

**Explanation of Key Modifications by Interested Parties to  
MTC Staff Model dated October 25, 2017  
(submitted December 20, 2017)**

**Section A. Definitions**

- 1) Separating out terms between general definitions and those relevant to partnerships audits only is unnecessary. We propose to have a single definition section (with the terms alphabetized in the final draft).
- 2) The following language also appears unnecessary:

*As used in the following definitions, the term “person” has the same meaning as in [reference to State Law], the term “entity” means any person that is not an individual, and the term “interest” means an ownership or beneficial interest in an entity.”*

These terms are likely already defined in state statutes.

- 3) We have added a few necessary terms and deleted a number that are no longer needed or seem unnecessary.
  - a. Terms added: “Audited Partnership” and “Direct Partner”
  - b. Terms deleted: “Amended State Schedule K-1,” State Partnership Information Report,” and “Subsequently Affected Year”

**Section B. Reporting Adjustments to Federal Taxable Income – General Rule**

- 1) Minor wording edits.

**Section C. Reporting Federal Adjustments – Partnership Level Audit and Administrative Adjustment Request**

**(1) State Partnership Representative**

- 1) Simplified rules to provide states flexibility.

**(2) Reporting and Payment Requirements for Partnerships and Tiered Partners**

- 1) Renamed to “Reporting and Payment Requirements for Partnerships Subject to a Final Federal Adjustment and their Direct Partners.”
- 2) Modified section to clarify that time deadlines apply only to Audited Partnership and its Direct Partners.
- 3) Simplified reporting/document requirements to reduce burden on taxpayers and the states.
- 4) Changed Composite/Withholding filing and payments from 180 days to 90 days. This seems warranted because it gets payment to the states sooner and allows affected partners to have information necessary to properly file their amended resident returns at 180 days.
- 5) Included language to allow the application of existing state de minimis rules to tax liabilities.

**(3) Election – Partnership or Tiered Partners Pay**

- 1) Renamed “Election – Partnership Pays.”
- 2) Modified section to clarify that time deadlines apply to Audited Partnership only.
- 3) Clarified language on how allocation/apportionment at Partnership level should be applied.
- 4) Added language to ensure that distributive shares attributable to Pass-Through Entities are calculated and the proper amount of tax is calculated and paid on those shares.

**(4) Reporting and Payment Requirements for Partners**

- 1) Renamed “Tiered Partners.”
- 2) Established a single “drop-dead” reporting payment date for Tiered Partners and Indirect Partners tied to the Federal “drop-dead” date for reporting by tiered partnership structures, which was provided in the Treasury Regulations released December 15, 2017 (last week). Requiring reporting by Tiered Partners and Indirect Partners using the default push out prior to the Federal “drop-dead” is not feasible. Tiered Partners need to receive the Federal information to calculate the state impacts.
- 3) Established that the reporting/payment obligations of subsections 2 and 3 apply except for the interim deadlines.
- 4) Additional discussion may be needed to address specific provisions related to large tiered partnership structures.

**(5) Optional Election**

- 1) Renamed “Modified Reporting and Payment Method.”
- 2) Modified wording of section and eliminated 30-day requirement to provide states and taxpayers more flexibility.

**(6) Effect of Election by Partnership or Tiered Partner and Payment of Amount Due**

- 1) Renamed “Effect of Election by Audited Partnership or Tiered Partner and Payment of Amount Due.”
- 2) Clarified that payments made by the Partnership under the Election of subsection 3 may not be claimed as a credit or refund by Partners.
- 3) Clarified that a Resident Partner may still claim a credit for taxes paid to a non-resident state, even if the Partnership itself had paid those taxes in lieu of or on behalf of the Partner.

**(7) Failure of Partnership or Tiered Partner to Report or Pay**

- 1) Minor wording changes.

**Section D. Assessments of Additional [State] Tax, Interest, and Penalties Arising from Adjustments to Federal Taxable Income – Statute of Limitations**

- 1) Minor wording changes.

**Section E. Estimated [State] Tax Payments During the Course of a Federal Audit**

- 1) No changes.

**Section F. Claims for Refund or Credits of [State] Tax Arising from Federal Adjustments Made by the IRS**

- 1) Minor wording change to title.

**Section G. Scope of Adjustments and Extensions of Time**

- 1) Added an automatic 60-day extension to deadlines in Section C for any Partnership or Tiered Partner with more than a specified number of Direct Partners – recommendation to use 10,000 as threshold for provision.

**Section H. Effective Date**

- 1) No changes.

**Optional Model Regulation or Inclusion in Model Statute**

- 1) Made some slight wording changes and added additional examples.