

# **IRAS e-Tax Guide**

## **Income Tax Treatment of Limited Partnerships (LPs)**



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# Income Tax Treatment of Limited Partnership (LPs)

## 1 Aim

- 1.1 This e-Tax guide provides details on the income tax treatment of Limited Partnerships (LP)<sup>1</sup>.
- 1.2 It will be relevant to individuals and corporations who are partners of a LP business.

## 2 At a glance

- 2.1 An LP is a business structure with at least one partner registered as a limited partner and one partner registered as a general partner under the LP Act<sup>2</sup>. The structure of LP allows a business to operate and function as a partnership without a separate legal personality from the partners.
- 2.2 The characteristics of the general partners and limited partners in a LP are summarized as below:

	<b>General Partner</b>	<b>Limited Partner</b>
<b>Liability of Partners</b>	Unlimited liability: Personally liable for all the debts incurred, obligations and liabilities of the LP.  Where there are two or more general partners, the general partners are jointly and severally liable for all debts, obligations and liabilities of the LP.	Limited liability: Liable only for the debts incurred by the LP to the extent of his <b>capital contributed</b> .
<b>Management of LP</b>	Can take part in the management of the LP and share the right to use partnership property.	Not allowed to take part in the management of the LP apart from what is stated in The First Schedule of the LP Act <sup>3</sup> .

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<sup>1</sup> This e-Tax guide replaces the IRAS's e-Tax guide on "Income Tax Treatment of Limited Partnership (LPs)" published on 30 Jun 2009.

<sup>2</sup> The LP Act provides the legal framework governing LPs in Singapore.

<sup>3</sup> Please refer to Singapore Statutes Online for [The First Schedule of the LP Act](#).

### **3 Background**

- 3.1 In order to provide businesses with more options in structuring their businesses, the Government introduced Limited Liability Partnership (LLP) and the Limited Partnership (LP) in 2005 and 2009 respectively.

### **4 Income tax treatment of LPs**

- 4.1 LPs enjoy tax transparency like Limited Liability Partnerships (LLPs) and General Partnerships.
- 4.2 The limited partners of a LP are treated in the same manner as the partners of an LLP for income tax purposes<sup>4</sup>. Hence, the deductibility of a limited partner's share of a LP's trade loss or capital allowance ("CA") is also subject to the same relevant deduction restriction rules applicable to partners of LLPs.
- 4.3 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 would be deemed income chargeable to tax under him.
- 4.4 The general partners of a 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.
- 4.5 Generally, apart from some differences which are highlighted in paragraphs 6 to 7 below, the tax treatment of an LP is exactly the same as that for an LLP.

### **5 Conversion of general partner to limited partner or vice versa**

- 5.1 For income tax purposes, if the trade, business or profession of a LP remains unchanged, the re-registration of a general partner in a 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.
- 5.2 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

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<sup>4</sup> Please refer to paragraphs 6 to 8 of IRAS e-Tax guide on "Income Tax Treatment of Limited Liability Partnerships" published on 29 Jun 2012 for details on the application of the relevant deduction restriction rules to partners of LLPs, which are similarly applicable to limited partners of LPs.

a general partnership re-registers himself as a limited partner upon a transfer of a general partnership business to an LP.

- 5.3 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 or trade loss from the LP against his other sources of income is also lifted from that YA onwards.

## **6 Dissolution of limited partnership**

- 6.1 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, it is ordered by the court. If the dissolution is 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.

## **7 Administrative procedure**

### **(A) Appointment of Manager**

- 7.1 As all general partners of a 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").
- 7.2 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.
- 7.3 Where none of the general partner(s) in a LP is resident in Singapore, the tax matters of the LP shall be attended to by the attorney, agent, manager or factor in Singapore under Section 71(2) of the ITA.

### **(B) Reporting of Capital Contribution**

- 7.4 An LP is required to report the capital contribution of the partners in its income tax return. 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<sup>5</sup>.

## **8 Contact information**

8.1 If you have any enquiries or need clarification on this e-Tax Guide, please call:

(a) 1800-356 8300 (Individual Income Tax)

(b) 1800-356 8622 (Corporate Income Tax)

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<sup>5</sup> 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.

## 9 Updates and amendments

	<b>Date of amendment</b>	<b>Amendments made</b>
1	1 Mar 2014	Paragraph 7.4 has been amended to inform the LP to report the capital contribution of its partners in the tax return