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CHANGES IN INCOME TAX ACT, 1961 FOR PARTNERSHIP FIRM INCLUDING LIMITED LIABILITY PARTNERSHIP ('LLP') APPLICABLE FROM

01.04.2025

Introduction

The Finance (No. 2) Act, 2024 introduces two significant income tax changes for partnership firms, including Limited Liability Partnerships (LLPs), effective April 1, 2025. These amendments pertain to increased limits on partner remuneration and the introduction of Section 194T, mandating Tax Deducted at Source (TDS) on payments to partners.

Highlights of key changes for partnership firms including LLP's effective from April 1, 2025 are as follows:

A Limits Increased for Partner Remuneration

Existing (Up to FY 2023-24)		New (FY 2024-25 onwards)	
Up to INR 3,00,000/- of the book profit	Higher of INR 1,50,000/- or 90 % of the book profit	Up to INR 6,00,000/- of the book profit	Higher of INR 3,00,000/- or 90 % of the book profit
On the balance of the book profit	60 % of balance	On the balance of the book profit	60 % of balance

B Introduction of Section 194T

i. When is Section 194T applicable?

1. Section 194T is applied to all partnership firms and LLPs, irrespective of their turnover.

2. Under this section 194T, TDS will be deducted if the total payments to a partner are above Rs. 20,000 in a financial year. If the limit exceeds Rs. 20,000, a 10% TDS will apply to the total payment amount and not just the portion exceeding Rs. 20,000.

3. Tax is to be deducted at the rate of 10% on the amount of salary, remuneration, commission, bonus or interest paid to a partner of the firm.

4. Tax is to be deducted at the time of credit of such sum to the account of the partner or at the time of payment thereof, whichever is earlier.

ii. Summary of Payments subject to TDS under Section 194T

Nature of Payment to partner	TDS applicable
Salary/Remuneration	Yes
Commission	Yes
Bonus	Yes
Interest on Capital or Loan	Yes
Drawings or Capital Repayment	No

iii. Consequence of non-compliances of section 194T

If a firm or LLP fails to deduct TDS, it could result in financial and legal consequences such as:

A 30% disallowance of the expenses, including salary, remuneration, commission, bonus, and interest on capital.

B Interest penalty: Interest penalty of 1% per month or part of the month for non- deduction of TDS. If you do not pay the deducted TDS on time, a penalty of 1.5% per month will be charged. For late filing, a penalty of Rs. 200 per day for non-filing of TDS returns.

iv. Recommended Actions Before April 1, 2025:

A Inform Partners:

Communicate the upcoming TDS deductions to partners, emphasizing the need to account for these when filing their ITRs.

B Obtain a TAN:

Ensure the firm has a Tax Deduction and Collection Account Number (TAN). Apply for one before April 1, 2025, if not already obtained, to avoid penalties.

C Update Partnership Agreements:

Revise agreements to align with the new remuneration limits.

D Implement TDS Systems:

Establishprocedures for timely TDS deductionand filing to ensure compliance and avoid penalties.

Thank you

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