15,000		(11,000)	4,000	
		(31,000)			15,400			(1,400)	
Rental income		100,000			98,000			87,000	
		69,000			113,400			85,600	
Less: LLP loss b/f		0			0			(600)	(2,400) [@]
Less: LLP current loss		(5,400)	#		0	(3,000)*		0	
Assessable income		63,600			113,400			85,000	
Less: <u>Personal Relief</u>									
- Earned Income	1,000			1,000			1,000		
- Child	4,000	5,000		4,000	5,000		4,000	5,000	
Chargeable income		58,600			108,400			80,000	
Tax payable		2,481			8,276			4,300	
LLP CA/IBA and losses c/f									
- CA/IBA	0			3,400			0		
- Loss	0	0		3,000	6,400		2,400	2,400	

#YA 2009 – LLP CA \$24,000 and trade loss \$5,400 are allowable to deduct from other sources income as the contributed capital as at 31.12.08 (\$50,000) is more than the sum of LLP CA and loss (i.e. \$29,400).

*YA 2010 – As the past relevant deduction is \$29,400 and the contributed capital as at 31.12. 09 is \$50,000, the amount of LLP CA which is allowable against other sources of income is restricted to \$20,600 (i.e. \$50,000 - \$29,400), the balance of CA \$3,400 (i.e. \$24,000 - \$20,600) and LLP loss \$3,000 are to be carried forward to subsequent YA.

@YA 2011 – LLP CA (i.e. the sum of CA b/f \$3,400 and current CA \$14,600) will first be allowed to deduct the LLP profit \$18,000 with no restriction. The balance of LLP CA \$9,400 (i.e. \$24,000 - \$14,600) is allowable to deduct from other sources of income as the contributed capital as at 31.12.10 has been increased to \$60,000. Note that the total past relevant deduction is \$50,000 (i.e. \$24,000 + \$5,400 + \$20,600), the amount of LLP loss allowable to deduct from other sources of income is therefore restricted to \$600 (i.e. \$60,000 - \$50,000 - \$9,400). The balance of LLP loss \$2,400 (i.e. \$3,000 - \$600) is to be carried forward to subsequent YA.

Example 2 - Tax computation for Ms Sharon for the YAs 2009, 2010 and 2011

	YA 2009			YA 2010			YA 2011		
	\$	\$	\$	\$	\$	\$	\$	\$	
Trade Income			Restrict		Restrict			Restrict	
- LLP		0			0		7,000 [^]		
Less: CA/IBA b/f		0			0		(5,600)		
Current CA/IBA		(16,000)	#		(10,400)	(5,600)*	(16,000)	(14,600) [@]	
- Sole-proprietorship	12,000			8,000			5,000		
Less: CA/IBA	(5,000)	7,000		(9,000)	(1,000)		(1,000)	4,000	
		(9,000)			(11,400)			4,000	
Employment income		50,000			60,000			65,000	
Rental income		8,000			8,000			7,000	
Deemed income		0			0			5,000 [^]	
		49,000			56,600			81,000	
Less: LLP loss b/f		0			0			0	
Less: LLP current loss		(3,600)	#		0	(2,000)*		0	
		45,400			56,600			81,000	
Less: Donation		1,200			1,200			1,200	
Assessable income		44,200			55,400			79,800	
Less: Personal relief									
- Earned income	1,000			1,000			1,000		
- CPF	10,000	11,000		12,000	13,000		13,000	14,000	
Chargeable income		33,200			42,400			65,800	
Tax payable		526			1,104			3,093	
LLP CA/IBA and losses c/f									
- CA/IBA	0			5,600			14,600		
- Loss	0	0		2,000	7,600		2,000	16,600	

[#]YA 2009 – LLP CA \$16,000 and trade loss \$3,600 are allowable to deduct from other sources income as the contributed capital as at 31.12. 08 (\$40,000) is more than the sum of LLP CA and loss (i.e. \$19,600).

*YA 2010 – As the contributed capital as at 31.12. 09 is \$30,000, the amount of LLP CA which is allowable to deduct from other sources of income is restricted to \$10,400 (i.e. \$30,000 - \$19,600). The balance of CA \$5,600 (i.e. \$16,000 - \$10,400) and LLP loss \$2,000 are to be carried forward to subsequent YA.

[@]YA2011 – LLP CA (i.e. the sum of CA b/f \$5,600 and current CA \$1,400) is allowable to deduct against the LLP profit of \$7,000 with no restriction. The balance of LLP CA \$14,600 (i.e. \$16,000 - \$1,400) and LLP loss \$2,000 are not allowable to deduct from other sources of income.

[^] As the contributed capital as at 31.12. 10 (i.e. \$25,000) is lower than the past relevant deduction of \$30,000 (i.e. \$16,000 + \$3,600 + \$10,400); the difference of \$5,000 will be deemed as income chargeable with tax under section 10(1)(g) of ITA. The equal amount shall also be deemed as the partner's share of loss which is allowable to deduct the LLP profit of \$12,000 (hence, the LLP profit = \$12,000 - \$5,000).

^^The total LLP trade loss c/f of \$7,000 is derived from the summation of loss b/f and the deemed trade loss (i.e. \$2,000 + \$5,000).

ANNEX 3

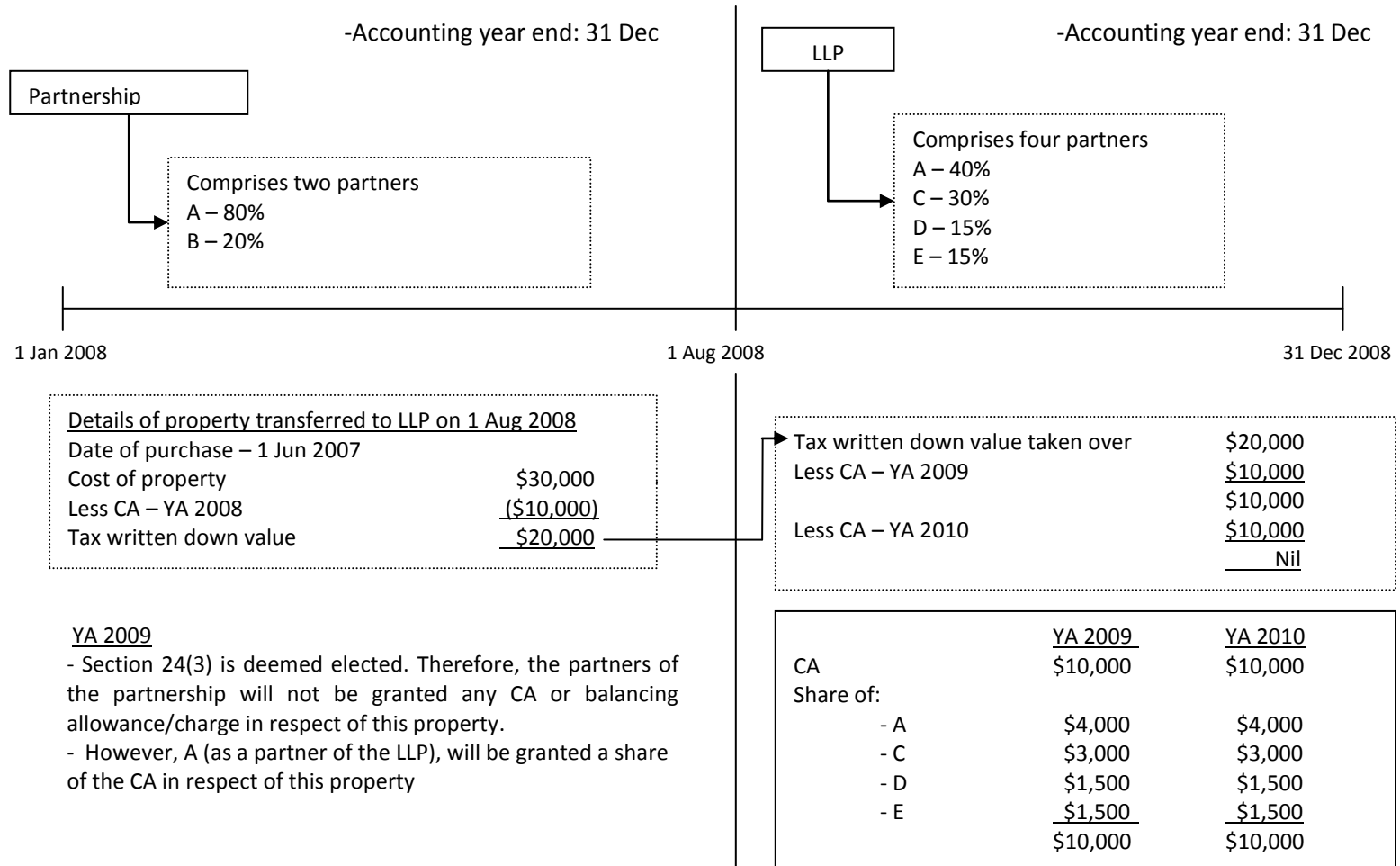
Summary of the relevant conditions for carry forward, transfer and carry back of the unabsorbed CA, IBA, trade losses or donations.

Type of Deductions	Options	Relevant Deduction Restriction	Same Business Test	Shareholding Test
Unabsorbed CA, IBA	Carry-forward for deduction from future income of the partner from the same LLP	No	Yes	Yes for corporate partner
	Deduction from other sources of income of the partner	Yes		
	Transfer to the partner's spouse or related company/companies for the same YA		No	
	Carry-back for deduction from the partner or his spouse's assessable income of the preceding YA		Yes	
Unabsorbed Trade Losses	Carry-forward for deduction from future income of the partner from the same LLP	No	No	
	Deduction from other sources of income of the partner	Yes		
	Transfer to the partner's spouse or related company/companies for the same YA			
	Carry-back for deduction from the partner or his spouse's assessable income of the preceding YA			
Unabsorbed Donations	Carry-forward for deduction from future income of the partner from the same LLP	No		
	Deduction from other sources of income of the partner			
	Transfer to the partner's spouse or related company/companies for the same YA			

Treatment of CA in respect of a property sold to partners of an LLP

Example 1: Where a property is sold partly

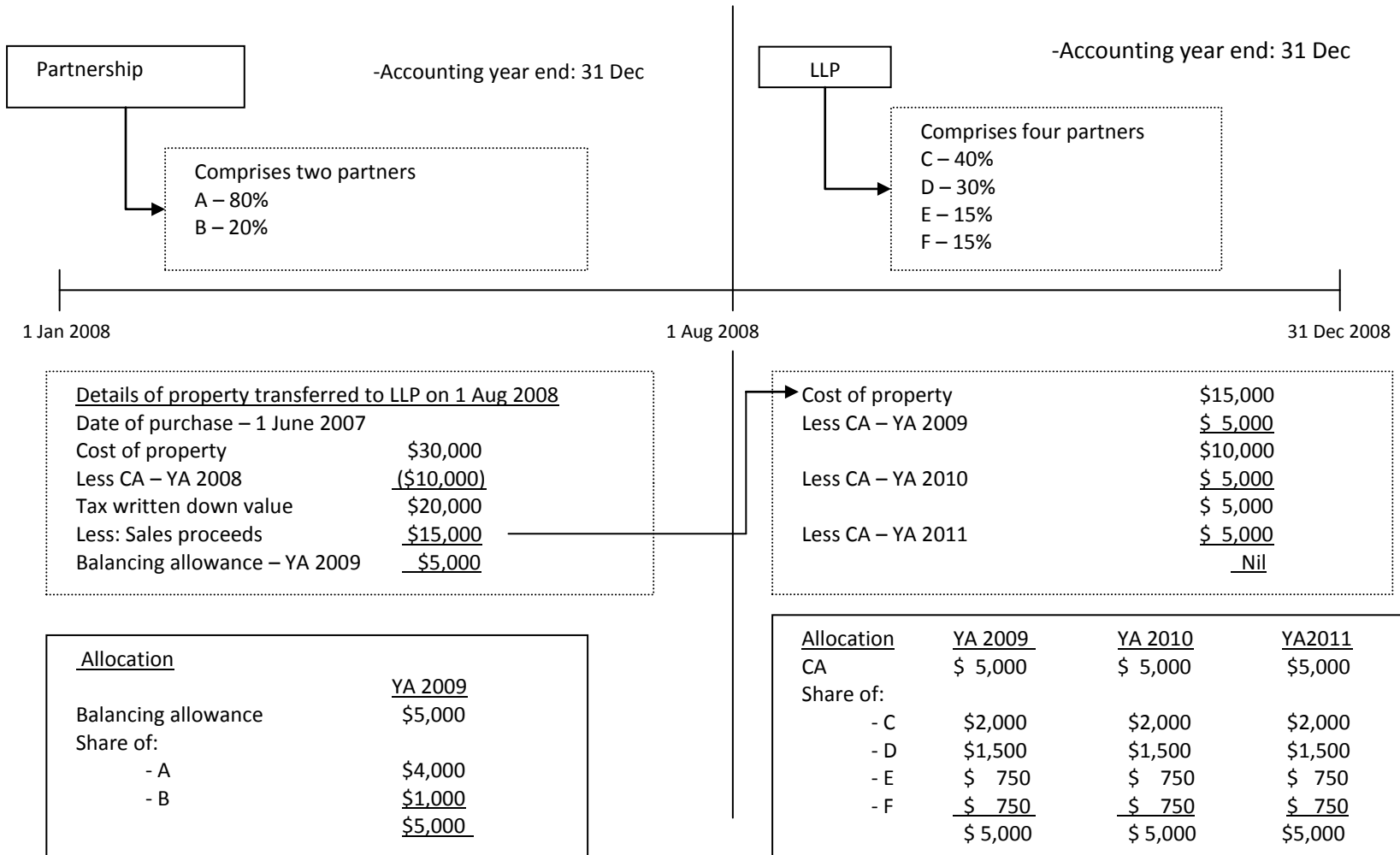
- a property is transferred from a partnership to an LLP, an a partner of the partner of the partnership is a partner of the LLP



Treatment of CA in respect of a property sold to partners of an LLP (CONTINUED)

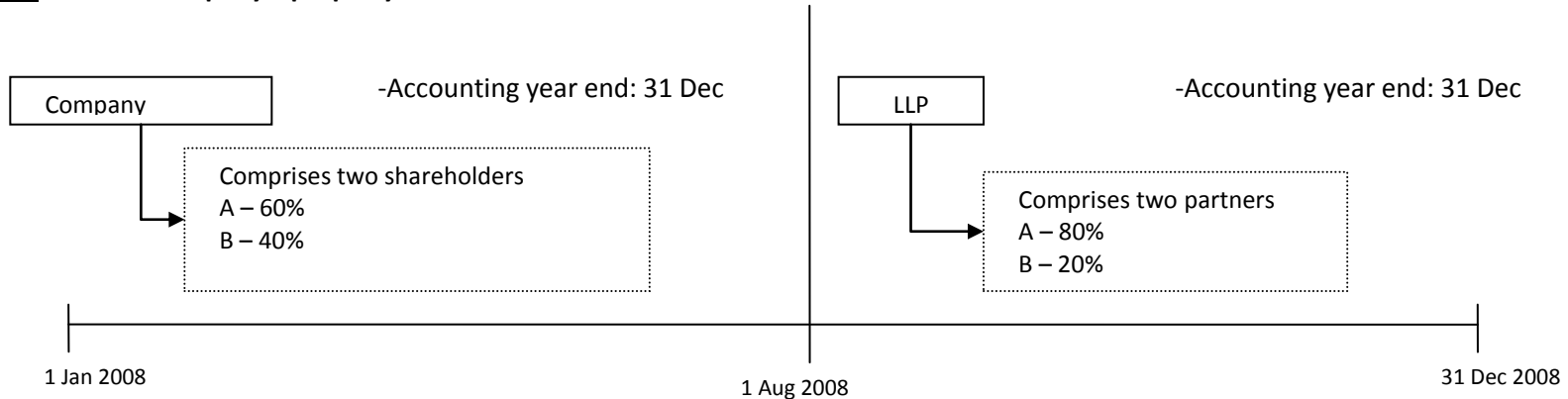
EXAMPLE 2: Where a property is sold wholly

- a property is transferred from a partnership to an LLP, and NO partner of the partnership is a partner of the LLP



Treatment of CA in respect of a property sold to partners of an LLP (Continued)

EXAMPLE 3: Where a company's property is transferred to an LLP



Details of property transferred to LLP on 1 Aug 2008

Date of purchase – 1 June 2007	
Cost of property	\$30,000
Less CA – YA 2008	<u>(\$10,000)</u>
Tax written down value	<u>\$20,000</u>

(I) Section 24 elected

(a) Co – no computation of CA, balancing allowance or balancing charge in respect of this property

(b) LLP – Tax written down value taken over

	\$20,000
Less CA – YA 2009	<u>\$10,000</u>
	\$10,000
Less CA – YA 2010	<u>\$10,000</u>
	<u>Nil</u>

Allocation

	<u>YA 2009</u>	<u>YA 2010</u>
CA	\$10,000	\$10,000
Share of:		
- A	\$8,000	\$ 8,000
- B	<u>\$2,000</u>	<u>\$ 2,000</u>

(II) No election of Section 24

(a) Co – Computation of balancing allowance

Tax written down value	\$20,000
Less Sales proceeds	<u>\$15,000</u>
Balancing allowance – YA 2009	<u>\$ 5,000</u>

(b) LLP – Cost of property

Cost of property	\$15,000
Less CA – YA 2009	<u>\$ 5,000</u>
	\$10,000
Less CA – YA 2010	<u>\$ 5,000</u>
	\$ 5,000
Less CA – YA 2011	<u>\$ 5,000</u>
	<u>Nil</u>

Allocation

	<u>YA 2009</u>	<u>YA 2010</u>	<u>YA2011</u>
CA	\$ 5,000	\$5,000	\$5,000
Share of:			
- A	\$4,000	\$4,000	\$4,000
- B	<u>\$1,000</u>	<u>\$1,000</u>	<u>\$1,000</u>
	<u>\$5,000</u>	<u>\$ 5,000</u>	<u>\$5,000</u>

Example showing tax treatment of partners of an LLP where Section 10E is applicable

Partnership B is an LLP and has two partners (i.e. Goodrich Pte Ltd and Mr Brodrick). The LLP is in the business of making investments and has an accounting year end of 31 December. The details of the LLP for YA2010 and 2011 are:

	Goodrich Pte Ltd	Mr Brodrick
(A) Profit Sharing Ration	90%	10%
(B) Contributed capital as at 31 Dec 2009	\$500,000	\$2,000*
(C) Net rental income for y/e 31.12.2009 - \$30,000	\$27,000	\$3,000
Net rental income for y/e 31.12.2010 - \$70,000	\$63,000	\$7,000
(D) CA for YA 2010 - \$40,000	(\$36,000)	(\$4,000)
CA for YA 2011 - \$40,000	(\$36,000)	(\$4,000)
(E) IBA for YA 2011 - \$60,000 (no claim for YA 2010)	(\$54,000)	(\$6,000)

*This is his actual capital contribution. Mr. Brodrick has committed to contribute up to \$50,000 as capital contribution by year ended 31.12.2013

YA 2010 Tax Computation for Goodrich Pte Ltd and Mr. Brodrick

	Goodrich Pte Ltd		Mr. Brodrick	
	\$	\$	\$	\$
<u>Trade Income</u>				
- Adjusted trade income of Goodrich Pte Ltd's operation	20,000			
Less: CA	<u>(50,000)</u>	(30,000)		0
- Net Income from LLP	27,000		3,000	
Less: CA	<u>** (36,000)</u>	0	<u>** (4,000)</u>	0
Employment Income		0		60,000
Rental Income		<u>145,000</u>		<u>0</u>
		115,000		60,000
Less: <u>Personal Relief</u>				
Earned income			1,000	
CPF		NA	<u>12,000</u>	<u>13,000</u>
Chargeable income before deducting exempt income		<u>115,000</u>		<u>47,000</u>
Less exempt amount		<u>115,000</u>		<u>NA</u>
Chargeable income after deducting exempt amount		<u>0</u>		<u>47,000</u>
Tax payable		<u>0</u>		<u>1,495</u>

**The excess CA is not available for deduction from income from other sources as section 10E tax treatment is applicable. Neither can the excess CA be carried forward to a future YA for deduction from the partner's share of future income from the LLP.

ANNEX 5 (Continued)

YA 2011 Tax Computation for Goodrich Pte Ltd and Mr Brodrick

	Goodrich Pte Ltd			Mr. Brodrick		
	\$	\$	\$ Restrict	\$	\$	\$ Restrict
Trade Income						
- Adjusted trade income of Goodrich Pte Ltd's operation	75,000					
Less: CA	<u>(50,000)</u>	25,000			0	
- Net income from LLP	63,000			7,000		
Less: CA	<u>(36,000)</u>			<u>(4,000)</u>		
	27,000			3,000		
Less: IBA	<u>(54,000)</u>	(27,000)		<u>(6,000)</u>	(2,000)	(1,000)
- Partnership	30,000			50,000		
Less: CA	<u>(40,000)</u>	<u>(10,000)</u>		<u>(12,000)</u>	<u>38,000</u>	
		(12,000)			36,000	
Employment Income		0			80,000	
Rental income		<u>125,000</u>			<u>0</u>	
		113,000			116,000	
Less <u>Personal Relief</u>						
Earned Income				1,000		
Child				4,000		
CPF		<u>NA</u>		<u>16,000</u>	<u>21,000</u>	
Chargeable income before deducting exempt amount		113,000			95,000	
Less: exempt amount		<u>113,000</u>			<u>NA</u>	
Chargeable income after deducting exempt amount		<u>0</u>			<u>95,000</u>	
Tax payable		<u>0</u>			<u>6,400</u>	