

Income/Franchise:

Multistate Tax Commission: Work Group Updates Draft White Paper on Investment Partnerships

May 5, 2022 Draft with Findings and Recommendations, Multistate Tax Commission, Uniformity Committee (5/5/22). An updated draft white paper prepared by the staff of the Multistate Tax Commission (MTC) as part of the MTC Uniformity Committee's project on the state taxation of partnerships has been posted, addressing the treatment of partnerships engaged primarily in investment activity and the taxation of investment partnership income. The white paper considers the current state tax system for taxing partnership income, as well as the general state rules for sourcing the income of multistate partnerships, including related enforcement mechanisms. The white paper explains that while investment partnerships are often thought to consist primarily of private equity and hedge funds, which are lightly regulated and typically formed as partnerships rather than as regulated investment companies, a significant portion of income self-reported as investment income may be from partnerships other than typical private equity and hedge funds and may include closely-held partnerships and special purpose entities. The white paper surveys existing state rules for the treatment of investment partnership income, including varying application of state sourcing rules, and evaluates the treatment of investment partnership income generally, and specific differences in that treatment from state to state. Latest updates to the draft white paper include a section on difficulties in attributing investment receipts to a state for purposes of the receipts factor, and a section on the sourcing challenges posed by special allocations. As part of the MTC partnership tax work group's ongoing efforts to develop model rules on the tax treatment of partnerships, it continues to hold biweekly calls that are open to the public. Please contact us with any questions.

URL: <https://www.mtc.gov/MTC/media/Partnership/White-Paper-on-Investment-Partnerships-5-5-22-DRAFT.docx>

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