



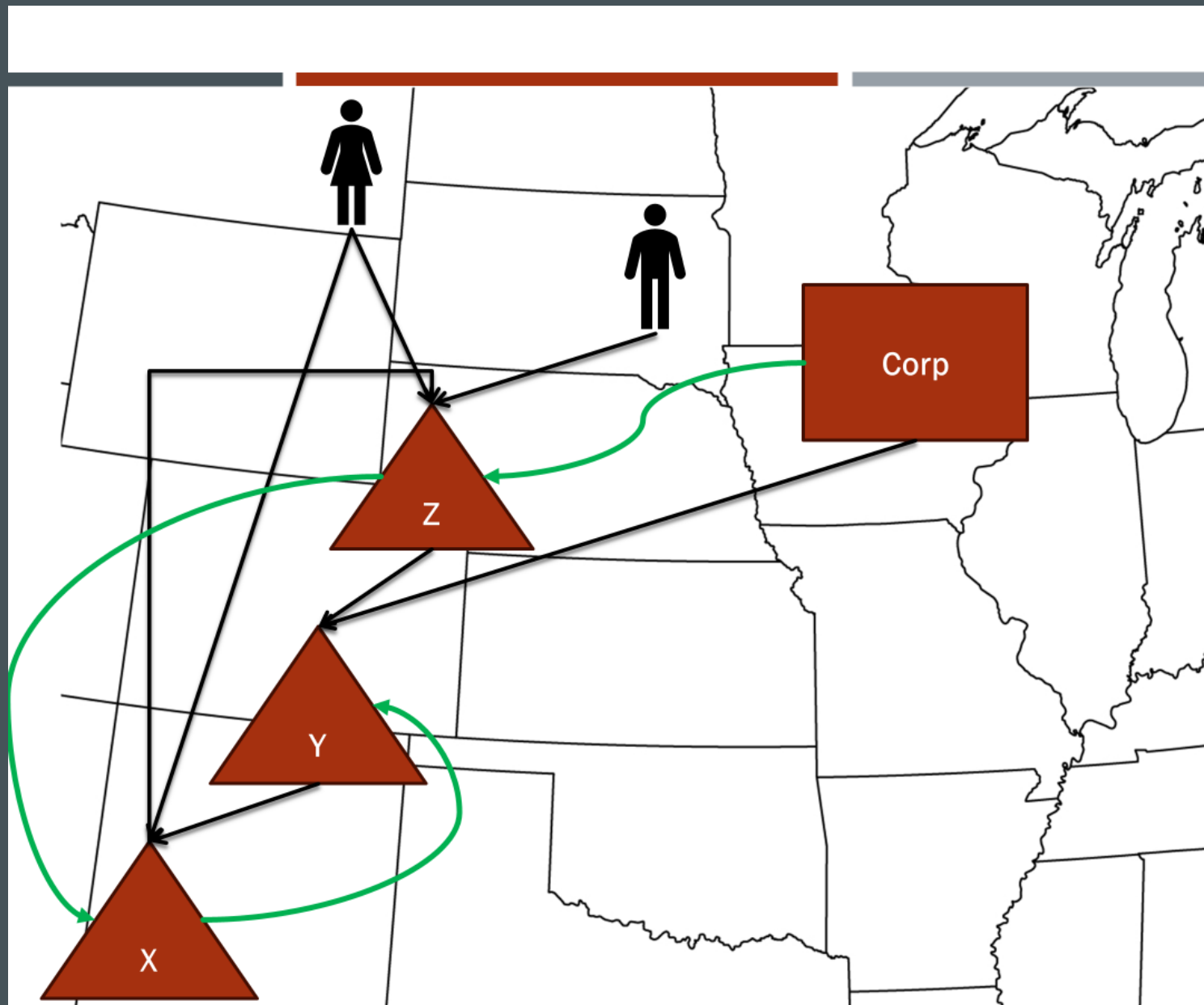
State Taxation of Partnerships – Status Report

JULY 22, 2025

NOTE:

This presentation sets out information from the work group's discussions, white paper draft, and multistate research, which are on the project webpage here: [partnership project webpage](#). This information is presented to the Uniformity Committee for consideration and discussion. All input is welcomed.

**Our multistate research should not be relied on as tax advice. For specific questions, please contact your state department of revenue and/or tax advisor.*



Project Webpage:



An intergovernmental state tax agency whose mission is to promote uniform and consistent tax policy and administration among the states, assist taxpayers in achieving compliance with existing tax laws, and advocate for state and local sovereignty in the development of tax policy.

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State Taxation of Partnerships

Project Description

At its meeting in April 2021, the Uniformity Committee took up a project on state taxation of partnerships based on the recommendations of the Standing Subcommittee that a work group be established to consider issues affecting:

- Sourcing of partnership operating income and partnership items for state tax purposes;
- Sourcing and taxation of gains and losses from the sale of partnership interests;
- Entity level taxation issues including transfer pricing or combined filing issues; and
- Other administrative and enforcement issues including information reporting and withholding.

On this project page and the links below, you will find:

- Information about upcoming and past meetings
- Project materials including whitepaper outline drafts
- Written comments and feedback
- Additional background information

Wait . . .
what's
this?



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April 2021?

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ACTUALLY IT'S WORSE THAN THAT . . . IN 1991 . . .

The MTC began looking at partnership issues.

It issued a draft composite return/withholding model statute in 1992.

Here's what that working draft noted:

“Although not all states appear to provide firm guidance, partnership items of income, gain, deduction, and loss are, as a general rule, attributed to a taxing state by application of the state's apportionment and allocation rules.”

So when was the composite/withholding model adopted?

FIRST – REMEMBER WHAT ELSE HAPPENED IN 1992.

- *Quill* happened.
- In light of that, and for other reasons, some argued that even if the partnership was doing business in a state, the state lacked the constitutional authority to tax the income attributed to nonresident partners.
- The MTC also began working on its factor-presence nexus standard (which was also opposed). Adopted in 2002, here's part of what that model said:
 - Pass-through entities, including, but not limited to, partnerships, limited liability companies, S corporations, and trusts, shall determine threshold amounts **at the entity level**.
- So did the Commission ever approve the composite/withholding model?

YES . . . IN 2003 . . .

- **By that time, about half the states with tax on partnership income had already adopted something similar.**
- **After approving the composite/withholding model, the MTC then formed a work group to study pass-through taxation generally.**
- **The work group surveyed the states to see what issues they thought were most important.**
- **They got responses from 25 states.**

Here are the issues those states scored for importance—most important getting the highest score.

Concerns	Score
a. Lack of information about the identity and characteristics of PTEs	136
b. Lack of information about the extent of multi-state activities of PTEs	123
c. Lack of information about the relationships among related pass-through entities and/or owners.	121
d. Lack of information about the owners of PTEs	119
e. Lack of clear rules specifying how allocation and apportionment principles apply to PTEs	69
f. Lack of clear rules specifying how allocation and apportionment principles apply to multi-tiered PTEs	84
g. Lack of clear rules specifying alternative allocation and apportionment of tiered PTEs.	76
h. Lack of resources/materials to educate audit and enforcement staff.	84

OTHER EFFORTS AFTER 2004

The MTC approved its first model combined filing statute (*Joyce*) in **2006**. That model provides (in Sec.1.F):

“**Unitary business**” means [a **single economic enterprise** that is **made up either of separate parts of a single business entity or of a commonly controlled group of business entities that are sufficiently interdependent, integrated and interrelated through their activities so as to provide a synergy and mutual benefit that produces a sharing or exchange of value** among them and a significant flow of value to the separate parts.] Drafter’s note: This portion of the definition is drafted to follow MTC Reg. IV(b), defining a “unitary business.”

...

(“Unitary business” cont’d) . . .

. . . Any business conducted by a partnership shall be treated as conducted by its partners, whether directly held or indirectly held through a series of partnerships, to the extent of the partner's distributive share of the partnership's income, regardless of the percentage of the partner's ownership interest or its distributive or any other share of partnership income. A business conducted directly or indirectly by one corporation is unitary with that portion of a business conducted by another corporation through its direct or indirect interest in a partnership if the conditions of the first sentence of this section 1.F. are satisfied . . . and the two corporations are members of the same commonly controlled group.

Then in Sec. 3.B. Determination of taxpayer's share of the business income of a combined group apportionable to this State:

“ii. . . . The [property, payroll, and sales] of a partnership shall be included in the determination of the partner's apportionment percentage in proportion to a ratio the numerator of which is the amount of the partner's distributive share of partnership's unitary income included in the income of the combined group in accordance with Section 3.C.ii.(c). and the denominator of which is the amount of the partnership's total unitary income.”

And in Sec. 3.C Determination of the business income of the combined group:

“ii.(c) If a unitary business includes income from a partnership, the income to be included in the total income of the combined group shall be the member of the combined group's direct and indirect distributive share of the partnership's unitary business income.”

Remember this is the *Joyce* model—but the *Finnigan* model contains similar language.

SO TO SUM UP – BY 2004 THE MTC’S POSITION WAS:

1. A non-resident partner’s distributive share of partnership income is properly sourced (using allocation or apportionment) at the partnership (entity) level.
2. With respect to corporate partners “any business conducted by a partnership shall be treated as conducted by its partners, whether directly held or indirectly held through a series of partnerships, to the extent of the partner's distributive share of the partnership's income . . .”
3. If a corporation’s distributive share of partnership income is part of a unitary business conducted by the corporation or group, that distributive share income is combined with that business’s income, and a share of the partnership’s factors (using distributive share) are included in the formula. (This is what we now refer to as blended apportionment.)

SO – WE’RE DONE THEN, RIGHT?

- **Not quite. There may be some big questions left:**
 - **What if a partnership doesn’t engage in business?**
 - **What exactly does it mean when we say that a corporation is engaged in the business of the partnership?**
 - **And how do we determine if the partnership income is part of a unitary business of the corporation?**

WHAT IF THE PARTNERSHIP DOESN'T ENGAGE IN BUSINESS?

- See our draft investment partnership white paper and model
- For individual partners, assuming the conditions are met, the source of the items of partnership income, expense, gain, and loss are sourced as though the partners directly held the assets from which those items came.

WHAT DOES IT MEAN THAT THE CORPORATE PARTNER IS ENGAGING IN THE PARTNERSHIP'S BUSINESS?

- This reflects the attribution rule of Subchapter K (§ 702(b)).
- If the partnership is engaged in a unitary business—then so is the corporate partner.
- But that does NOT mean the corporate partner simply combines its distributive share with its own apportionable income or uses blending.
- The default is that the source of the income, determined at the partnership level, would be attributed to the corporate partner.

WHAT DOES IT MEAN THAT THE DISTRIBUTIVE SHARE INCOME OF THE PARTNERSHIP IS PART OF A UNITARY BUSINESS OF THE CORPORATE PARTNER? (THAT IS—WHEN CAN BLENDED APPORTIONMENT BE USED?)

- Good question.
- That's what we're hoping to turn to – (along with the detailed “how” questions).

BUT IT'S COMPLICATED. WHY?

- **The U.S. Supreme Court, has never addressed the question of how states can source the partnership items or income that are attributed to a corporate partner or when blended apportionment can be used. (Of course, altogether, the Court has only issued about 20 decisions on the issue of how the unitary business principle relates to formulary apportionment.)**
- **But to get to some acceptable answer – everyone needs to understand that partnership (entity) level sourcing is the default.**

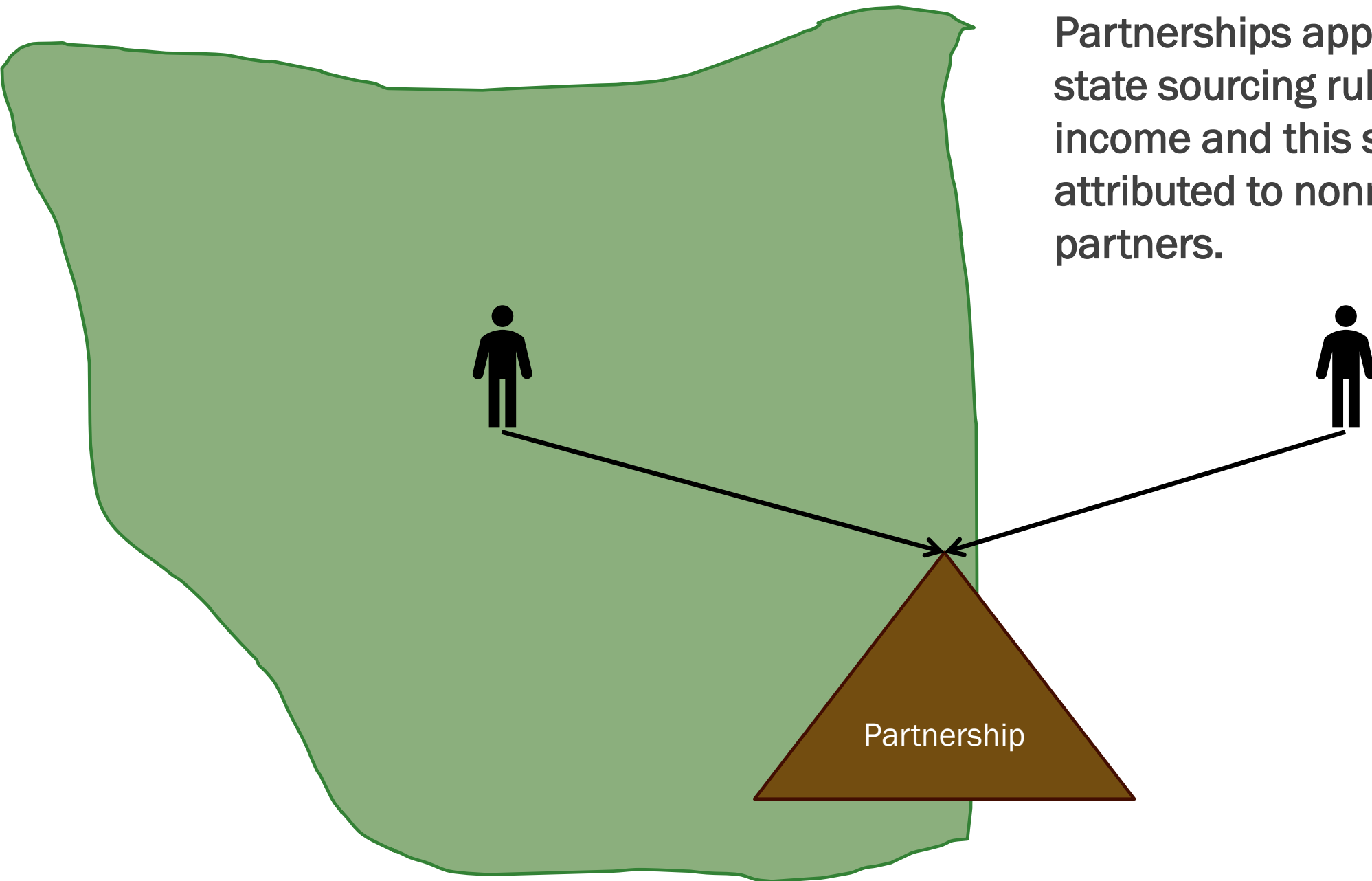


THAT BRINGS US TO TODAY

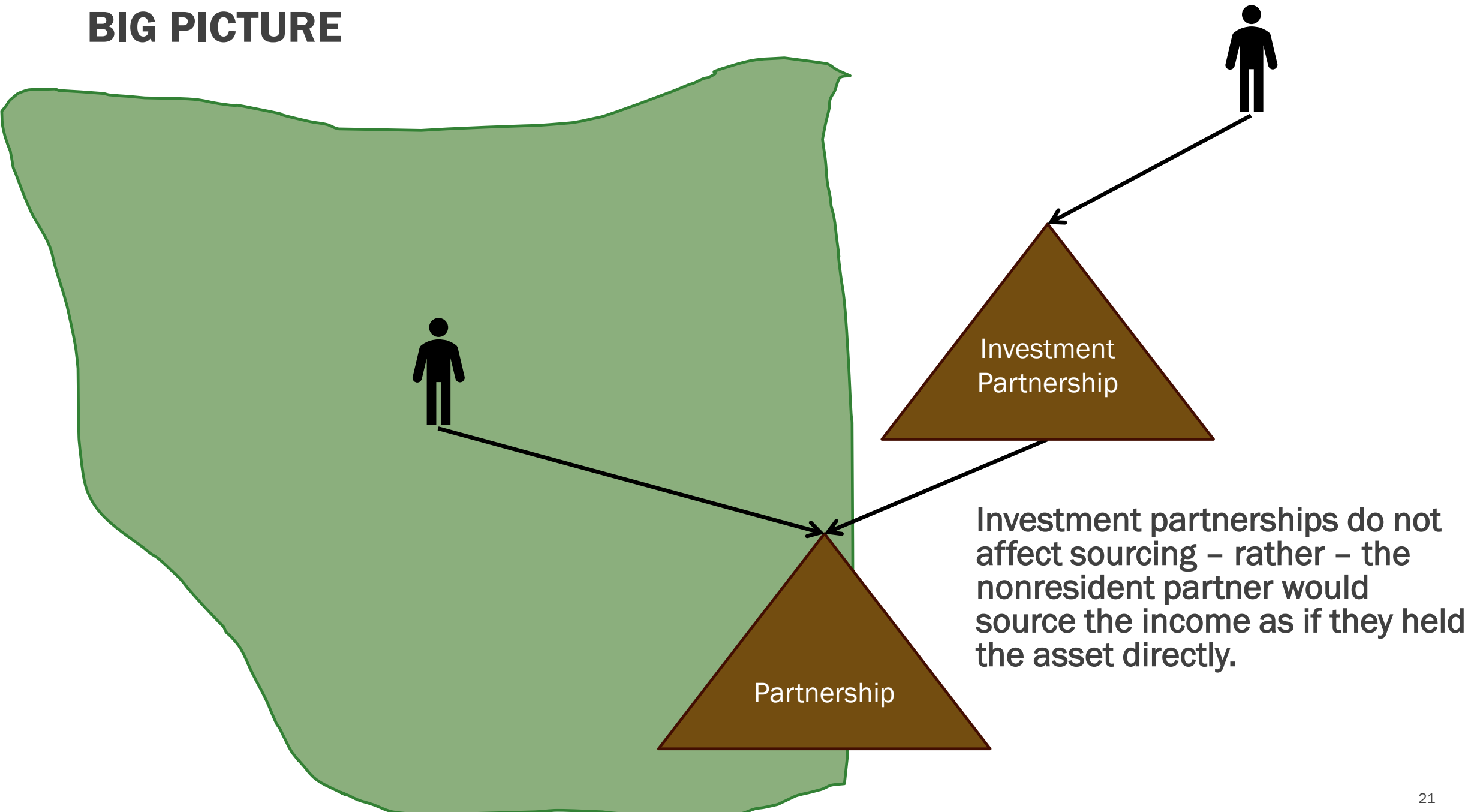
- **Working on a white paper laying out the general rules for sourcing partnership income and how those rules are applied in complex partnership structures, where there are corporate or tiered partners, special or mandatory allocations of income, or related-entity transactions.**
- **Basing this on the foundation already laid.**

BIG PICTURE

Partnerships apply the general state sourcing rules to their income and this source is attributed to nonresident partners.



BIG PICTURE



Investment partnerships do not affect sourcing – rather – the nonresident partner would source the income as if they held the asset directly.

BIG PICTURE

The partnership level sourcing (“separate sourcing” or “separate apportionment”) would also apply to corporate partners unless blending applies.



Corporate Partner

Partnership

BIG PICTURE

Corporate Partner

Tiered Partnership

Partnership

And a tiered partnership would not change this general approach—rather the distributive share income would retain its source as it flows up unless blending applies.



EXCEPTIONS (THERE ARE ALWAYS EXCEPTIONS . . .)

- States may need special rules in certain circumstances to avoid abuse.
 - Special or mandatory allocations or the use of partnerships solely to shift the sourcing of income.
 - Related party transactions that have the effect of altering sourcing and cannot be eliminated by blending.
 - Other?

EXAMPLE NO. 1

- Partnership conducts business activities. Applying the state sourcing rules to that business results in a capital loss being properly treated as nonbusiness income and sourced to State A.
- Corporate partner generally treats its distributive share income from the partnership as part of a unitary business conducted by that corporate partner.
- Does corporate partner source it's share of loss:
 - a) To State A
 - b) Based on its apportionment formula for the corporate partner's business (using blending if the state provides for it).

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- Does corporate partner source its share of loss:
 - a) To State A
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EXAMPLE NO. 2

- Partnership conducts business activities. It's application of the state sourcing rules to that business results in items of income, expense, gain, and loss being apportioned 50% to State A.
- Corporate partner generally treats its distributive share income from the partnership as nonbusiness income (not part of any unitary business conducted by that corporation).
- Does it source it's share of the partnership's business income:
 - a) 50% to State A
 - b) By allocating that income as non-business income

EXAMPLE NO. 2

- Partnership conducts business activities. It's application of the state sourcing rules to that business results in items of income, expense, gain, and loss being apportioned 50% to State A.
- Corporate partner generally treats its distributive share income from the partnership as nonbusiness income (not part of any unitary business conducted by that corporation).
- Does it source it's share of the partnership's business income:
 - a) 50% to State A
 - b) By allocating that income as non-business income

NOTE ON EXAMPLE NO. 2 AND FOLLOW UP

If you said (b) – By allocating that income as non-business income – then how would those allocation rules apply?

- a) To the distributive share as a whole?
- b) Item by item

(Extra points to anyone that can find any reference to partnership distributive share income in UDITPA—let alone the rules for allocating nonbusiness income.)

And remember – distributive share is NOT a dividend.

NOTE ON EXAMPLE NO. 2 AND FOLLOW UP

Given the attribution principle on which pass-through taxation relies and to which states conform—we assume the item-by-item approach must be used. (And UDITPA’s allocation rules could then be applied to those items.)

So in example No. 2, the partner would look through to each partnership item of income or gain (loss) attributed to it by the partnership and then source them using the rules of allocation for that income/gain(loss), associating any partnership’s expenses that are part of the partner’s distributive share with those items of income/gain (loss).

NOTE ON EXAMPLE NO. 2 AND FOLLOW UP

But is that even possible given that – *at the partnership level*
– *all those items were properly treated as part of the*
partnership's own unitary business?

- a) Sure
- b) No way

BOTTOM LINE

The nature of the item as business (apportionable) or nonbusiness (non-apportionable) is determined at the partnership level (the entity that recognized the item) and sourced using the general state sourcing rules. That sourcing doesn't change unless it is determined that blended apportionment should be used.



STEPS IN SOURCING PARTNERSHIP INCOME - CORPORATE OR TIERED PARTNERS

Are partnership items of income
apportionable to the partnership?

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Assign the items using state sourcing
rules and attribute to partner.

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Is the partnership distributive
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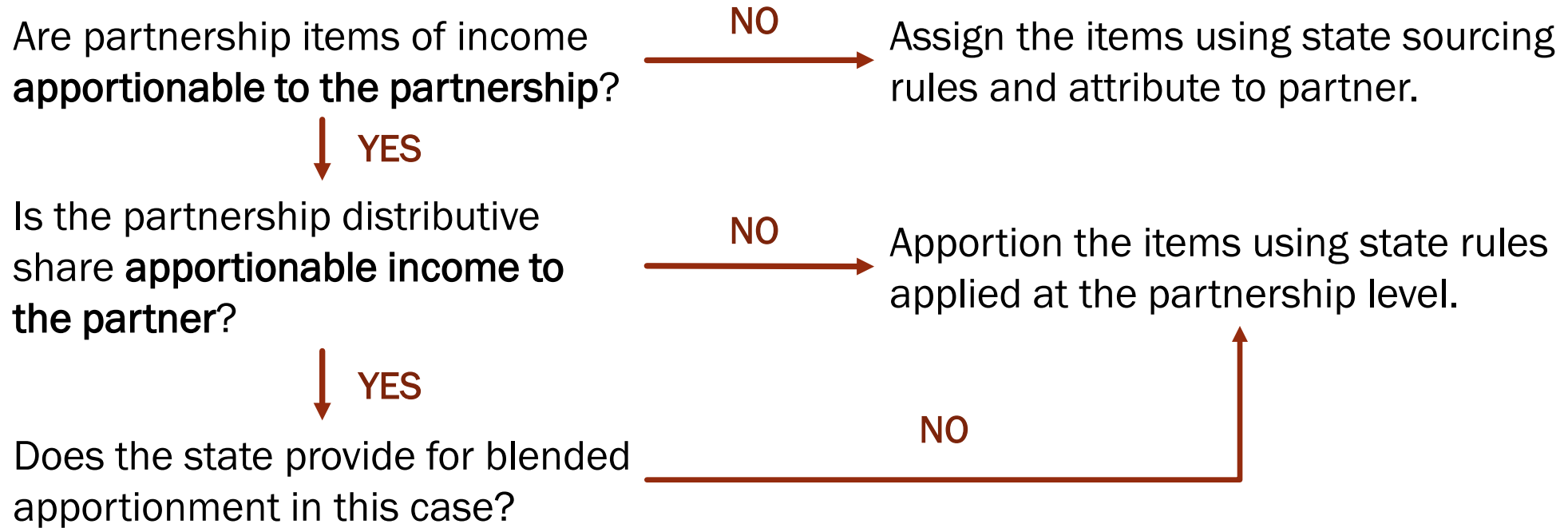


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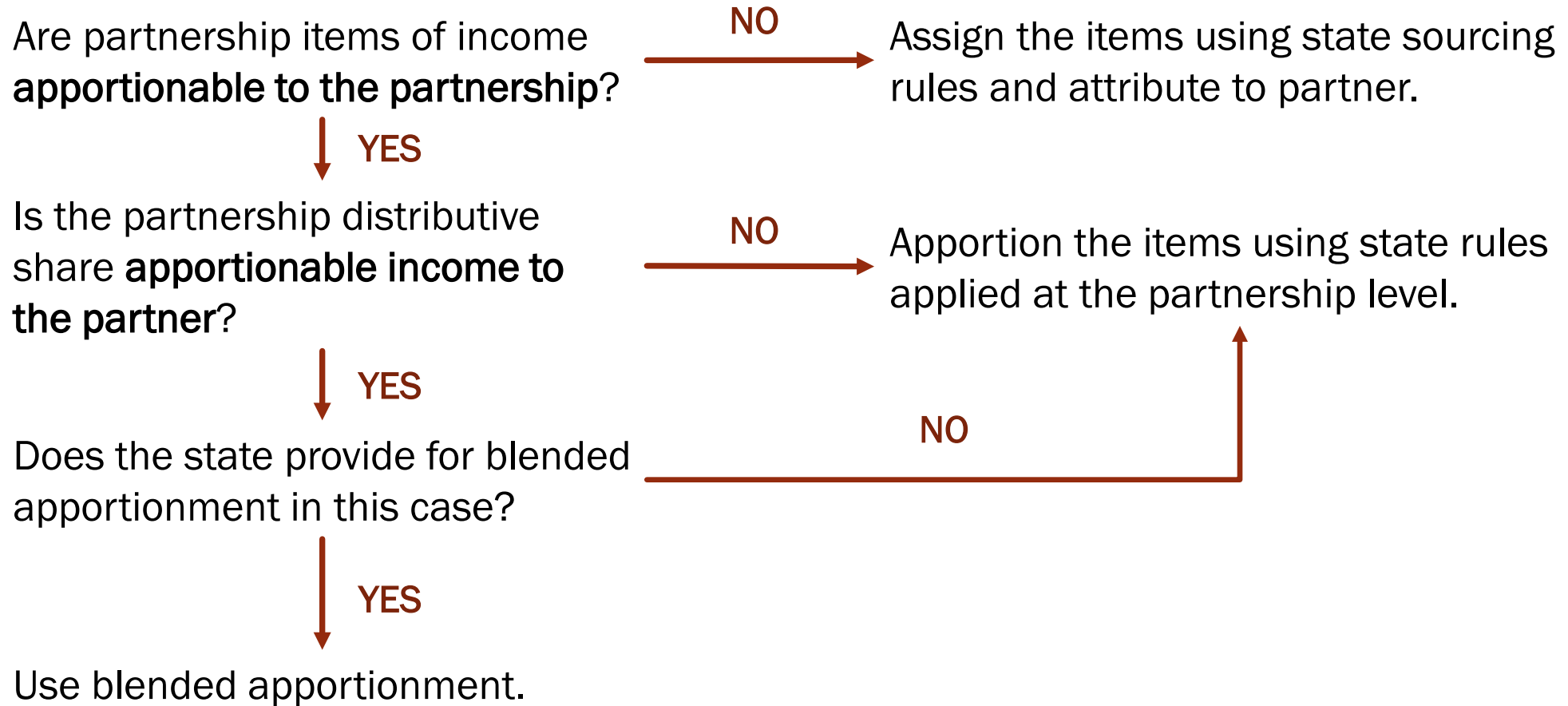
↓ YES

Does the state provide for blended
apportionment in this case?

STEPS IN SOURCING PARTNERSHIP INCOME - CORPORATE OR TIERED PARTNERS



STEPS IN SOURCING PARTNERSHIP INCOME - CORPORATE OR TIERED PARTNERS



SO - WHEN *MIGHT* BLENDING BE USED?

Assuming partnership is engaging in business and has apportionable income which is attributed to the corporate (or tiered) partner –

- a)** When the partner and the partnership are unitary entities.
- b)** When the partnership income attributed to the partner is part of a unitary business also conducted by the corporate partner.

AGAIN – THE U.S. SUPREME COURT HAS NEVER SAID HOW THE UBP APPLIES IN THIS CONTEXT.

- *MeadWestvaco* does not address the issue. It involved the sale of a business division by the corporation, not distributive share income. (And the Court declined to address the question of whether the factors of that business could be applied to source the gain.)
- *Allied-Signal* also does not address the question.

ANSWER a) – PROBLEMS WITH THE ENTITY UNITY TESTS:

- We treat the corporate partner as engaging in the business of the partnerships.
 - The corporation's entire business need not all be unitary or unitary with the partnership's business.
 - The corporate partner may have separate unitary businesses in which it is engaged – including the business of the partnership.
- Application of traditional entity unity tests to partnerships can be difficult given that
 - Partnership control is not dependent on ownership of capital or income share
 - Partnership agreements may assign control of different decisions to different partners
 - Special purpose entities may have very discrete or limited activities.

Basically, entity unity is ill-suited to this question.



ANSWER b) – PROBLEMS WITH THIS “OPERATIONAL” APPROACH

- This may mean identifying a separate activity of the corporate partner with which the partnership income and factors can be “blended.”

But remember – the alternative is simply separate apportionment at the partnership level.

WHAT ABOUT TIERED PARTNERS OR PARTNERSHIPS OWNED BY COMMON PARTNERS?

Presumably the same unitary test would be applied – so that blending would happen to the extent that the items of partnership income are part of the same unitary business.

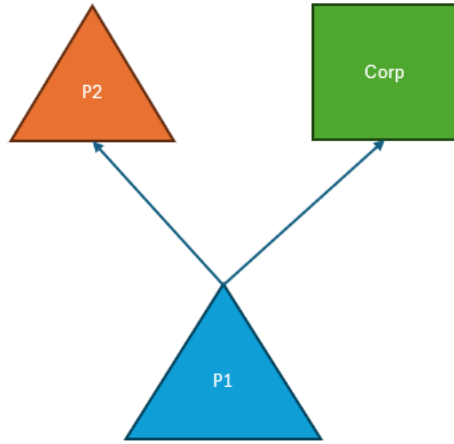
But the devil is in the details.

SPEAKING OF THOSE DETAILS – THERE ARE STILL HOW QUESTIONS

- **Blending will require more information to be provided by the partnership to the partners.**
- **Blending where there are multiple tiers or related partnerships may increase complexity of that method significantly.**
- **BUT – states don't HAVE to blend just because there is a unitary business in which multiple businesses may be engaged. So rules that limit the application are also permissible.**

STATUS

- Continuing to work on the draft white paper.
- Working on a more advanced Excel workbook that can be used to see how the blending approach – using absolute value of distributive share items of partnership income to determine the share of partnership factors – will work.
- Answering the when question.
- Working on anti-abuse rules that states may need.



P1 Schedule K			P2 Schedule K1			Corp Schedule K1			
Type 1	Receipts	\$ 1,000,000							
	Deduction	\$ (500,000)							
	Net	\$ 500,000	P&L (50%/50%)	A	Type 1	\$ 250,000	Type 1	\$ 250,000	
Type 2	Receipts	\$ 6,000,000							
	Deduction	\$ (4,600,000)							
	Net	\$ 1,400,000	Special	B	Type 2	\$ 1,400,000	Type 2	\$ -	
Type 3	Receipts	\$ 600,000							
	Deduction	\$ (1,000,000)	Special	C	Type 3	\$ (1,000,000)	Type 3	\$ 600,000	
	Net	\$ (400,000)							
			A+B+C	Total Net	\$ 650,000		\$ 850,000	\$ 1,500,000	
Total Net Income		\$ 1,500,000	Share of Factor Baseline	Total ABS	\$ 2,650,000	+	Total ABS \$ 850,000	= \$ 3,500,000	Factor Baseline
Total Receipts		\$ 7,600,000	Ratio of receipts		0.757142857		0.242857143		100%
			Share of receipts		\$ 5,754,285.71	+	\$ 1,845,714.29	=	\$ 7,600,000.00

In this model, actual special allocation determines the distribution of the total receipts.

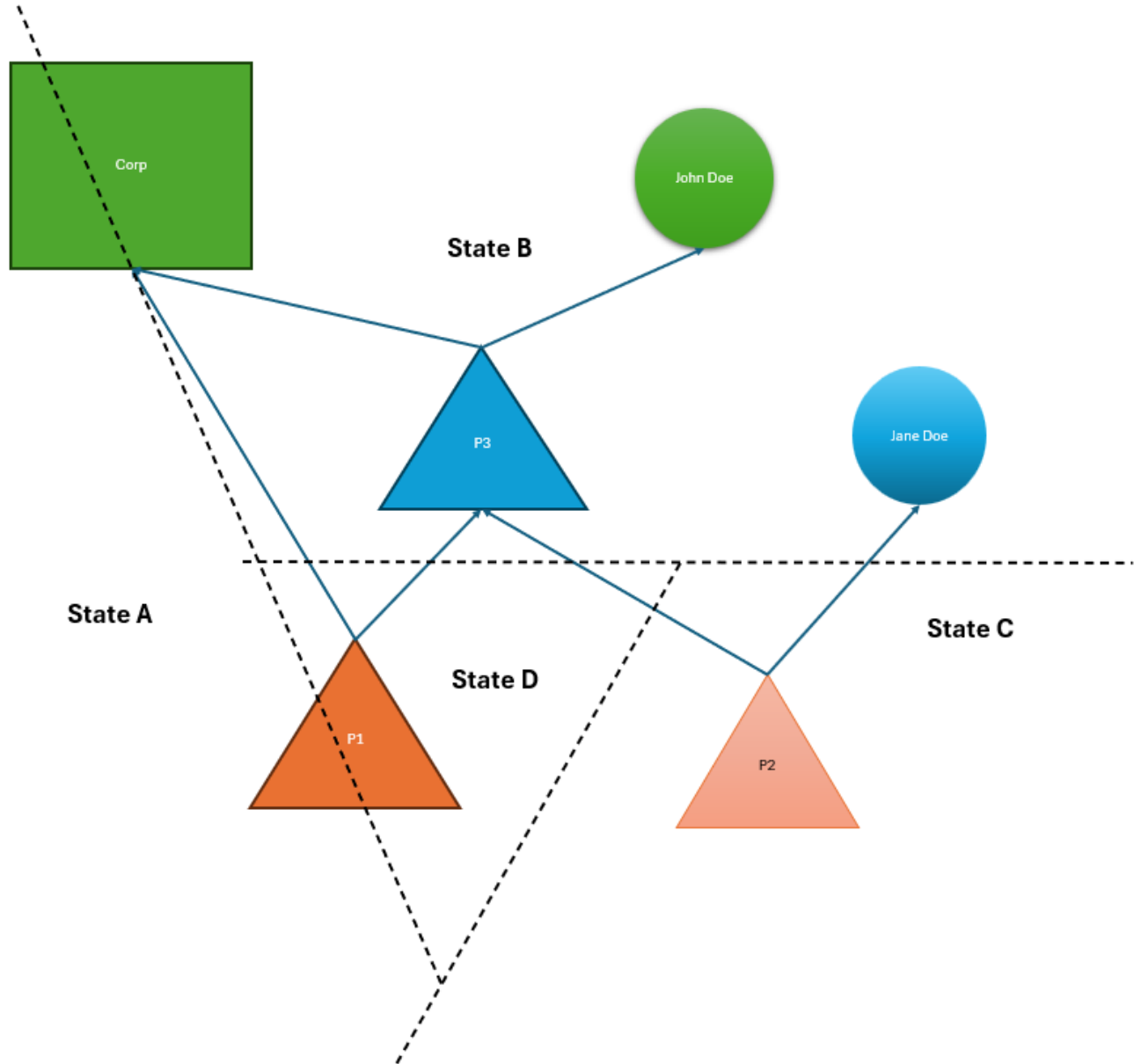

After the allocation of each item of income, deduction, loss is reported on the partner's K-1, they are classified in groups representing separate trades or businesses. In this example there is only one business, therefore there is only one group. The sum of the absolute value (ABS) of each item of each group is reported on the K-1. That sum is called the partner's share of factor baseline for that trade or business. The share of factor baseline can have a different value than the distributive share of net income when there are special allocations.

The partnership combines the sum of all shares of factor baseline for a business into the business' factor baseline. Each partner's share of the business factor baseline is divided by the business factor baseline to create a ratio that can be applied to the partnership total amount of receipts. This results in the partner's distributive share of receipts for each business which takes into account special allocations whether positive or negative.

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Arrow represent the flow of distributive share of partnership items of income, loss, deductions and credit



GENERAL DATA (Make changes only to yellow highlighted items.)

Positive Numbers

Negative Numbers

Lower Tier

Partnership 1 Items and Source Income	Total	State A	State B	State C	State D
Self-Generated Gross Receipts by Type					
Ordinary - Type 1 (e.g. Ordinary Business Income)	\$ 9,000	\$ 6,000		\$ 3,000	
Ordinary - Type 2 (e.g. Rental Income)	\$ 2,000	\$ 2,000			
Ordinary - Charges to Related Partners	\$ -	\$ -			
Capital Sale Proceeds - Partnership Asset	\$ -	\$ -			
Total Ordinary Receipts (Types 1, 2, & Charges)	\$ 11,000	\$ 8,000		\$ 3,000	
Total Receipts Including Capital Sale Proceeds	\$ 11,000	\$ 8,000		\$ 3,000	
Self-Generated Expense Type - [3]					
Deduction - Type 1	\$ (4,500)				
Deduction - Type 2	\$ (1,750)				
Deduction - Type 3 - Overhead or Charged by Related Parties	\$ -				
Capital Basis Deduction - Partnership Asset Sold	\$ -				
Total Ordinary Deduction	\$ (6,250)				
Ordinary Net Income (Loss)	\$ 4,750				
Net Capital Gain (Loss)	\$ -				
Partnership 1 Self-Generated Net Income	\$ 4,750				

Schedule K and State by State Computation

	Total	State A	State B	State C	State D
P1 Total Receipts	\$ 11,000	\$ 8,000			\$ 3,000
Receipts Factor		73%			27%
P1 Distributive share of Ordinary Income (Loss) - Type 1	\$ 4,500	\$ 3,273			\$ 1,227
P1 Distributive share of Ordinary Income (Loss) - Type 2	\$ 250	\$ 182			\$ 68
P1 Distributive Share of deduction Type 3	\$ -	\$ -			\$ -
P1 Distributive share of Capital Gain (Loss)	\$ -	\$ -			\$ -
Total Partnership 1 Income	\$ 4,750	\$ 3,455			\$ 1,295
Factor Baseline	\$ 4,750				

Partnership 2 Items and Source Income

Partnership 2 Items and Source Income	Total	State A	State B	State C	State D
Self-Generated Gross Receipts by Type					
Ordinary - Type 1 (e.g. Ordinary Business Income)	\$ 3,000		\$ 3,000		
Ordinary - Type 2 (e.g. Rental Income)	\$ -				
Ordinary - Charges to Related Partners	\$ -				
Capital Sale Proceeds - Partnership Asset	\$ -				
Total Ordinary Receipts (Types 1, 2, & Charges)	\$ 3,000		\$ 3,000		
Total Receipts Including Capital Sale Proceeds	\$ 3,000		\$ 3,000		
Self-generated Expense Type - [3]					
Deduction - Type 1	\$ (1,500)				
Deduction - Type 2	\$ -				
Deduction - Type 3 - Overhead or Charged by Related Parties	\$ -				
Capital Basis Deduction - Partnership Asset Sold	\$ -				
Total Ordinary Deduction	\$ (1,500)				
Ordinary Net Income (Loss)	\$ 1,500				
Net Capital Gain (Loss)	\$ -				
Partnership 2 Self-Generated Net Income	\$ 1,500				

Schedule K and State by State Computation

	Total	State A	State B	State C	State D
P2 Total Receipts	\$ 3,000			\$ 3,000	
Receipts Factor				100%	
P2 Distributive share of Ordinary Income (Loss) - Type 1	\$ 1,500			\$ 1,500	
P2 Distributive share of Ordinary Income (Loss) - Type 2	\$ -			\$ -	
P2 Distributive Share of deduction Type 3	\$ -			\$ -	
P2 Distributive share of Capital Gain (Loss)	\$ -			\$ -	
Total Partnership 2 Income	\$ 1,500			\$ 1,500	
Factor Baseline	\$ 1,500				

Partnership 3 Items and Factors

Partnership 3 Items and Factors	Total	State A	State B	State C	State D
Self-Generated Gross Receipts by Type					
Ordinary - Type 1	\$ -		\$ -		
Ordinary - Type 2	\$ -		\$ -		
Ordinary - Charges to Related Partners	\$ -		\$ -		
Capital Sale Proceeds - Partnership Asset	\$ -		\$ -		
Total Ordinary Receipts (Types 1, 2, & Charges)	\$ -		\$ -		
Total Receipts Including Capital Sale Proceeds	\$ -		\$ -		
Expense Type - [3]					
Deduction - Type 1	\$ -		\$ -		
Deduction - Type 2	\$ -		\$ -		
Deduction - Type 3 Overhead or Charged by Related Parties	\$ -		\$ -		
Capital Basis Deduction - Partnership Asset Sold	\$ -		\$ -		
Total Ordinary Deductions	\$ -		\$ -		
Ordinary Net Income (Loss)	\$ -		\$ -		
Net Capital Gain (Loss)	\$ -		\$ -		
Partnership 3 Self-Generated Net Income	\$ -		\$ -		

K-1 received from P1

	Total	State A	State B	State C	State D
Total receipts	\$ 5,500	\$ 4,000			\$ 1,500
Ordinary Income - Type 1	\$ 2,250	\$ 1,636			\$ 614
Ordinary Income - Type 2	\$ 125	\$ 91			\$ 34
Deduction - Type 3	\$ -	\$ -			\$ -
Net Capital Gain (Loss)	\$ -	\$ -			\$ -
Total Net Distributive Share from P1	\$ 2,375	\$ 1,727			\$ 648
Share of Factor Baseline	\$ 2,375				
Factor Share	50%				

K-1 received from P2

	Total	State A	State B	State C	State D
Total receipts	\$ 1,500		\$ 1,500		
Ordinary Income - Type 1	\$ 750		\$ 750		
Ordinary Income - Type 2	\$ -		\$ -		
Deduction - Type 3	\$ -		\$ -		
Net Capital Gain (Loss)	\$ -		\$ -		
Total Net Distributive Share from P1	\$ 750		\$ 750		
Share of Factor Baseline	\$ 750				
Factor Share	50%				

Schedule K and State by State Computation

	Total	State A	State B	State C	State D
P2 Total Receipts	\$ 7,000	\$ 4,000	\$ -	\$ 1,500	\$ 1,500
Receipts Factor Blended		57.14%	0.00%	21.43%	21.43%
P2 Distributive share of Ordinary Income (Loss) - Type 1	\$ 3,000	\$ 1,714	\$ -	\$ 643	\$ 643
P2 Distributive share of Ordinary Income (Loss) - Type 2	\$ 125	\$ 71	\$ -	\$ 27	\$ 27
P2 Distributive Share of deduction Type 3	\$ -	\$ -	\$ -	\$ -	\$ -
P2 Distributive share of Capital Gain (Loss)	\$ -	\$ -	\$ -	\$ -	\$ -
Total Partnership 2 Income	\$ 3,125	\$ 1,786	\$ -	\$ 670	\$ 670
Factor Baseline	\$ 3,125				

Jane Doe - Self Generated Apportionable

Jane Doe - Self Generated Apportionable	Total	State A	State B	State C	State D
Separate Income and Receipts -					
Gross Receipts - Ordinary	\$ -		\$ -		
Business Deductions	\$ -		\$ -		
Expenses paid on behalf of Partnership	\$ -		\$ -		
Ordinary Net Income	\$ -		\$ -		
Capital Sale Proceeds	\$ -		\$ -		
Capital Basis Deduction	\$ -		\$ -		
Net Capital Gain (Loss)	\$ -		\$ -		
Total Net Income	\$ -		\$ -		
Ordinary Receipts	\$ -	\$ -	\$ -		
Ordinary Receipts Including Capital Sale	\$ -	\$ -	\$ -		

K-1 received from P2

	Total	State A	State B	State C	State D
Total receipts	\$ 750		\$ 750		
Ordinary Income - Type 1	\$ 750		\$ 750		

Middle Tier

Corporate Partner - Income, Factors & Distributive Share

Corporate Partner - Income, Factors & Distributive Share	Total	State A	State B
Self-generated Corporate Income and Receipts -			
Gross Receipts - Ordinary	\$ -	\$ -	\$ -
General Corporate Expenses	\$ -	\$ -	\$ -
Expense - Charges from Partnership	\$ -	\$ -	\$ -
Ordinary Net Income	\$ -	\$ -	\$ -
Capital Sale Proceeds - Corp Asset	\$ -	\$ -	\$ -
Capital Basis Deduction - Corp Asset	\$ -	\$ -	\$ -
Net Capital Gain (Loss)	\$ -	\$ -	\$ -
Total Corporate Self-Generated Net Income	\$ -	\$ -	\$ -
Corporation's Ordinary Receipts	\$ -	\$ -	\$ -
Corporation's Ordinary Receipts Including Capital Sale	\$ -	\$ -	\$ -

K-1 received from P1

	Total	State A	State B	State C	State D
Total receipts	\$ 5,500	\$ 4,000			\$ 1,500
Ordinary Income - Type 1	\$ 2,250	\$ 1,636			\$ 614
Ordinary Income - Type 2	\$ 125	\$ 91			\$ 34
Deduction - Type 3	\$ -	\$ -			\$ -
Net Capital Gain (Loss)	\$ -	\$ -			\$ -
Total Net Distributive Share from P1	\$ 2,375	\$ 1,727			\$ 648
Share of Factor Baseline	\$ 2,375				
Factor Share	50%				

K-1 received from P3

	Total	State A	State B	State C	State D
Total receipts	\$ 3,500	\$ 2,000	\$ -	\$ 750	\$ 750
Ordinary Income - Type 1	\$ 1,500	\$ 857	\$ -	\$ 321	\$ 321
Ordinary Income - Type 2	\$ 63	\$ 36	\$ -	\$ 13	\$ 13
Deduction - Type 3	\$ -	\$ -	\$ -	\$ -	\$ -
Net Capital Gain (Loss)	\$ -	\$ -	\$ -	\$ -	\$ -
Total Net Distributive Share from P2	\$ 1,563	\$ 893	\$ -	\$ 335	\$ 335
Share of Factor Baseline	\$ 1,563				
Factor Share	50%				

Corporate Combined Returns

	Total	State A	State B	State C	State D
Total Receipts	\$ 9,000	\$ 6,000	\$ -	\$ 750	\$ 2,250
Receipts Factor		66.67%	0.00%	8.33%	25.00%
Total Net Income	\$ 3,938	\$ 2,625	\$ -	\$ 328	\$ 984
Effective rates		6%	5%	4%	7%
Total taxes	\$ 240	\$ 158	\$ -	\$ 13	\$ 69

John Doe - Self Generated Apportionable

John Doe - Self Generated Apportionable	Total	State A	State B	State C	State D
Separate Income and Receipts -					
Gross Receipts - Ordinary	\$ -		\$ -		
Business Deductions	\$ -		\$ -		
Expenses paid on behalf of Partnership	\$ -		\$ -		
Ordinary Net Income	\$ -		\$ -		
Capital Sale Proceeds	\$ -		\$ -		
Capital Basis Deduction	\$ -		\$ -		
Net Capital Gain (Loss)	\$ -		\$ -		
Total Net Income	\$ -		\$ -		
Ordinary Receipts	\$ -	\$ -	\$ -		
Ordinary Receipts Including Capital Sale	\$ -	\$ -	\$ -		

K-1 received from P3

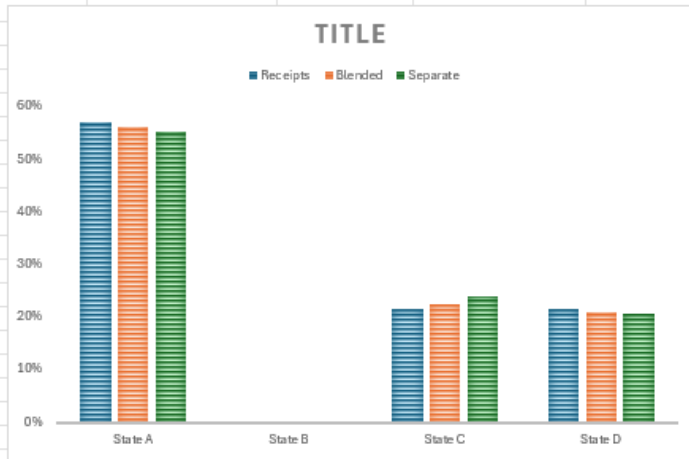
	Total	State A	State B	State C	State D
Total receipts	\$ 3,500	\$ 2,000	\$ -	\$ 750	\$ 750
Ordinary Income - Type 1	\$ 1,500	\$ 857	\$ -	\$ 321	\$ 321
Ordinary Income - Type 2	\$ 63	\$ 36	\$ -	\$ 13	\$ 13
Deduction - Type 3	\$ -	\$ -	\$ -	\$ -	\$ -
Net Capital Gain (Loss)	\$ -	\$ -	\$ -	\$ -	\$ -
Total Net Distributive Share from P1	\$ 1,563	\$ 893	\$ -	\$ 335	\$ 335
Share of Factor Baseline	\$ 1,563				
Factor Share	50%				

John Doe's Returns

Upper Tier

Plain Vanilla: Ordinary business income only in lower tier partnerships

Separate Apportionment										State A	State B	State C	State D	Total		
Taxpayers	Income Type	Self-Generated Income	Share of P1 P&L	Share of P1 income	Share of P2 P&L	Share of P2 income	Share of P3 P&L	Share of P3 income	Total							
Corp.	Ordinary Income - Type 1	\$ -	75%	\$ 3,375	25%	\$ 375	50%	\$ -	\$ 3,750	\$ 2,455	\$ -	\$ 375	\$ 920			
	Ordinary Income - Type 2		75%	\$ 188	25%	\$ -	50%	\$ -	\$ 188	\$ 136	\$ -	\$ -	\$ 51			
	Deduction - Type 3		75%	\$ -	25%	\$ -	50%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
	Net Capital Gain (Loss)	\$ -	75%	\$ -	25%	\$ -	50%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
	Total	\$ -		\$ 3,563		\$ 375		\$ -	\$ 3,938	\$ 2,591	\$ -	\$ 375	\$ 972	\$ 3,938		
Jane Doe	Ordinary Income - Type 1	\$ -			50%	\$ 750			\$ 750		\$ -	\$ 750				
	Ordinary Income - Type 2				50%	\$ -			\$ -		\$ -	\$ -				
	Deduction - Partnership	\$ -			50%	\$ -			\$ -		\$ -	\$ -				
	Net Capital Gain (Loss)	\$ -			50%	\$ -			\$ -		\$ -	\$ -				
	Total	\$ -				\$ 750			\$ 750		\$ -	\$ 750		\$ 750		
John Doe	Ordinary Income - Type 1	\$ -	25%	\$ 1,125	25%	\$ 375	50%	\$ -	\$ 1,500	\$ 818	\$ -	\$ 375	\$ 307			
	Ordinary Income - Type 2		25%	\$ 63	25%	\$ -	50%	\$ -	\$ 63	\$ 45	\$ -	\$ -	\$ 17			
	Deduction - Partnership	\$ -	25%	\$ -	25%	\$ -	50%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
	Net Capital Gain (Loss)	\$ -	25%	\$ -	25%	\$ -	50%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
	Total	\$ -		\$ 1,188		\$ 375		\$ -	\$ 1,563	\$ 864	\$ -	\$ 375	\$ 324	\$ 1,563		
Total										\$ 6,250	Total	\$ 3,455	\$ -	\$ 1,500	\$ 1,295	\$ 6,250



Blended Apportionment

Taxpayers		State A	State B	State C	State D	Total
Corp.	Total income	\$ 2,625	\$ -	\$ 328	\$ 984	\$ 3,938
Jane Doe	Total income	\$ -	\$ -	\$ 750	\$ -	\$ 750
John Doe	Total income	\$ 893	\$ -	\$ 335	\$ 335	\$ 1,563
Total		\$ 3,518	\$ -	\$ 1,413	\$ 1,319	\$ 6,250
Receipts		\$ 8,000	\$ -	\$ 3,000	\$ 3,000	\$ 14,000

	State A	State B	State C	State D	
Receipts	57%	0%	21%	21%	100%
Blended	56%	0%	23%	21%	100%
Separate	55%	0%	24%	21%	100%

Withholding Transactions in States A and C at P3 level.

State	K-1 received		K-1s issued		Difference
	Income	PT-WTH 5%	Income	Revised PT-WTH 5%	
A	\$ 1,727	\$ 86	\$ 1,786	\$ 89	\$ 3
C	\$ 750	\$ 38	\$ 670	\$ 33	\$ (4)

Lower Tier

Partnership 1 Items and Factors

	Total	State A	State B	State C	State D
Self-generated Gross Receipts by Type					
Ordinary - Type 1 (e.g. Ordinary Business Income)	\$ -	\$ -			\$ -
Ordinary - Type 2 (e.g. Rental Income)	\$ -	\$ -			\$ -
Ordinary - Charges to Related Partners	\$ -	\$ -			\$ -
Capital Sale Proceeds - Partnership Asset	\$ -	\$ -			\$ -
Total Ordinary Receipts (Types 1, 2, & Charges)	\$ -	\$ -			\$ -
Total Receipts Including Capital Sale Proceeds	\$ -	\$ -			\$ -
Self-generated Expense Type					
Deduction - Type 1	\$ -				
Deduction - Type 2	\$ -				
Deduction - Type 3	\$ -				
Capital Basis Deduction - Partnership Asset Sold	\$ -				
Total Ordinary Deduction	\$ -				
Ordinary Net Income (Loss)	\$ -				
Net Capital Gain (Loss)	\$ -				
Partnership 1 Self-Generated Net Income	\$ -				

Schedule K and State by State Computation

	Total	State A	State B	State C	State D
Receipts	\$ -	\$ -			\$ -
Payroll	\$ -	\$ -			\$ -
Property	\$ -	\$ -			\$ -
Number of Factors	0	0			0
Factor	0%				0%
P1 Distributive share of Ordinary Income (Loss) - Type 1	\$ -	\$ -			\$ -
P1 Distributive share of Ordinary Income (Loss) - Type 2	\$ -	\$ -			\$ -
P1 Distributive Share of deduction Type 3	\$ -	\$ -			\$ -
P1 Distributive share of Capital Gain (Loss)	\$ -	\$ -			\$ -
Total Partnership 1 Income	\$ -	\$ -			\$ -
Factor Baseline	\$ -				

Partnership 2 Items and Factors

	Total	State A	State B	State C	State D
Self-generated Gross Receipts by Type					
Ordinary - Type 1 (e.g. Ordinary Business Income)	\$ -			\$ -	
Ordinary - Type 2 (e.g. Rental Income)	\$ -			\$ -	
Ordinary - Charges to Related Partners	\$ -			\$ -	
Capital Sale Proceeds - Partnership Asset	\$ -			\$ -	
Total Ordinary Receipts (Types 1, 2, & Charges)	\$ -			\$ -	
Total Receipts Including Capital Sale Proceeds	\$ -			\$ -	
Self-generated Expense Type - [3]					
Deduction - Type 1	\$ -				
Deduction - Type 2	\$ -				
Deduction - Type 3	\$ -				
Capital Basis Deduction - Partnership Asset Sold	\$ -				
Total Ordinary Deduction	\$ -				
Ordinary Net Income (Loss)	\$ -				
Net Capital Gain (Loss)	\$ -				
Partnership 2 Self-Generated Net Income	\$ -				

Schedule K and State by State Computation

	Total	State A	State B	State C	State D
Receipts	\$ -	\$ -			\$ -
Payroll	\$ -	\$ -			\$ -
Property	\$ -	\$ -			\$ -
Number of Factors	0	0			0
Factor	0%				0%
P2 Distributive share of Ordinary Income (Loss) - Type 1	\$ -	\$ -			\$ -
P2 Distributive share of Ordinary Income (Loss) - Type 2	\$ -	\$ -			\$ -
P2 Distributive Share of deduction Type 3	\$ -	\$ -			\$ -
P2 Distributive share of Capital Gain (Loss)	\$ -	\$ -			\$ -
Total Partnership 2 Income	\$ -	\$ -			\$ -
Factor Baseline	\$ -				

Factor baseline is the sum of all partners' share of factor

Middle Tier

Partnership 3 Items and Factors

	Total	State A	State B	State C	State D
Self-generated Gross Receipts by Type					
Ordinary - Type 1	\$ -		\$ -		
Ordinary - Type 2	\$ -		\$ -		
Ordinary - Charges to Related Partners	\$ -		\$ -		
Capital Sale Proceeds - Partnership Asset	\$ -		\$ -		
Total Ordinary Receipts (Types 1, 2, & Charges)	\$ -		\$ -		
Total Receipts Including Capital Sale Proceeds	\$ -		\$ -		
Self-generated Expense Type					
Deduction - Type 1	\$ -				
Deduction - Type 2	\$ -				
Deduction - Type 3	\$ -				
Capital Basis Deduction - Partnership Asset Sold	\$ -				
Total Ordinary Expense	\$ -				
Ordinary Net Income (Loss)	\$ -				
Net Capital Gain (Loss)	\$ -				
Partnership 3 Self-Generated Net Income	\$ -				

Schedule K and State by State Computation

	Total	State A	State B	State C	State D
Receipts	\$ -	\$ -			\$ -
Payroll	\$ -	\$ -			\$ -
Property	\$ -	\$ -			\$ -
Ordinary Income - Type 1	\$ -	\$ -			\$ -
Ordinary Income - Type 2	\$ -	\$ -			\$ -
Deduction - Type 3	\$ -	\$ -			\$ -
Net Capital Gain (Loss)	\$ -	\$ -			\$ -
Total Net Distributive Share from P1	\$ -	\$ -			\$ -
Share of Factor Baseline	\$ -				
Factor Share	0.00%				

Partnership 3 Items and Factors

	Total	State A	State B	State C	State D
Self-generated Gross Receipts by Type					
Ordinary - Type 1 (e.g. Ordinary Business Income)	\$ -			\$ -	
Ordinary - Type 2 (e.g. Rental Income)	\$ -			\$ -	
Ordinary - Charges to Related Partners	\$ -			\$ -	
Capital Sale Proceeds - Partnership Asset	\$ -			\$ -	
Total Ordinary Receipts (Types 1, 2, & Charges)	\$ -			\$ -	
Total Receipts Including Capital Sale Proceeds	\$ -			\$ -	
Self-generated Expense Type - [3]					
Deduction - Type 1	\$ -				
Deduction - Type 2	\$ -				
Deduction - Type 3	\$ -				
Capital Basis Deduction - Partnership Asset Sold	\$ -				
Total Ordinary Deduction	\$ -				
Ordinary Net Income (Loss)	\$ -				
Net Capital Gain (Loss)	\$ -				
Partnership 3 Self-Generated Net Income	\$ -				

Schedule K and State by State Computation

	Total	State A	State B	State C	State D
Receipts	\$ -	\$ -			\$ -
Payroll	\$ -	\$ -			\$ -
Property	\$ -	\$ -			\$ -
Ordinary Income - Type 1	\$ -	\$ -			\$ -
Ordinary Income - Type 2	\$ -	\$ -			\$ -
Deduction - Type 3	\$ -	\$ -			\$ -
Net Capital Gain (Loss)	\$ -	\$ -			\$ -
Total Net Distributive Share from P1	\$ -	\$ -			\$ -
Share of Factor Baseline	\$ -				
Factor Share	0%				

Jane Doe

	Total	State A	State B	State C	State D
Separate Income and Receipts -					

Upper Tier

Corporate Partner - Items and Factors

	Total	State A	State B
Self-generated Corporate Income and Receipts -			
Gross Receipts - Ordinary	\$ -		
General Corporate Expenses	\$ -		
Expense - Charges from Partnership	\$ -		
Ordinary Net Income	\$ -		
Capital Sale Proceeds - Corp Asset	\$ -		
Capital Basis Deduction - Corp Asset	\$ -		
Net Capital Gain (Loss)	\$ -		
Total Corporate Self-Generated Net Income	\$ -		
Corporation's Ordinary Receipts	\$ -	\$ -	\$ -
Corporation's Ordinary Receipts Including Capital Sale	\$ -	\$ -	\$ -
Payroll			
Property			

Schedule K and State by State Computation

	Total	State A	State B	State C	State D
Receipts	\$ -	\$ -			\$ -
Payroll	\$ -	\$ -			\$ -
Property	\$ -	\$ -			\$ -
Ordinary Income - Type 1	\$ -	\$ -			\$ -
Ordinary Income - Type 2	\$ -	\$ -			\$ -
Deduction - Type 3	\$ -	\$ -			\$ -
Net Capital Gain (Loss)	\$ -	\$ -			\$ -
Total Net Distributive Share from P1	\$ -	\$ -			\$ -
Share of Factor Baseline	\$ -				
Factor Share	#DIV/0!				

Partnership 3 Distributive Share of Partnership Items

	Total	State A	State B	State C	State D
Receipts	\$ -	\$ -			\$ -
Payroll	\$ -	\$ -			\$ -
Property	\$ -	\$ -			\$ -
Ordinary Income - Type 1	\$ -	\$ -			\$ -
Ordinary Income - Type 2	\$ -	\$ -			\$ -
Deduction - Type 3	\$ -	\$ -			\$ -
Net capital gain (loss)	\$ -	\$ -			\$ -
Net distributive share from P3 blended income	\$ -	\$ -			\$ -
Share of Factor Baseline	\$ -				
Factor Share	0%				

Separately Apportioned Item from P1

	Total	State A	State B	State C	State D
Receipts	\$ -	\$ -			\$ -
Payroll	\$ -	\$ -			\$ -
Property	\$ -	\$ -			\$ -
Ordinary Income - Type 1	\$ -	\$ -			\$ -
Ordinary Income - Type 2	\$ -	\$ -			\$ -
Deduction - Type 3	\$ -	\$ -			\$ -
Net Capital Gain (Loss)	\$ -	\$ -			\$ -
Share of Factor Baseline	\$ -				
Factor Share	0%				

Separately Apportioned Item from P2

	Total	State A	State B	State C	State D
Receipts	\$ -	\$ -			\$ -
Payroll	\$ -	\$ -			\$ -
Property	\$ -	\$ -			\$ -
Ordinary Income - Type 1	\$ -	\$ -			\$ -
Ordinary Income - Type 2	\$ -	\$ -			\$ -
Deduction - Type 3	\$ -	\$ -			\$ -
Net Capital Gain (Loss)	\$ -	\$ -			\$ -
Share of Factor Baseline	\$ -				
Factor Share	0%				

Corporate Combined Returns

	Total	State A	State B	State C	State D
Receipts	\$ -	\$ -			\$ -

Corp self-generated income comes from a single business.

If P3 blends its distributive share of P1, or P2, Corp cannot unblend that distributive share. As a result choosing "Yes" does not make any difference.



QUESTIONS?

