

# CAA

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CHARTERED  
ACCOUNTANTS  
ACADEMY



# SUCCESS

“Ease is a greater threat to progress than hardship.”

– **Denzel Washington**



# LEARNING OUTCOMES

- To understand the legal status of partnerships and the attendant tax implications (CGT, VAT and Income Tax) of that status.
- To understand how partnership income is taxed i.e. rates of tax and deeming provisions.
- To understand asset transfers.
- To understand Partnership Debtors

# LEGAL STATUS and TAX

- Partnership is not a juristic person.
- Income Tax Act - definition of a person – section 2 specifically excludes partnerships from the definition of a person.
- Income Tax Act - section 6 drives the charging of income tax on persons and since section 2 excludes Partnerships from the definition of persons therefore income tax is not chargeable on Partnerships.
- VAT – The VAT Act does not exclude partnership from the definition of a person.
- CGT – Section 9 of the CGT Act provides for mutatis mutandis application of s10 of the Taxes Act.

# DEEMED INCOME

- Income is taxable in the hands of the individual partners.
- Deeming provision of the Income Tax Act applies i.e. s10(2)
- Partnership income is determined and then shared amongst partners in the profit sharing ratios per Partnership Deed.
- Partnership income is not employment income as it specifically excluded from the definition of remuneration.

# TRANSFER OF ASSETS

- How transfers may come about -
  - Retirement or admission or the death of a partner.
  - Conversion of a sole trader to partnership or partnership to a company.
- Recoupment on old partnership or sole trader. i.e. Income Tax Act. Consider CGT and VAT.
- Capital allowances claimed by the new partnership.

# PARTNERSHIP TRANSACTIONS

- **Bad Debts** - cannot be claimed where they were not included in the taxpayers income in prior years.
- **Insurance Policies**
  - **Joint Life Policy**  
Where premiums are expensed to the partnership's account, the deduction is not allowable if the partnership is the beneficiary.
  - **Separate policy on own life ceded to the partnership**  
The partnership has become the beneficiary and therefore the premiums are no longer allowable deductions
  - **Separate policy for own benefit funded by partnership.**  
This is an allocation of partnership profits and so allowable as a deduction in computing the partnership's taxable income and taxable income in the hands of the each partner to the extent the premiums were paid on their behalf by the partnership.



# PARTNERSHIP TRANSACTIONS

- Partners' private expenditure borne by the partnership.
- Partners' salaries.
- Rent received by a partner for the use of her asset.
- Contribution to a medical aid society by the partnership on behalf of a partner is allowable deduction to the partnership and taxable in the hands of the partner.
- See table of partnership expenditures in module

# HOMework

## Study Unit I Practice Question

# QUESTIONS ?

# Contact Details

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