

Talk Tax – Partnership Businesses

FS: What is a partnership for tax purposes?

CEO: “Partnership” is not defined in the Income Tax Act and, therefore, has its ordinary meaning, namely two or more persons carrying on business for joint profit. However the Act provides that a partnership is a resident partnership if it is formed in Fiji. Normally, a partnership would be deemed to be formed in Fiji if the partnership agreement is executed (signed) in Fiji. This is important because residents are taxed on their worldwide income and non residents are taxed on their Fiji income only.

FS: How is partnership income taxed?

CEO: A partnership’s taxable profits are distributed to the partners according to their respective shares in the partnership. The partners are taxed on their share of the partnership profit and to capital gains tax on any gains in respect of partnership assets. When the partnership profit has been calculated, the partnership allocates the profit or loss (depending on the partners’ individual interest or share) to each partner in accordance with the partnership profit sharing agreement.

FS: Are Partnerships required to register for tax purposes?

CEO: Yes, partnerships are taxpayers therefore they must be registered for tax purposes such as to report its income. Registration is necessary to obtain a tax identification number (TIN). Once a TIN is issued, the partnership will be required to use it for all tax purposes. For example, if a Partnership is an Employer or is required to register for VAT purposes, it will use the same TIN. The law provides that the precedent partner will be responsible to attend to the tax requirements e.g. make a return, pay any tax due on behalf of the partnership. The important information needed in registration includes the names of all the partners, the taxable partnership profits or losses and the amount of profit or loss allocated to each partner.

FS: Are the partners also required to register their TIN separately?

CEO: For tax purposes the partners of the partnership business are required to register for their individual tax numbers before they register the partnership business. As such partnerships TIN are separate from the partners TIN hence the reason why the partners are required to register their own TINs first before registering for the Partnership TIN. Note that another reason why individual partners need to register because the partners TIN are also one of the requirements for registering a Partnership.

A partner is normally required to include their share of the profits or losses in their personal or company tax return. In cases where a company is a member of a Partnership, they have to pay tax on their share of profit, and hence must be registered as well.

FS: What are the requirements for Registration of a Partnership business?

CEO: To process registration for a partnership there should be some formal agreement. The applicant is required to provide the following upon lodgment of application:

- Completed form for application of TIN (IRS003)
- Certificate of Business Registration for Partnership
- Stamped Copy of Partnership Agreement
- Partners Tax Identification Numbers

FS: What are Partnership businesses required to do once they are registered with FRCA?

CEO: Partnerships are required to declare through a Partnership return all income from business operations during the year including business expenses incurred from the same year. This is an annual return which is lodged at the end of every year. They are to maintain all records for a period not less than 7 years. If registered for VAT then partnership business is also required to lodge VAT Returns and pay the VAT applicable. They need to keep records to show how they arrived at the profit. They need to lodge returns every year and the due date for lodgment is 31 March.

FS: So is the profit of a partnership business taxed at any level?

CEO: For our tax purposes these profits are taxed once it has reached the hands of the partners. In other words the partners are required to declare these incomes to FRCA once distributed to them. So basically the profits of a partnership business are not taxed on the partnership level but rather taxed at a time when it has been distributed and declared.

FS: What determines the amount of profits distributed to each partners?

CEO: The amount of profit each partner gets in any year of distribution would be determined by the profit share ratio each partners have on the partnership business. For example 50/50, 60/40, 70/30 etc.

FS: How is the partnership taxed when the Profit of a partnership is not distributed?

CEO: Irrespective, the profits are deemed distributed and taxed in the hands of the partners.

FS: If a loss is made do the partners still get taxed?

CEO: Any partnership loss is again similar to profits. This is taken to the partners annual total chargeable income for determining tax liability of the partner. Losses are not taxed.

FS: Can a Partnership Business register for VAT?

CEO: Yes, a partnership business may apply for VAT under the following conditions:

1. If the partnership business earns a gross turnover of \$100,000 or more in a year then the partnership business is required to register for VAT.
2. If the partnership business earns a gross turnover less than \$100,000 then the partnership is not required to register for VAT. However if partnership business still wants to apply but does not meet the conditions for VAT registration then it can do so on a voluntary basis.
3. Partners don't need to be registered for VAT once the partnership is registered.

FS: What is required of a Partnership business once registered for VAT?

CEO: From VAT registration date the Partnership business is required to:

1. Charge VAT on all goods and services supplied;
2. Claim on purchases where VAT has been paid;

3. Issue a Tax Invoice when making a supply;
4. Lodge VAT Returns on periodical basis; and
5. Keep proper records for a period not less than 7 years

FS: Any other comments you want to make?

CEO: Majority of partnerships are aware of the registration and reporting requirements and are applying the rules correctly. There may be a few cases where taxpayers have entered into arrangements that are not genuine partnerships e.g. for the purpose of splitting profits etc. Such cases if caught will be taken to task.