I-T Bill may lead to increased tax burden on LLPs

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The Income-Tax (I-T) Bill, 2025, has broadened the scope of the alternative minimum tax (AMT) applicable to taxpayers other than companies, potentially increasing the tax burden on partnership firms and limited liability partnerships (LLPs) with long-term capital gains (LTCG).

AMT ensures that such firms pay a minimum tax of 18.5 per cent. However, during the computation of AMT, LTCG is currently taxed at a preferential rate of 12.5 per cent. The new Bill seeks to remove this special treatment for LTCG, thereby increasing the overall tax burden.

The Bill, introduced in the Lok Sabha and currently under review by a Select Committee of Parliament, omits a provision from the I-T Act, 1961, which stipulated that the AMT rate of 18.5 per cent would apply only when deductions were claimed under Chapter VI-A of the I-T law. Experts say this omission will make AMT provisions applicable even to firms that do not claim deductions.

Some industry bodies have also made representations before the Select Committee on the matter, according to sources.

LLPs and partnership firms can claim tax deductions under Chapter VI-A for specific business activities under the I-T Act, 1961. These benefits include deductions for donations to charities (80G), profits from infrastructure businesses (80-IA to 80-IE), hiring new employees (80JJAA), and waste recycling businesses (80JJA).

If their tax liability after availing of these deductions falls below the AMT rate of 18.5 per cent, they must pay the latter under the current law. However, the new I-T Bill, 2025, has removed the reference to Chapter VI-A deductions for LLPs and partnership firms concerning AMT applicability. As a result, it appears AMT will apply even to LLPs with LTCG that do not claim Chapter VI-A deductions.

An email sent to the Central Board of Direct Taxes did not elicit a response by the time of going to press.

Experts said the blanket applicability of AMT provisions may increase the tax burden considerably, particularly for investments held under partnership firms or LLP structures, where LTCG is currently taxed at 12.5 per cent compared to the AMT rate of 18.5 per cent.

Punit Shah, partner at Dhruva Advisors, says: "Typically, AMT provisions are intended to apply to entities availing of tax holidays or exemptions. The omission of the reference to Chapter VI-A deductions in the AMT provisions of the new I-T Bill seems inadvertent. This could lead to unintended consequences, such as taxing firms earning pure capital gains at a higher rate of 18.5 per cent instead of 12.5 per cent."

In the I-T Bill, 2025, AMT (for businesses other than companies) and minimum alternate tax have been consolidated into a single Section 206 of the I-T Bill, 2025. According to Section 206, AMT applies if the tax payable by an LLP on adjusted income is less than 18.5 per cent.

"There seems to be no carve-out similar to Section 115JEE of the I-T Act, 1961, restricting the applicability to only those LLPs claiming tax holidays or specified deductions. Hence, based on the current language of Section 206 of the I-T Bill, 2025, it appears that AMT has been extended to all LLPs," said Vivek Jalan, partner at Tax Connect Advisory Services.

I-T rules: Tax dept invites stakeholders' inputs

Central Board of Direct Taxes on Tuesday said stakeholders can send their inputs for drafting Income-tax rules and related forms pertaining to the proposed Income Tax Bill, 2025. The Income Tax Bill, 2025 was introduced in Parliament last month and is currently under examination by the Select Committee for detailed consideration. Stakeholders are encouraged to continue submitting their suggestions on the provisions of the Bill, which will be compiled and forwarded to the Select Committee for its review. **PTI**