

Income/Franchise:

Utah State Tax Commission Says Lack of Unitary Relationship Prevents Taxing Gain on Entity Sale

Decision No. 16-1358, Utah State Tax Comm. (1/27/22). In a case involving an out-of-state corporation (*i.e.*, the Utah taxpayer at issue) that served as a “blocker” between unrelated investors and an in-state oil and gas operational company in which they all invested, the Utah State Tax Commission held summary judgment for the taxpayer that while the gain associated with its flow-through interest in the in-state operational company – which it held through a tiered-partnership structure and which involved receipt of an unrelated buyer’s publicly traded partnership (PTP) units by a low-tiered entity in exchange for the low-tiered entity’s interest in the oil and gas operational company – constituted “business income” for Utah corporate franchise tax purposes, Utah could *not* constitutionally tax the gain because there was no unitary relationship between the taxpayer and the buyer. That is, under the facts, the taxpayer, through the lower-tiered entity, did *not* share centralized management or economies of scale with the buyer, nor was there functional integration between the two. Please contact us with any questions.

URL: <https://tax.utah.gov/commission/decision/16-1358.pdf>

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