



MULTISTATE TAX COMMISSION

State Taxation of Partnerships – Status Report

FEBRUARY 18, 2026



QUICK CONTEXT



100,000 FOOT VIEW (IMPORTANT HISTORY)

- **30+ Years Ago**
 - Focus – Compliance by non-resident partners.
 - Questions – Do states have nexus over the partners and the state-sourced income? (See related litigation.)
 - Solution – Partnership withholding and composite returns. (See MTC model).
 - Sourcing Approach – Based on partnership activities (with exceptions for investment partnerships).

100,000 FOOT VIEW (IMPORTANT HISTORY)

- **2015 –**
 - **Focus – Federal partnership level audits and adjustments.**
 - **Questions – How will partnership adjustments be sourced and treated in computing the related state tax?**
 - **Solution – Allowing a partnership-pays approach in certain circumstances. (See MTC model.)**
 - **Sourcing Approach – Based on partnership activities (applying existing state sourcing rules).**

100,000 FOOT VIEW (IMPORTANT HISTORY)

- **2017 –**
 - **Focus – Federal tax cap on the SALT deduction.**
 - **Questions – Can an entity-level tax substitute for the tax that is capped?**
 - **Solution - States adopt PTE taxes.**
 - **Sourcing Approach – Based on partnership activities.**

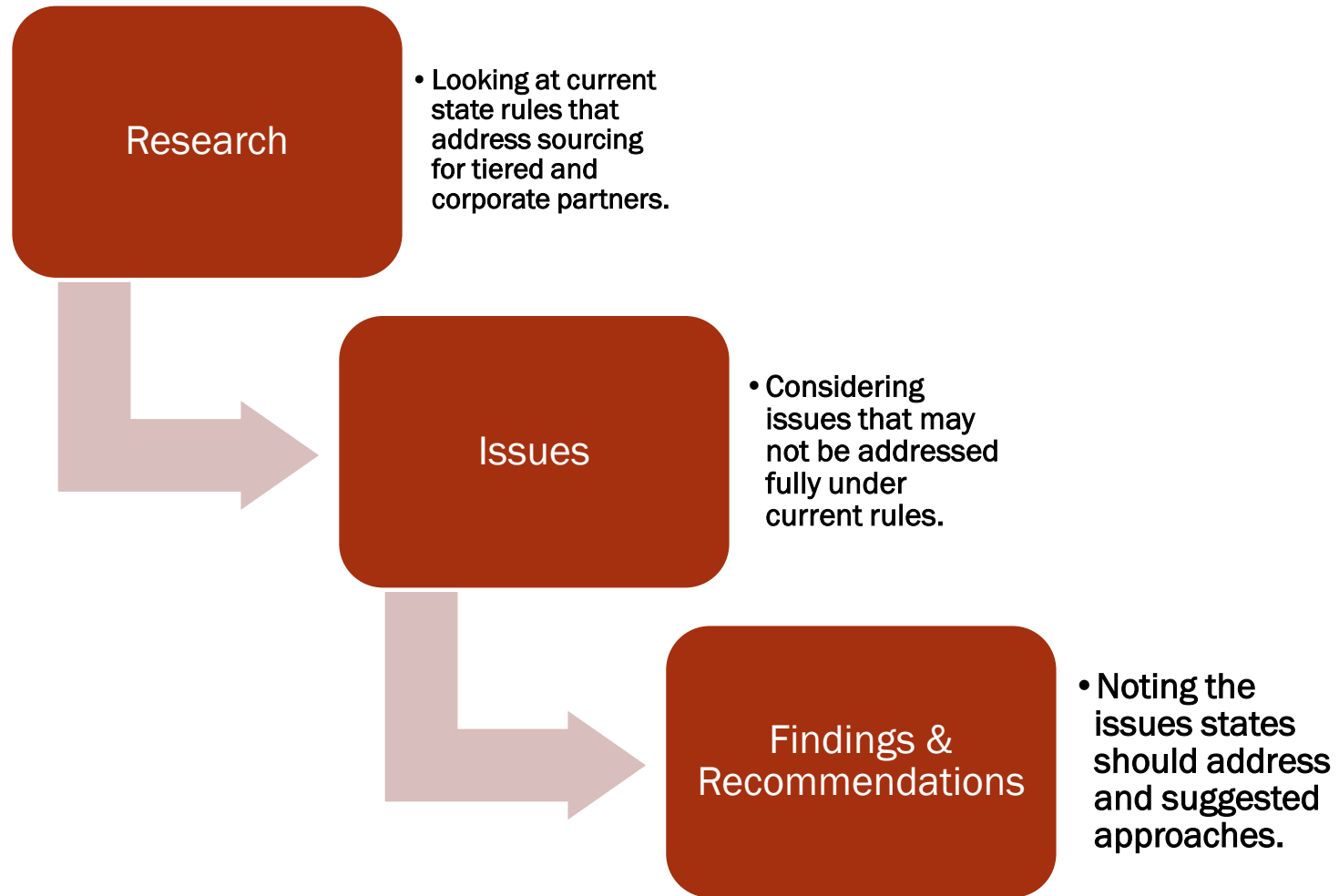
10,000 FOOT VIEW (THIS PROJECT GENERALLY)

- **2021 to Today –**
 - MTC began this uniformity project on state issues in taxing partnership income. (See Issue Outline.)
 - Investment partnership rules – (See White Paper and Model)
 - Look-through sourcing (as though partners held the assets directly).
 - Applying the state’s sourcing rules.
 - Guaranteed payments for services made to individual partners – (See White Paper and Model)
 - Sourced the same as distributive share.
 - Generous credit.

10,000 FOOT VIEW (THIS PROJECT GENERALLY)

- **2021 to Today –**
 - **Current white paper and model –**
 - **Sourcing of partnership income in complex structures (tiered and corporate partners)**
 - **Consistency in sourcing approaches.**
 - **Starting at the partnership level and looking to partnership activities.**
 - **Addressing blended apportionment.**
 - **See draft white paper and model.**

1,000 FOOT VIEW (CURRENT DRAFT WHITE PAPER)



100 FOOT VIEW

- The rules for sourcing of partnership income where there are tiered and corporate partners.
- A first draft (subject to change).
- A “mini-Subchapter K” for state purposes.
 - It’s fairly short, just like Subchapter K.
 - It’s fairly general, just like Subchapter K.
 - It addresses partnership-specific issues and references the substantive tax rules, just like Subchapter K.
 - It contains anti-abuse rules, just like Subchapter K



QUESTIONS ON NEXT STEPS?

