

Summary of Recommendations

With reference to systemic issues relating to Firms and their Partners

1. The Ministry may maintain complete database of Firms and devise a suitable mechanism to keep track of unregistered Firms and ensure filing of their ITR.
2. The Ministry may consider linking the returns of Partners and their Firm so that AOs are able to verify the transactions. The Ministry may also make it compulsory for the Firms to declare their Partners' name and PAN in the ITR.
3. The Ministry may devise a software module to monitor receipt of first partnership deed and revised partnership deed in order to regulate the claims in regard to salary/remuneration/profit sharing/ rate of interest on Partners' capital. The Ministry may also collect information regarding any change from the Registrar of Firms (to whom such changes are required to be reported as per the Partnership Act) so as to have effective control over assessment of the Firms.
4. The Ministry may amplify the explanation to section 10(2A) so as to give proper meaning of total income of the Firm to be divided among the Partners in the cases where the total income is reduced due to deduction/ exemption.
5. The Ministry may clarify whether non-legal entities viz. Firms, Body of Individuals, Association of Persons can be Partners in a Firm in order to avoid inconsistencies in composition of the Partners.
6. The Ministry may clarify on the consistent and harmonious application of section 14A with reference to exempt income specified under section 10(2A). The Ministry may also consider making it mandatory for the Firm to prepare financial statements incorporating current year as well as previous year's figures so as to facilitate application of provision of section 14A read with rule 8D.

With reference to special provisions of exemption/deduction to the Firms

7. ITD may ensure compliance with the prescribed provisions (i) specific to Firms as laid down in Chapter XVI, (ii) relating to set off/ carry forward of losses of retiring/ deceased Partners and (iii) for deduction in respect of remuneration and interest as claimed by the Firms.

8. The Ministry may clarify the 'base amount' of the Partners' capital on which the interest is to be calculated for allowance of interest under section 40(b)(iv) of the Act.
9. The Ministry may resolve the conflict between provision of section 40(b)(v) of the Act and CBDT circular no. 739 dated 25 March 1996 regarding quantification of remuneration in the partnership deed.
10. The Ministry may clarify the manner of computation of book profit in respect of payment of remuneration of Firms and ensure that AOs apply the uniform approach consistently.
11. The Ministry may consider introducing an enabling provision in the statute for compulsory charging of interest on partner's capital and payment of remuneration by the Firms availing exemption/deduction under sections 10A/10B/80IA/80IB/80IC/80IE of the Act.

With reference to Assessment of Firms

12. CBDT may devise a mechanism to improve the quality of assessments and explore the possibility of capacity building for Assessing Officers for reducing the incidence of mistakes.

With reference to Internal Control

13. ITD may strengthen its internal control and monitoring mechanism to ensure compliance with the instructions, rules, circulars and provisions of the Act. The Ministry may also take appropriate action against the third parties for incorrect certification in Tax Audit Report and may make concerted efforts required for recovery of arrears or write-off of irrecoverable arrears.
14. ITD may ensure that all required registers are maintained by their field units which may be checked for compliance by the Internal Audit Party.