



State Taxation of Partnerships

MTC Uniformity Work Group Meeting

June 15, 2021

The Project – A High Level Description

ISSUES GENERALLY

(From Standing Subcommittee Recommendation as more fully outlined in the draft discussion paper):

- Partnership – Operating Income – Generally – Pass-Through Treatment
 - Jurisdiction or Nexus over Out-of-State Partnerships & Nonresident Partners and Related Issues
 - Sourcing of Income and Related Issues
 - Investment Partnerships
 - International Issues
- Sale of a Partnership Interest – Generally
 - Nexus over Nonresident Partners
 - Sourcing of Gain/Loss
 - Investment Partnerships
 - International Issues (if any)
- Administrative and Other Issues
 - Credits for Taxes Paid
 - Information Reporting (Including and Composite Returns and Withholding), Audits, Etc.
 - Partnership Level Taxes – Generally (Including SALT Cap Workarounds)

Work Group – “Rules of Operation”

- **General purposes of the work group:**
 - Information sharing
 - Analyzing issues and different approaches and reaching consensus if possible
- **What is the work group’s relationship to the uniformity committee:**
 - Work group will make recommendations to the uniformity committee.
 - Uniformity committee will consider and possibly vote to approve particular positions or drafts recommended by the work group.

Work Group – “Rules of Operation”

- How will the work group generally do its business:
 - Chair and staff create plan for work group meetings.
 - Work group’s discussions will be captured in draft issue outline and work plan.
 - At each meeting, the staff will give an update with any analysis and ask for input.
 - The chair will ask for discussion from the participants.
 - The chair will also ask for comments from others and from the public.
 - Based on the discussion, the chair will ask for a general proposal as to how to proceed (next steps)—or will make that proposal herself.
 - The chair will ask for dissenting views on that general proposal and will take those into account.
 - When the chair believes that a final decision on a particular issue or decision needs to be made, the chair will let the group know and may ask for a vote or let the group know that a vote will be taken at a future meeting.

Work Group – “Rules of Operation”

- What does being a state “volunteer/ regular participant” mean:
 - You agree to give input (to the extent you have any) on your state’s experience with an issue or what you think about that issue. This includes giving direction to staff on information that you would find useful.
 - You (or one of your colleagues from your state) will vote – when a vote is deemed necessary, which may include:
 - Voting yes – to support a proposal
 - Voting no – to oppose a proposal
 - Abstaining (which is effectively counted as a no vote)
 - Recusing (which is treated as not voting at all)

Proposed Guidelines for the Work

- To assist the work group in discussing and considering different issues, we recommend adoption of general guidelines that may include consideration of:
 - What states are currently doing or the position currently taken on an issue (both majority and minority rules—to the extent the issue is addressed)
 - What federal or international approaches may be to analogous issues (if there is one)
 - How would the issue would be treated in other contexts (proprietorships, corporations, etc.)
 - How administrable or enforceable a particular approach to an issue may be.
 - Expressed policy considerations for different approaches to the issues
 - Other?

General Approach to the Project

1. Identify and generally describe a comprehensive list of potential issues. (Status – started.)
2. Note the important relationships between those issues. (Status – started.)
3. Select a particular issue and develop a set of generally recommended practices or positions for addressing that issue.
4. Repeat step 3 until all major issues have a set of recommended practices/positions, revising earlier issues if necessary to reconcile any differences.
5. Agree on the overall set of recommended practices/positions for all issues—the detailed work plan.
6. Begin creating draft models, etc., to carry out the recommended practices/positions—putting forward those that are ready for adoption.

FIRST STEP:

Identifying and Describing Issues

- Goals:
 - Add as much detail to the issue list in terms of questions that have to be answered in order to create a fully functioning state partnership tax system today—without deciding on the answer or approach.
 - Create categories of similar issues—to the extent necessary—so that the issue list can be simplified and core elements properly identified.
 - Example:
 - Jurisdiction to tax and “doing business” or imposition of tax statutes are similar and may contain similar or overlapping elements—e.g. whether a partnership has an economic presence in the state, whether it has purposefully directed activities to the state, etc.
 - Provide enough detail so that important relationships between issues and elements can be spotted.