

TECHNICAL

Direct Taxation

PUBLIC RULING NO. 3/2014

The Inland Revenue Board (IRB) issued PR 3/2014 – **Taxation of Limited Liability Partnership** on 9 May 2014.

Summary of contents

The following is a summary of the contents of the Ruling:

Para-graph	Heading	Subject
1	Objective	The objective of the Ruling is to explain the tax treatment of a Limited Liability Partnership (LLP)
2	Relevant provisions of the Law	States the relevant sections of the Income Tax Act 1967 (ITA) upon which the Ruling is based.
3	Interpretation	Provides definitions of certain terms used in the Ruling.
4.	Limited liability partnership	<p>Sets out some important rules governing a LLP under the LLP Act 2012 (LLPA) including the following:</p> <ul style="list-style-type: none"> • A LLP has hybrid features of a company and a partnership that provides limited liability to its partners. • A LLP or foreign LLP which is registered under the LLPA should end with “PLT” after the partnership’s name. • A LLP is a separate legal entity capable of: <ul style="list-style-type: none"> ○ suing or being sued ○ acquiring, owning holding and developing or disposing of properties; and ○ doing and being responsible for such acts as a body corporate may lawfully do. • For income tax purposes, a LLP is required to prepare complete accounting records containing the Profit and Loss Accounts, Balance Sheet and explanatory notes to accounts (although it is not required to prepare audited financial statements by an auditor.) • Determining the residence status of a LLP.
5	Partners’ contribution of capital	Lists points relating to capital contribution by partners, including the requirement that the amount contributed by each partner must be documented in a LLP Agreement.
6.	Distinction between a LLP, a partnership and a company	Sets out in a table, the comparison of some features (e.g. “Limited Liability”; “Legal entity”; “Perpetual succession” etc.) between a LLP, a partnership and a company.

7	Compliance officer of a limited liability partnership	Explains the requirement under section 75B of the ITA to appoint a compliance officer (or partner if no compliance officer is appointed) and the responsibilities of the compliance officer to carry out all actions and things that should be done by or on behalf of a LLP for income tax purposes.
8	Conversion of a conventional partnership or a company to a LLP	<ul style="list-style-type: none"> Sets out the conditions under the LLPA for conversion from a conventional partnership, or a company to a LLP. For income tax purposes, the business of a LLP is regarded as a continuous business. Therefore the value of balance sheet items at the date of conversion will continue to be used in the LLP.
9	Change of partners in a LLP	Any change of partners in a LLP has no impact on the business of the LLP and the business is still regarded as an ongoing business.
10	Tax treatment of a LLP	<p>Income of a LLP is taxed at the LLP level. Provides explanation of rules relating to the computation of tax liability of a LLP including rules relating to the following:</p> <ul style="list-style-type: none"> Rate of tax Restrictions on partners' salary deduction; Incorporation expenses; Losses and capital allowances (with examples – viz. Examples 2 – 6); Special allowances for small value assets. Distribution of profits to partners. Submission of estimate of tax payable.
11	Tax treatment of partners of a LLP	Partners are not liable to tax on their share of profits from a LLP. They will be taxed on remunerations, perquisites and benefits-in-kind received from the LLP.
12	Bilateral credit and unilateral credit	<p>Explains the eligibility for claim of bilateral credit or unilateral credit by a LLP resident in Malaysia. Under para. 28(1) of Schedule 6 of the ITA, income of a LLP derived from sources outside Malaysia and received in Malaysia is exempt, except where the LLP:</p> <ul style="list-style-type: none"> is carrying on the business of banking, insurance and sea or air transport; has foreign income which, although regarded as derived from Malaysia, has suffered foreign tax.

You may read the [PR](#) in full at the websites of the IRB and the [Institute](#).

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