Net Partnership Income or Loss

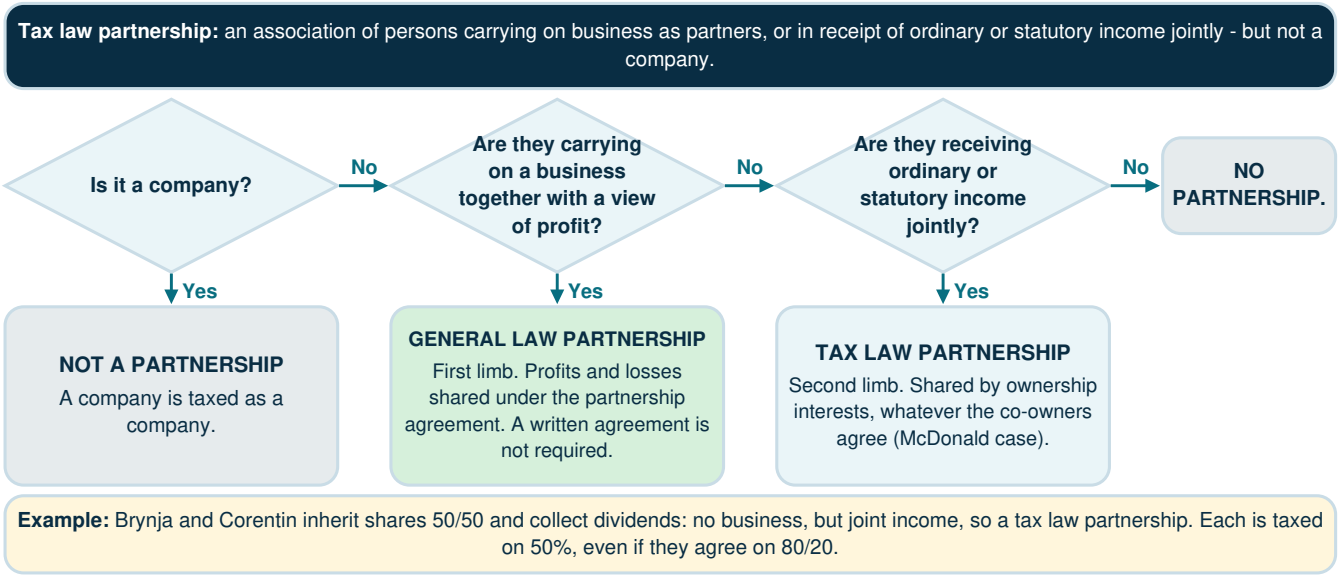
MODULE 5 | 5.4 | STUDENT COMPANION

A partnership lodges a return and works out a net income or loss, but pays no tax itself. The result flows to the partners, who are taxed on their shares at their own marginal rates, whether or not any cash is paid out.

What is a partnership for tax?

General law. Each state and territory's Partnership Act describes a partnership as persons carrying on a business in common with a view of profit. There must be at least two partners. The partnership can start before trading, once the partners agree and act (for example, leasing premises, opening an account, registering a business name). A written agreement is wise but not required, and conduct alone may create a partnership.

Tax law (ITAA97 s 995-1). Wider: an association of persons carrying on business as partners, **or** in receipt of ordinary or statutory income jointly, but not a company. Co-owners earning joint income (for example, dividends on jointly held shares) form a tax law partnership. Under the McDonald principle they share by ownership interests, not by any private agreement.



Example: Brynja and Corentin inherit shares 50/50 and collect dividends: no business, but joint income, so a tax law partnership. Each is taxed on 50%, even if they agree on 80/20.

Tax status

- Not a separate legal entity: no taxable income, no income tax of its own.
- Treated as a taxpayer for reporting: lodges a partnership return.
- Flow-through: each partner includes their share in their own return (ITAA36 s 92(1)) and is taxed at their own marginal rates, whether or not the profit is paid out (Rowe case).
- Registers for an ABN if carrying on an enterprise, and for GST once annual turnover is $75,000 or more (Module 6).

Net income or partnership loss (ITAA36 s 90)

Net income = assessable income less all allowable deductions, **except**:

1. tax losses of earlier years (Division 36) - already shared with partners in the year incurred
2. deductions for partners' personal super contributions (s 290-150) - claimed by the partners
3. capital gains and losses (s 106-5) - worked out in each partner's return.

A **partnership loss** arises when deductions (ignoring those items) exceed assessable income. It is shared in the same year by interest, not quarantined as in a company or trust; individual partners may face the non-commercial loss rules (lesson 5.5.1). Calculate as if the partnership were a resident: Australian and foreign amounts both count. Franked dividends are grossed up (s 207-20(1)) and each partner gets their share of the franking credit.

Repair fees	**$210,000**
Add fully franked dividend $7,000 + franking credit $3,000 (gross-up)	**$10,000**
Assessable income	**$220,000**
Less allowable deductions (parts, rent, apprentice's wages)	**($120,000)**
Net partnership income (ITAA36 s 90)	**$100,000**

Kept off the ladder - dealt with by the partners personally

- **Yolande's personal super contribution, $6,000,** paid from the partnership account: she may claim it in her own return if she meets the conditions.
- **Capital gain on shares sold, $4,000:** each partner works out their share in their own return.
- **Tax losses of earlier years:** none here (they are shared in the year incurred).

Yolande Oduya - 60%
Share of net income **$60,000**; franking tax offset **$1,800**

Lorcan Tindale - 40%
Share of net income **$40,000**; franking tax offset **$1,200**

Each partner is taxed on their share at their own marginal rates (ITAA36 s 92(1)), whether or not any cash is paid out.

Residency of the partners

Partner's residency	Assessed on	Losses, exempt and NANE income, offsets
Resident all year	Share of the whole net income, Australian and foreign sources	Share of any loss, exempt income and NANE income; franking credits and foreign income tax offsets flow with the related income
Non-resident all year	Share of net income from Australian sources only	Deducts only their share of losses from Australian sources
Non-resident for part of the year	Share of Australian source net income + share of foreign source net income for the period of residency	Same approach for losses, exempt income and NANE income

Ravelstone: net income $100,000, of which $10,000 foreign. If Lorcan (40%) were a non-resident all year: 40% × $90,000 Australian source = **$36,000**.

Elections and administration

- Elections affecting the calculation (for example, trading stock valuation, depreciation method) are made by the partnership and bind every partner.
- The partnership pays no PAYG instalments; partners pay them on their own activity statements, based on their partnership share and other income.
- The partnership works out its income or loss each reporting period and tells the partners.

Key figures for 2024-25

Item	Figure
Minimum number of partners	2
GST registration turnover threshold	$75,000
Corporate tax rate behind the franking credits in the examples	30%

Practice questions

MODULE 5 | 5.4 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Partnership or not?

For each arrangement, decide whether it is a general law partnership, a tax law partnership (second limb only) or no partnership, and give a one-line reason. For any tax law partnership, state how its income is shared.
(a) In May 2025, Farrah Pembrey and Yannick Cheverton agree to open Glenrock Bakehouse together. They sign a shop lease, open a joint business bank account and register the business name. They have no written agreement. Trading starts in August 2025.
(b) Siblings Bastian and Zuleika Mulvaney hold a term deposit in their joint names, in equal shares, and receive the interest. They agree privately that Zuleika will take 90% of the interest.
(c) Bilbarra Pty Ltd, a company with two shareholders, runs a cafe.
(d) Two neighbours jointly bought a ride-on mower that they use only on their own lawns. It earns no income.

Question 2 - Net income and sharing

Copperfern Acoustics is a partnership of Augustin Kinnaird (50%), Noor Ashbury (30%) and Arvid Dunkerley (20%). Its figures for the 2024-25 income year are:

Item	Amount
Fees from acoustic consulting	$260,000
Interest on the business bank account	$2,000
Fully franked dividend received (franking credit $6,000)	$14,000
Capital gain on shares sold (held for two years, before any discount)	$10,000
Allowable operating deductions	$172,000
Personal super contribution paid from the partnership account for Augustin	$8,000
Partnership tax loss of 2023-24, shown in the draft accounts as a deduction	$12,000

Required: (a) Calculate the net income of the partnership. (b) Calculate each partner's share of net income and of the franking credit. (c) Explain how the capital gain, the super contribution and the 2023-24 loss are dealt with.

Question 3 - Residency and instalments

Fernvale Translation Studio is a partnership. Leontyne Ferridge (50%) is a resident all year. Wolfram Gundersen (30%) is a non-resident all year. Ilsa Thackwray (20%) was a non-resident until she became a resident on 1 January 2025. Net income for 2024-25 is $150,000: $120,000 from Australian sources and $30,000 from a branch office in Singapore. Of the foreign source net income, $12,000 was derived between 1 January and 30 June 2025.

Required: (a) Calculate the amount of partnership net income each partner is assessed on. (b) Who pays PAYG instalments on this income, and what must the partnership do to make that possible?

Worked answers

MODULE 5 | 5.4 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Answer 1 - Partnership or not?

(a) General law partnership (and so a partnership for tax under the first limb). Farrah and Yannick agreed to carry on a business together with a view of profit and acted on it, so the partnership began in May 2025, before trading started. No written agreement is needed; profits are shared as the partners agree.

(b) Tax law partnership (second limb) only. Bastian and Zuleika are not carrying on a business, but they receive interest jointly. As co-owners they share by ownership interests, so each is assessed on 50% of the interest; their private 90/10 agreement does not change this (McDonald principle).

(c) No partnership. The s 995-1 definition excludes a company; Bilbarra Pty Ltd is taxed as a company.

(d) No partnership. There is no business and no income received jointly.

Answer 2 - Copperfern Acoustics

(a) Assessable income = $260,000 + $2,000 + $14,000 + $6,000 franking credit (gross-up) = $282,000. Less allowable operating deductions $172,000. Net income = $282,000 - $172,000 = **$110,000**. The capital gain, the super contribution and the prior-year loss are excluded (ITAA36 s 90).

Step	Working	Amount
Fees	Acoustic consulting	$260,000
Interest	Business bank account	$2,000
Dividend plus gross-up	$14,000 + $6,000 franking credit	$20,000
Assessable income	$260,000 + $2,000 + $14,000 + $6,000	**$282,000**
Less allowable operating deductions		($172,000)
Net income	$282,000 - $172,000	**$110,000**

Shares of net income and franking credit

(b) Each partner's share of net income and of the franking credit follows their profit share.

Partner	Share	Net income	Franking credit
Augustin Kinnaird	50%	50% × $110,000 = $55,000	50% × $6,000 = $3,000
Noor Ashbury	30%	30% × $110,000 = $33,000	30% × $6,000 = $1,800
Arvid Dunkerley	20%	20% × $110,000 = $22,000	20% × $6,000 = $1,200
Total (check)	100%	**$55,000 + $33,000 + $22,000 = $110,000**	**$3,000 + $1,800 + $1,200 = $6,000**

Each partner includes the share in assessable income and claims the franking credit as a tax offset.

(c) Capital gain: not part of net income (s 106-5). Each partner works out their share in their own return; if their interests in the shares follow the profit shares, that is $5,000, $3,000 and $2,000 before their own capital losses and any discount. Super contribution: not deductible to the partnership; Augustin may claim the $8,000 in his own return under s 290-150 if he meets the conditions. 2023-24 loss: not deductible in 2024-25. A partnership loss is shared in the year incurred, so the $12,000 went to the partners in 2023-24 ($6,000, $3,600 and $2,400) for use in their own returns. Removing it from the draft accounts is why net income is $110,000, not $98,000.

Answer 3 - Fernvale Translation Studio

(a) Each partner is assessed according to their residency.

Partner	Residency	Working	Assessed on
Leontyne Ferridge (50%)	Resident all year	50% of the whole net income = 50% × $150,000	**$75,000**
Wolfram Gundersen (30%)	Non-resident all year	Australian sources only = 30% × $120,000	**$36,000**
Ilsa Thackwray (20%)	Non-resident for part of the year	Australian source share + foreign source share for her period of residency = (20% × $120,000) + (20% × $12,000) = $24,000 + $2,400	**$26,400**

(b) The partnership pays no PAYG instalments because it pays no tax. Each partner pays their own instalments on their own activity statements, based on their partnership share and other income. The partnership must calculate its income or loss at the end of each reporting period and report it to the partners.