



MULTISTATE TAX COMMISSION

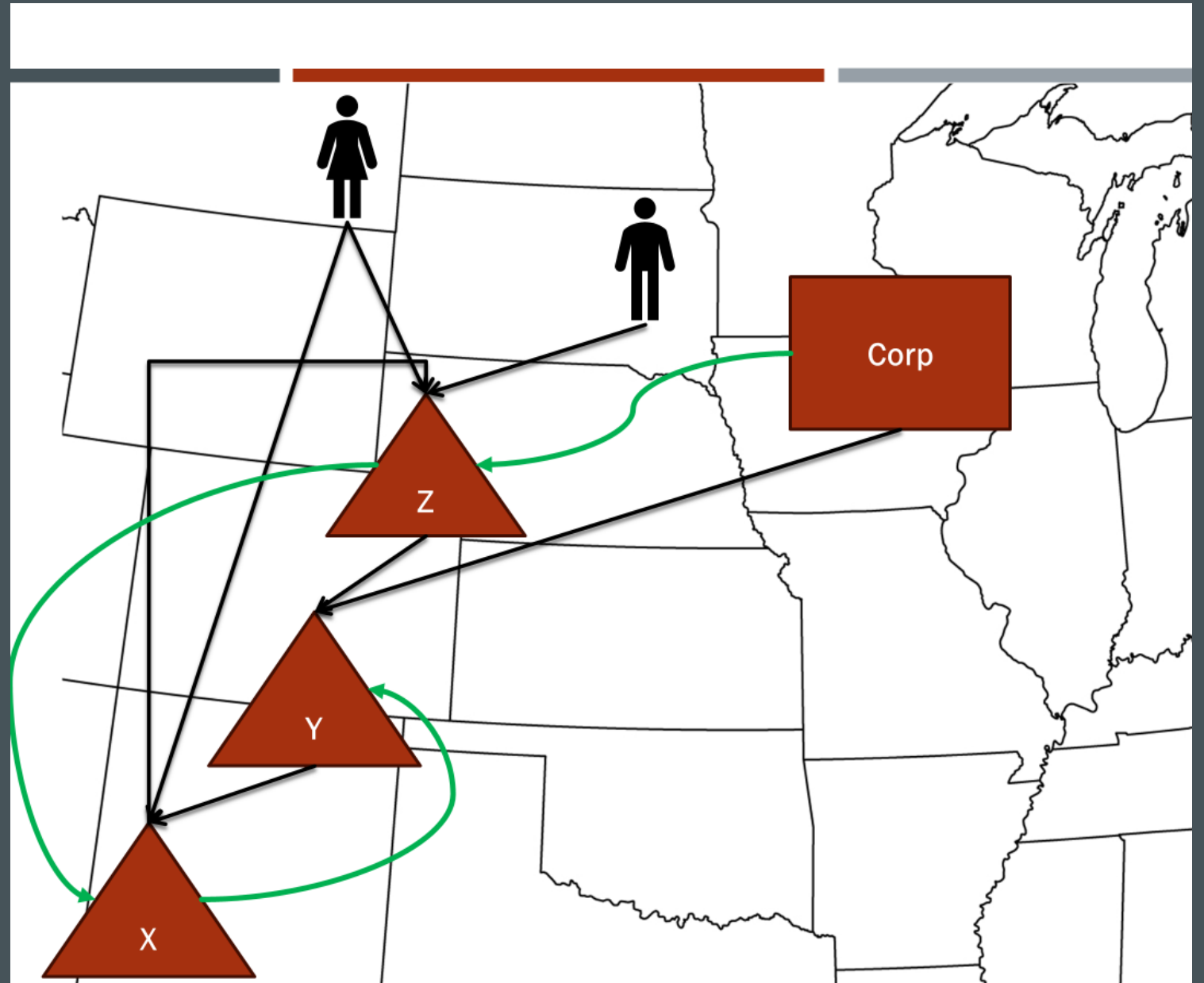
# State Taxation of Partnerships – Status Report

AUGUST 20, 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 work group 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.*



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# PROJECT STATUS UPDATE

- We are still focusing on the state tax sourcing of partnership income.
- We are not yet covering sourcing issues related to the sale of a partnership interest — but we will in the future, so stay tuned for that.

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# PROJECT STATUS UPDATE

- We already have draft models and white papers addressing sourcing issues related to investment partnerships and guaranteed payments.
- An issue outline, the draft models, and the draft white papers can all be found on our [project webpage](#).

# Project Webpage

Click On

1. Uniformity
2. Uniformity Projects
3. State Taxation of Partnerships

The screenshot shows a web browser window with the URL `mtc.gov/uniformity/project-on-state-taxation-of-partnerships/`. The page features the MTC logo (Multistate Tax Commission) and a mission statement: "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." A search bar is located in the top right corner. A dark blue navigation bar contains the following menu items: "The Commission", "Uniformity", "Nexus", "Audit", "Events & Training", and "Resources". The main content area is titled "State Taxation of Partnerships" and includes a "Project Description" section. An arrow points from the "Uniformity" menu item to the "State Taxation of Partnerships" title.

mtc.gov/uniformity/project-on-state-taxation-of-partnerships/

**MTC**  
MULTISTATE TAX COMMISSION

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.

Search Search

The Commission ▾ Uniformity ▾ Nexus ▾ Audit ▾ Events & Training ▾ Resources ▾

## 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

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## PROJECT STATUS UPDATE

- Currently, we are nearing completion of a white paper titled *State Tax Sourcing of Partnership Income Under the Pass-Through Tax System & the Blended Apportionment Method*. We welcome any remaining input.
- The most recent draft for August is on the project webpage, along with prior draft versions.
- We have received comments on the white paper draft from the AICPA and discussed our responses at the July meeting.

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# WHITE PAPER DRAFT

**SCOPE:** This white paper addresses how this long-standing approach to sourcing partnership income applies where there are:

- Complex partnership structures,
- Special or mandatory allocations of partnership income to particular partners, and
- Related-party transactions.

# WHITE PAPER DRAFT

- In Progress: Findings and Recommendations
- The current draft of the white paper states:

The white paper's most important finding is this:

State rules for sourcing multistate partnership income need further development, particularly where there are corporate or tiered partners, complex structures, related-entity transactions, and special allocations of partnership items.

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# IMPORTANT CONCEPTS IN THE WHITE PAPER FOR THE SOURCING OF DISTRIBUTIVE SHARE INCOME

- The default rule, separate sourcing, is to apportion or specifically assign distributive share items **at the partnership level** and then to attribute that sourcing to the partners—except in cases where the rules require blended apportionment.
- The determination of whether a distributive share item is apportionable (business income) or non-apportionable (non-business income) is made **at the partnership level**.

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# SEPARATE SOURCING (DEFAULT)

- Partnership items are characterized and then sourced by applying the state sourcing rules—both rules of assignment (non-apportionable income) and formulary apportionment (apportionable income)—based on the activities of the partnership.
- The source of the partnership income does not change as it flows to partners or through multiple tiers. Rather, that source is attributed to the partners, along with their share of that income.
- Exception: When blended apportionment applies

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# **BLENDED APPORTIONMENT**

- **The partner's distributive share of partnership income is included in the partner's apportionable income (eliminating the same share of any income and expense from partner-partnership transactions).**
- **The partner's factors are combined with a share of the partnership's factors (eliminating the same share of receipts from partner-partnership transactions).**
- **The blended apportionment formula is applied to the blended income.**

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# BLENDING APPORTIONMENT

- Blended Apportionment applies when certain criteria are met—most states link its use to the existence of a unitary relationship.
- For partnerships, traditional unitary rules can be difficult to apply so many states have adopted a modified unitary analysis that disregards ownership requirements.

# CRITICAL ASSUMPTIONS FOR FINDINGS AND RECOMMENDATIONS—**ARE WE ALL ON THE SAME PAGE?**

- Separate sourcing at the partnership level is the default rule for distributive share items (not sourcing at the partner's domicile), unless blended apportionment applies.
- This approach aligns most consistently with the flow-through nature of partnerships, Subchapter K, state tax frameworks, and the attribution principle.
- It also helps mitigate the potential for income shifting. It ensures income is taxed in the jurisdictions where the economic activity occurs, rather than being distorted by individual partners' domiciles.

## HOW THIS PLAYS OUT IN PRACTICE



- For example, in the case of coffee sales from a coffee partnership, the income is apportioned at the partnership level using the partnership's own apportionment factors and is treated as apportionable income in the hands of the partners.
- This treatment applies regardless of whether the partners themselves are engaged in the coffee business. The focus is on what is happening at the partnership level.
- However, blended apportionment may apply if the requisite “when” criteria are satisfied.

## HOW THIS PLAYS OUT IN PRACTICE



- If a distributive share item is non-apportionable at the partnership level (e.g., income from a non-operational, decommissioned lighthouse in which the coffee partnership invested), the item is specifically assigned at the partnership level and attributed as a non-apportionable item to the partners.
- This treatment applies regardless of whether the partners are involved in the decommissioned lighthouse business. The focus is on what is happening at the partnership level.

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## **EXCEPTIONS (THERE ARE ALWAYS EXCEPTIONS . . .)**

To prevent abuse, states may need special rules in certain circumstances, such as:

- Special or mandatory allocations, or the use of partnerships solely to shift the sourcing of income.
- Related-party transactions that alter sourcing and cannot be addressed through blended apportionment.
- Situations where state-specific versions of certain federal anti-abuse rules would provide additional clarity.
- Other?

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## **ALSO IMPORTANT TO KEEP IN MIND**

These slides have discussed a general, uniform approach to sourcing partnership income that may be used by the states.

If there is agreement on the approach – we will also need to consider:

- Necessary reporting requirements
- Limits to address administrative burdens on small partnerships
- Anti-abuse rules



**QUESTIONS? COMMENTS?  
WHAT'S NEXT?**



MULTISTATE TAX COMMISSION

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**OUR WORKBOOK  
ILLUSTRATES  
HOW BLENDED  
AND SEPARATE  
APPORTIONMENT  
WORK**

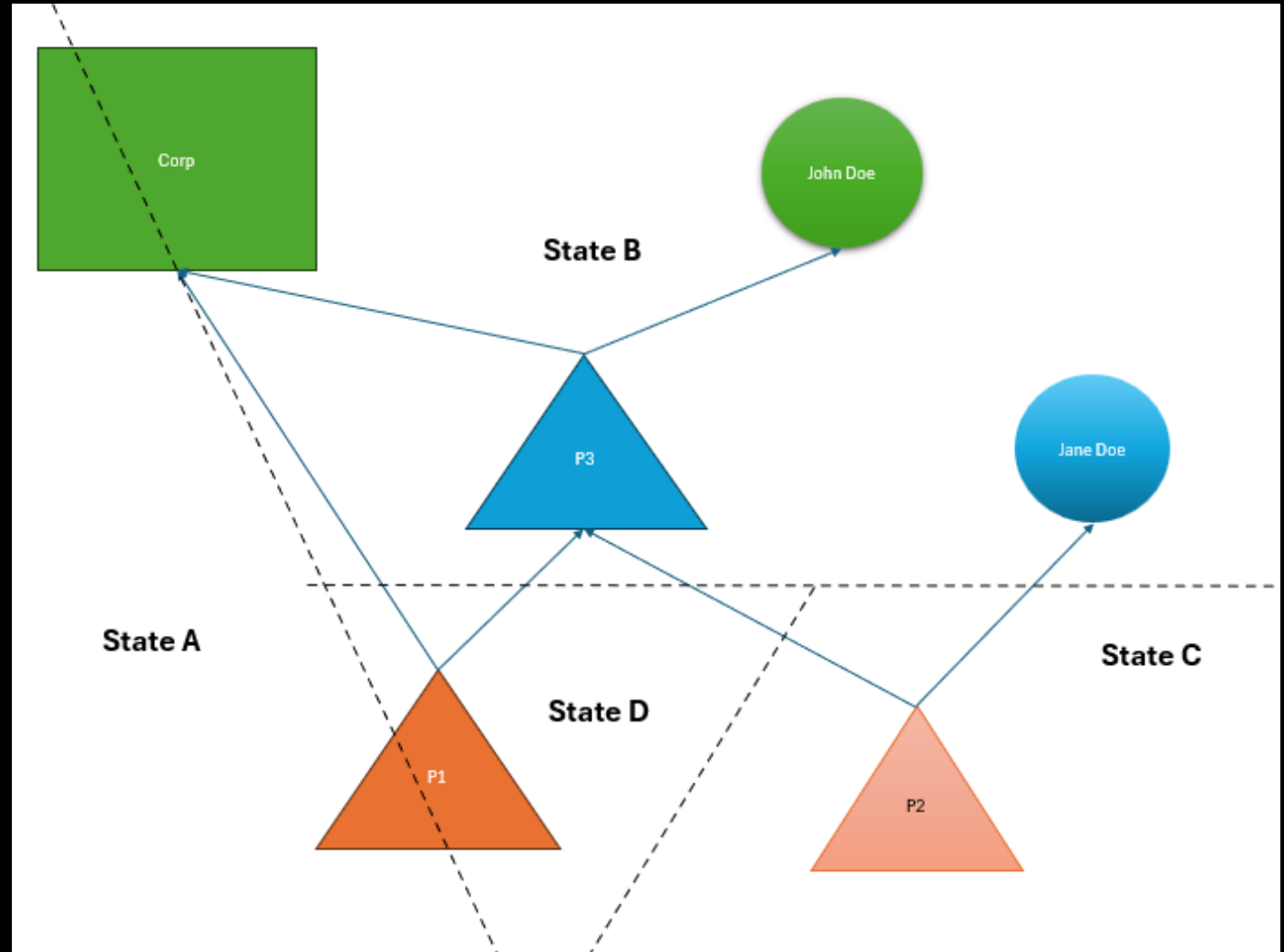
# EXAMPLE 1

COFFEE

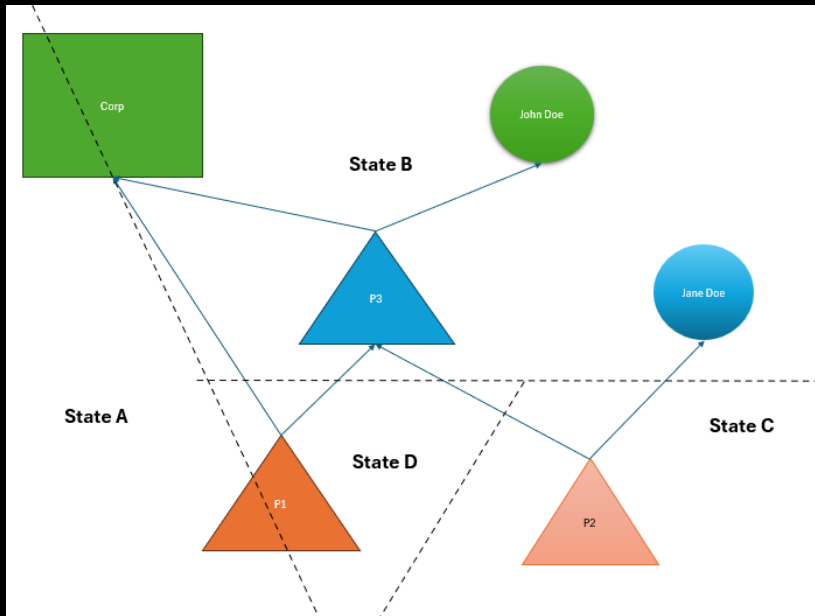
AND

FISHERY

TWO DISTRIBUTIVE  
SHARES ATTRIBUTED  
TO THE SAME  
PARTNERSHIP



## EXAMPLE 2



## HYPOTHETICAL FACTS

- P1 is a partnership, Moby Dick LLC, recognizing \$6 million of ordinary business income apportioned between states A and D in the production of coffee.
- P2 is a fishing boat organized as a partnership, Melville LLC, recognizing \$500k of ordinary business income apportioned 100% to state C.
- P3, Pequod LLC, does not have operations of its own. It receives 99% of the distributive shares of Moby Dick LLC and 80% of the ordinary income from Melville LLC.
- Distributive shares from Moby Dick LLC and Melville LLC's businesses are unitary. **The partnership agreements for Moby Dick LLC and Melville LLC allow Pequod LLC to manage both partnerships to produce fish oil infused coffee to increase consumer Omega 3 intake.**

EXAMPLE 1  
COFFEE  
AND  
FISHERY  
MOBY DICK LLC



Partnership 1 Items and Factors		Total	State A	State B	State C	State D
<u>Self-generated Gross Receipts by Type</u>						
Ordinary - Type 1 (e.g. Ordinary Business Income)		\$ 18,000,000	\$ 6,000,000			\$ 12,000,000
Ordinary - Type 2 (e.g. Rental Income)		\$ -	\$ -			\$ -
Ordinary - Charges to Related Partners		\$ -	\$ -			\$ -
Capital Sale Proceeds - Partnership Asset		\$ -	\$ -			\$ -
Total Ordinary Receipts (Types 1, 2, & Charges)		\$ 18,000,000	\$ 6,000,000			\$ 12,000,000
Total Receipts Including Capital Sale Proceeds		\$ 18,000,000	\$ 6,000,000			\$ 12,000,000
<u>Self-generated Expense Type</u>						
Deduction - Type 1		\$ (12,000,000)				
Deduction - Type 2						
Deduction - Type 3						
Capital Basis Deduction - Partnership Asset Sold						
Total Ordinary Deduction		\$ (12,000,000)				
Ordinary Net Income (Loss)		\$ 6,000,000				
Net Capital Gain (Loss)		\$ -				
Partnership 1 Self-Generated Net Income		\$ 6,000,000				
<u>Schedule K and State by State Computation</u>						
Receipts		\$ 18,000,000	\$ 6,000,000			\$ 12,000,000
Payroll		\$ -	\$ -			\$ -
Property		\$ -	\$ -			\$ -
Number of Factors			1			1
Factor			33%			67%
P1 Distributive share of Ordinary Income (Loss) -Type 1		\$ 6,000,000	\$ 2,000,000			\$ 4,000,000
P1 Distributive share of Ordinary Income (Loss) -Type 2		\$ -	\$ -			\$ -
P1 Distributive Share of deduction Type 3		\$ -	\$ -			\$ -
P1 Disributive share of Capital Gain (Loss)		\$ -	\$ -			\$ -
Total Partnership 1 Income		\$ 6,000,000	\$ 2,000,000			\$ 4,000,000
	Factor Baseline	\$ 6,000,000				

Add factors as needed. If one of the states uses a 3 factors formula, enter total payroll and property.

Enter zero when a factor is not used.

Separate Sourcing Tab

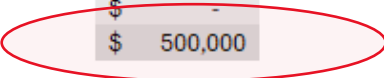


EXAMPLE 1  
COFFEE  
AND  
FISHERY  
MELVILLE LLC



Partnership 2 Items and Factors		Total	State A	State B	State C	State D
<u>Self-generated Receipts by Type -</u>						
Ordinary - Type 1 (e.g. Ordinary Business Income)	\$	2,000,000			\$ 2,000,000	
Ordinary - Type 2 (e.g. Rental Income)	\$	-			\$ -	
Ordinary - Charges to Related Partners	\$	-			\$ -	
Capital Sale Proceeds - Partnership Asset	\$	-			\$ -	
Total Ordinary Receipts (Types 1, 2, & Charges)	\$	2,000,000			\$ 2,000,000	
Total Receipts Including Capital Sale Proceeds	\$	2,000,000			\$ 2,000,000	
<u>Self-generated Expense Type - [3]</u>						
Deduction - Type 1	\$	(1,500,000)				
Deduction - Type 2	\$	-				
Deduction - Type 3	\$	-				
Capital Basis Deduction - Partnership Asset Sold	\$	-				
Total Ordinary Deduction	\$	(1,500,000)				
Ordinary Net Income (Loss)	\$	500,000				
Net Capital Gain (Loss)	\$	-				
Partnership 1 Self-Generated Net Income	\$	500,000				
<b>Schedule K and State by State Computation</b>						
			State A	State B	State C	State D
Receipts	\$	2,000,000			\$ 2,000,000	
Payroll	\$	-			\$ -	
Property	\$	-			\$ -	
Number of Factors					\$ 1	
Factor					100%	
P2 Distributive share of Ordinary Income (Loss) -Type 1	\$	500,000			\$ 500,000	
P2 Distributive share of Ordinary Income (Loss) -Type 2	\$	-			\$ -	
P2 Distributive Share of deduction Type 3	\$	-			\$ -	
P2 Disributive share of Capital Gain (Loss)	\$	-			\$ -	
Total Partnership 2 Income	\$	500,000			\$ 500,000	
Factor Baseline	\$	500,000			\$ 500,000	

Add factors as needed. If one of the states uses a 3 factors formula, enter total payroll and property.



## EXAMPLE 2

COFFEE

AND

FISHERY

PEQUOD LLC (P3)



Partnership 3 Items and Factors	Total	State A	State B	State C	State D
<u>Self-generated Gross Receipts by Type</u>					
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	\$ -		\$ -		
<u>Self-generated Expense Type</u>					
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	\$ -				
Payroll	\$ -		\$ -		
Property	\$ -		\$ -		

Pequod LLC does not qualify as a qualified investment partnership (QIP):

- It has no income of its own,
- It manages Moby Dick LLC or Melville LLC.
- It has a unitary relationship with Moby Dick LLC and/or Melville LLC, in this case both.

Pequod LLC must blend the distributive shares and the apportionment factors from Moby Dick LLC and Melville LLC.

EXAMPLE 1

COFFEE

AND

FISHERY

PEQUOD LLC (P3)

Since Pequod LLC is unitary with Moby Dick LLC and Melville LLC, it does not use separate apportionment.



K-1 received from P1		Select "Yes" if income from P1 is not blended with P3 income.				
Separate Apportionment		<input type="checkbox"/> No				
P&L	Total	State A	State B	State C	State D	
Receipts	\$ 17,820,000	\$ 5,940,000			\$ 11,880,000	
Payroll	\$ -	\$ -			\$ -	
Property	\$ -	\$ -			\$ -	
Ordinary Income - Type 1	\$ 5,940,000	\$ 1,980,000			\$ 3,960,000	
Ordinary Income - Type 2	\$ -	\$ -			\$ -	
Deduction - Type 3	\$ -	\$ -			\$ -	
Net Capital Gain (Loss)	\$ -	\$ -			\$ -	
Total Net Distributive Share from P1	\$ 5,940,000	\$ 1,980,000			\$ 3,960,000	
Share of Factor Baseline	\$ 5,940,000					
Factor Share	99.00%					

K-1 received from P2		Select "Yes" if income from P1 is not blended with P3 income.				
Separate Apportionment		<input type="checkbox"/> No				
Partnership 3 Distributive Share of Partnership 2 Items - P&L	Total	State A	State B	State C	State D	
Receipts	\$ 1,600,000			\$ 1,600,000		
Payroll	\$ -			\$ -		
Property	\$ -			\$ -		
Ordinary Income - Type 1	\$ 400,000			\$ 400,000		
Ordinary Income - Type 2	\$ -			\$ -		
Deduction - Type 3	\$ -			\$ -		
Net Capital Gain (Loss)	\$ -			\$ -		
Total Net Distributive Share from P1	\$ 400,000			\$ 400,000		
Share of Factor Baseline	\$ 400,000					
Factor Share	80%					

Make special allocations here. Can be negative percentages.

Share of factor baseline is the sum of the absolute value of each item on the K-1. Factor share is the ratio of the share of factor baseline over factor baseline.

EXAMPLE 1

COFFEE

AND

FISHERY

PEQUOD LLC (P3)



Schedule K and State by State Computation					
	Total	State A	State B	State C	State D
P3 Total Blended Receipts	\$ 19,420,000	\$ 5,940,000	\$ -	\$ 1,600,000	\$ 11,880,000
P3 Total Blended Payroll	\$ -	\$ -	\$ -	\$ -	\$ -
P3 Total Blended Property	\$ -	\$ -	\$ -	\$ -	\$ -
Number of Factors		1	0	1	1
Blended Factor		30.59%	0.00%	8.24%	61.17%
Factor Baseline	\$ 6,340,000				
P3 Distributive share of Ordinary Income (Loss) -Type 1	\$ 6,340,000	\$ 1,939,217	\$ -	\$ 522,348	\$ 3,878,435
P3 Distributive share of Ordinary Income (Loss) -Type 2	\$ -	\$ -	\$ -	\$ -	\$ -
P3 Distributive Share of deduction Type 3	\$ -	\$ -	\$ -	\$ -	\$ -
P3 Disributive share of Capital Gain (Loss)	\$ -	\$ -	\$ -	\$ -	\$ -
Income Subject to Blended Apportionment	\$ 6,340,000	\$ 1,939,217	\$ -	\$ 522,348	\$ 3,878,435
Separately Apportioned Income from P1	\$ -	\$ -			\$ -
Factor Baseline	\$ -				
Separately Apportioned Income from P2	\$ -			\$ -	
Factor Baseline	\$ -				
Total Separately Apportioned income	\$ -	\$ -	\$ -	\$ -	\$ -

The factors and the distributive shares are blended to recalculate source income on a unitary basis.

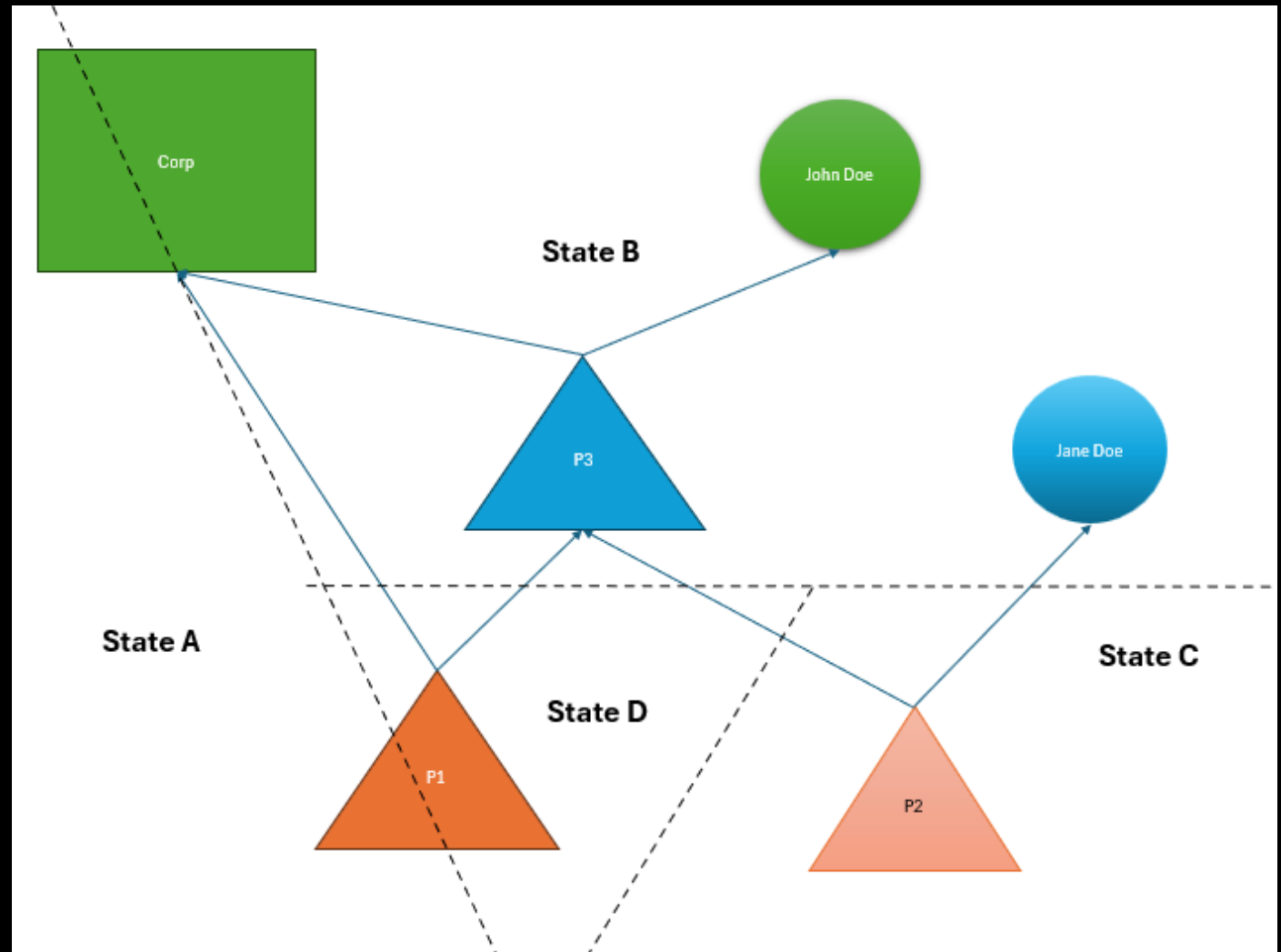
## EXAMPLE 2

COFFEE

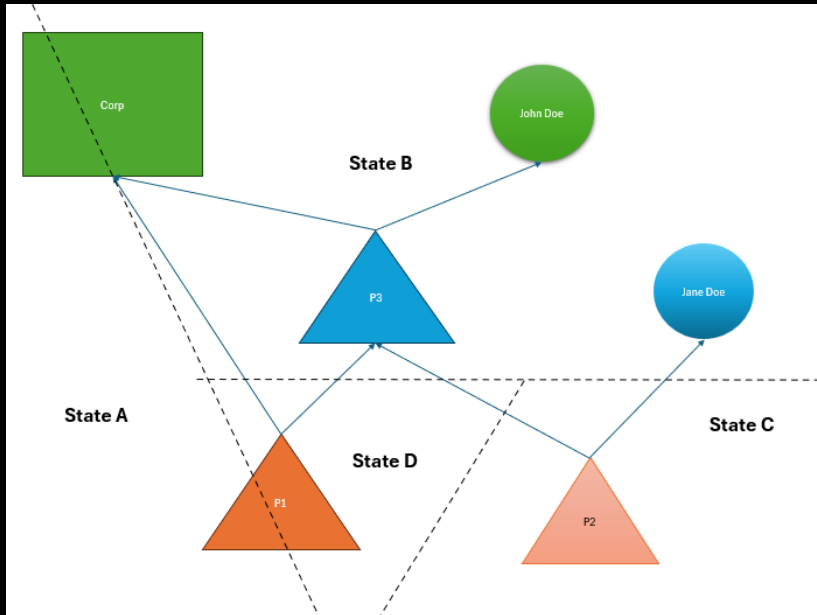
AND

FISHERY

TWO SEPARATE  
BUSINESSES  
ATTRIBUTED TO THE  
SAME PARTNERSHIP



## EXAMPLE 2



## HYPOTHETICAL FACTS

- For P1 and P2, same as Example 1
- P3, Pequod LLC, does not have operations of its own and receives 50% of the distributive shares of Moby Dick LLC and 50% of the ordinary income from Melville LLC. Income from Moby Dick LLC and Melville LLC's businesses are not unitary. They constitute two separate businesses.

(Coffee infused with fish oil was a bad idea anyway!)

## EXAMPLE 2

COFFEE

AND

FISHERY

PEQUOD LLC (P3)



Partnership 3 Items and Factors	Total	State A	State B	State C	State D
<u>Self-generated Gross Receipts by Type</u>					
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	\$ -		\$ -		
<u>Self-generated Expense Type</u>					
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	\$ -				
Payroll	\$ -		\$ -		
Property	\$ -		\$ -		

Pequod LLC qualifies as a QIP:

- It has no income of its own,
- It does not manage Moby Dick LLC or Melville LLC.
- It has no unitary relationship with Moby Dick or Melville.

It must report distributive shares from Moby Dick LLC and Melville LLC with the same sourcing determined at the level of Moby Dick LLC and Melville LLC on a separate apportionment basis.

## EXAMPLE 2

COFFEE

AND

FISHERY

PEQUOD LLC (P3)



Pequod must use separate apportionment for each of Moby Dick LLC and Melville LLC's distributive shares.

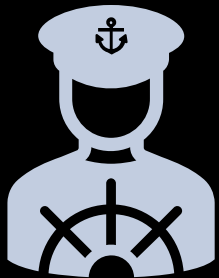
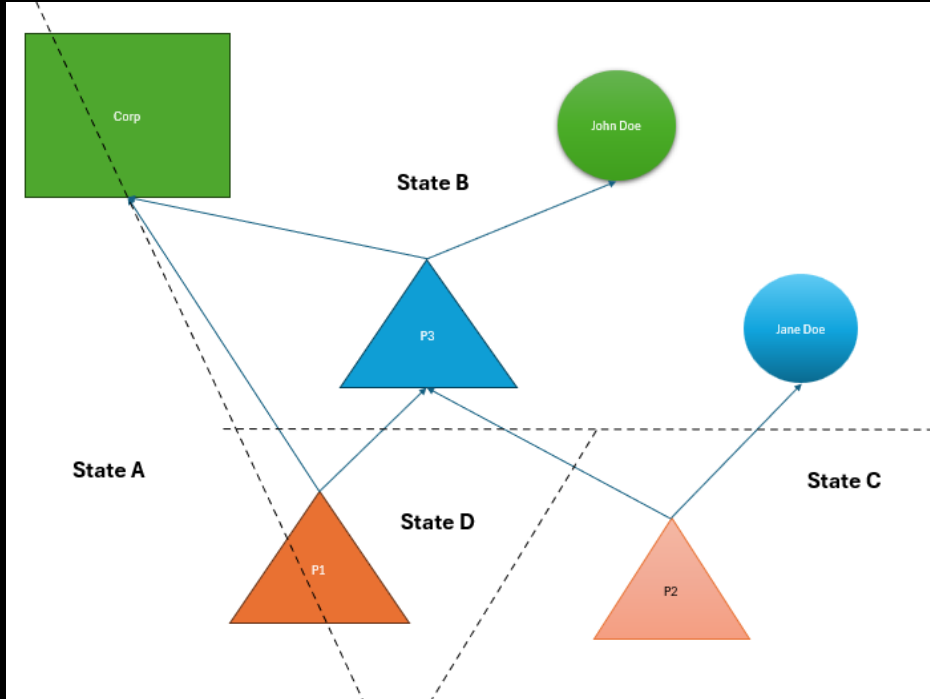
Apportionment items are not blended and are tacked on to each distributive share to provide for accurate blending at any level of ownership.

K-1 received from P1		Select "Yes" if income from P1 is not blended with P3 income.				
Separate Apportionment		Yes				
P&L		Total	State A	State B	State C	State D
Receipts		\$ 9,000,000	\$ 3,000,000			\$ 6,000,000
Payroll		\$ -	\$ -			\$ -
Property		\$ -	\$ -			\$ -
Ordinary Income - Type 1	50%	\$ 3,000,000	\$ 1,000,000			\$ 2,000,000
Ordinary Income - Type 2	50%	\$ -	\$ -			\$ -
Deduction - Type 3	50%	\$ -	\$ -			\$ -
Net Capital Gain (Loss)	50%	\$ -	\$ -			\$ -
Total Net Distributive Share from P1		\$ 3,000,000	\$ 1,000,000			\$ 2,000,000
Share of Factor Baseline		\$ 3,000,000				
Factor Share		50.00%				

K-1 received from P2		Select "Yes" if income from P1 is not blended with P3 income.				
Separate Apportionment		Yes				
Partnership 3 Distributive Share of Partnership 2 Items - P&L		Total	State A	State B	State C	State D
Receipts		\$ 1,000,000			\$ 1,000,000	
Payroll		\$ -			\$ -	
Property		\$ -			\$ -	
Ordinary Income - Type 1	50%	\$ 250,000			\$ 250,000	
Ordinary Income - Type 2	50%	\$ -			\$ -	
Deduction - Type 3	50%	\$ -			\$ -	
Net Capital Gain (Loss)	50%	\$ -			\$ -	
Total Net Distributive Share from P1		\$ 250,000			\$ 250,000	
Share of Factor Baseline		\$ 250,000				
Factor Share		50%				

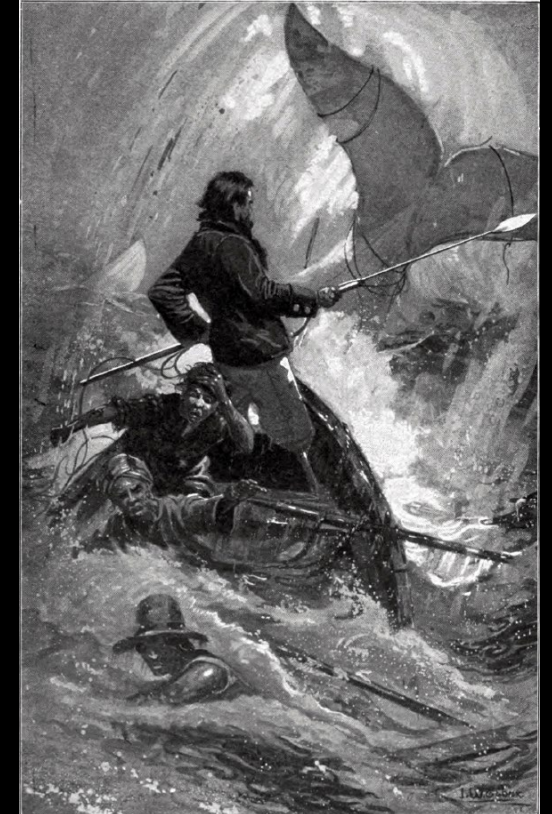
EXAMPLE 2 CONTINUED: CORP. HAS A UNITARY RELATIONSHIP WITH ONE OF THE PARTNERSHIPS.



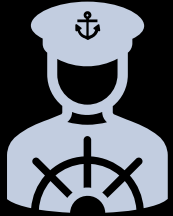
(Ahab unitary with Moby Dick is fitting!)

HYPOTHETICAL FACTS

- Corp., **Ahab Inc.**, derives \$8 million from selling coffee beans in states A and B.
- Ahab Inc. is unitary with Moby Dick LLC (P1), but not with Melville LLC (P2) or Pequod LLC (P3).
- Ahab Inc. receives:
  - 95% of the separately apportioned distributive share of Moby Dick LLC income stated on Pequod LLC Schedule K, and
  - 50% of the separately apportioned distributive share of Melville LLC income stated on Pequod LLC Schedule K.

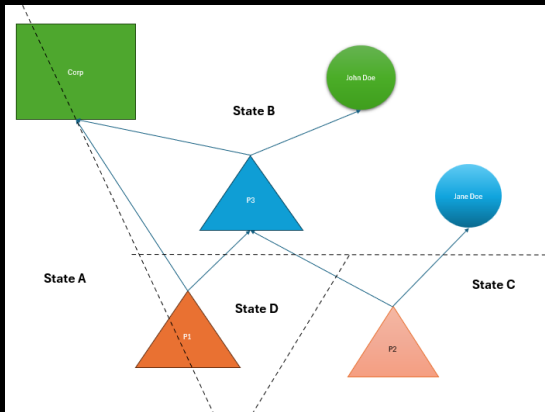


EXAMPLE 2  
COFFEE  
AND  
FISHERY  
AHAB INC



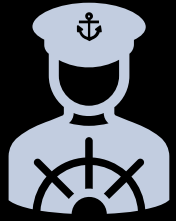
Ahab Inc. self-generated income

K1 received from Moby Dick LLC (P1)



Corporate Partner - Items and Factors	Total	State A	State B
<b>Self-generated Corporate Income and Receipts -</b>			
Gross Receipts - Ordinary	\$ 28,000,000	\$ 25,000,000	\$ 3,000,000
General Corporate Expenses	\$ (20,000,000)		
Expense - Charges from Partnership	\$ -		
Ordinary Net Income	\$ 8,000,000		
Capital Sale Proceeds - Corp Asset	\$ -		
Capital Basis Deduction - Corp Asset			
Net Capital Gain (Loss)	\$ -		
Total Corporate Self-Generated Net Income	\$ 8,000,000		
Corporation's Ordinary Receipts	\$ 28,000,000	\$ 25,000,000	\$ 3,000,000
Corporation's Ordinary Receipts Including Capital Sale	\$ 28,000,000	\$ 25,000,000	\$ 3,000,000
Payroll			
Property			

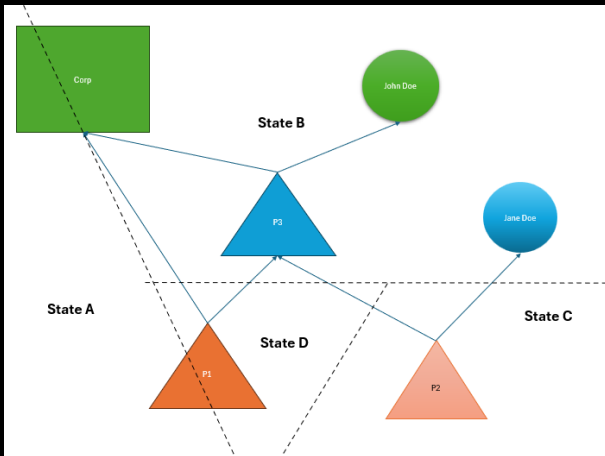
K-1 received from P1				
Separate Apportionment <input type="checkbox"/> No				
Corporate Partner's Distributive Share of Partnership Items	P&L	Total	State A	State D
Receipts		\$ 9,000,000	\$ 3,000,000	\$ 6,000,000
Payroll		\$ -	\$ -	\$ -
Property		\$ -	\$ -	\$ -
Ordinary Income - Type 1	50%	\$ 3,000,000	\$ 1,000,000	\$ 2,000,000
Ordinary Income - Type 2	50%	\$ -	\$ -	\$ -
Deduction - Type 3	50%	\$ -	\$ -	\$ -
Net Capital Gain (Loss)	50%	\$ -	\$ -	\$ -
Total Net Distributive Share from P1		\$ 3,000,000	\$ 1,000,000	\$ 2,000,000
Share of Factor Baseline		\$ 3,000,000		
Factor Share		50%		



K1 received from Pequod LLC (P3)

Income from Moby Dick LLC is unitary with Ahab Inc. income, So Ahab Inc. is selecting "No" to separate apportionment with Moby Dick LLC's share, but "yes" with Melville LLC's share.

EXAMPLE 2  
COFFEE  
AND  
FISHERY  
AHAB INC



K-1 received from P3		P&L				
Blended Portion		Total	State A	State B	State C	State D
Separate Apportionment of P3 Blended Income	No					
<b>Partnership 3 Distributive Share of Partnership Items</b>						
Receipts		\$ -	\$ -	\$ -	\$ -	\$ -
Payroll		\$ -	\$ -	\$ -	\$ -	\$ -
Property		\$ -	\$ -	\$ -	\$ -	\$ -
Ordinary Income - Type 1	0%	\$ -	\$ -	\$ -	\$ -	\$ -
Ordinary Income - Type 2	50%	\$ -	\$ -	\$ -	\$ -	\$ -
Deduction - type 3	50%	\$ -	\$ -	\$ -	\$ -	\$ -
Net capital gain (loss)	50%	\$ -	\$ -	\$ -	\$ -	\$ -
Net distributive share from P3 blended income		\$ -	\$ -	\$ -	\$ -	\$ -
Share of Factor Baseline		\$ -				
Factor Share		0%				
<b>Separately Apportioned Item from P1</b>						
Separate Apportionment of P1 income	No					
Ordinary Income - Type 1	95%	\$ 2,850,000	\$ 950,000			\$ 1,900,000
Ordinary Income - Type 2	50%	\$ -	\$ -			\$ -
Deduction - Type 3	50%	\$ -	\$ -			\$ -
Net Capital Gain (Loss)	50%	\$ -	\$ -			\$ -
Share of Factor Baseline		\$ 2,850,000				\$ 1,900,000
Factor Share		95%				
Receipts		\$ 8,550,000	\$ 2,850,000			\$ 5,700,000
Payroll		\$ -	\$ -			\$ -
Property		\$ -	\$ -			\$ -
<b>Separately Apportioned Item from P2</b>						
Separate Apportionment of P2 income	Yes					
Ordinary Income - Type 1	50%	\$ 125,000				\$ 125,000
Ordinary Income - Type 2	50%	\$ -				\$ -
Deduction - Type 3	50%	\$ -				\$ -
Net Capital Gain (Loss)	50%	\$ -				\$ -
Share of Factor Baseline		\$ 125,000				\$ 125,000
Factor Share		50%				
Receipts		\$ 500,000				\$ 500,000
Payroll		\$ -				\$ -
Property		\$ -				\$ -

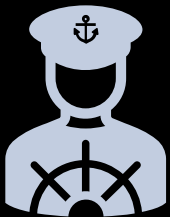
## EXAMPLE 2

COFFEE

AND

FISHERY

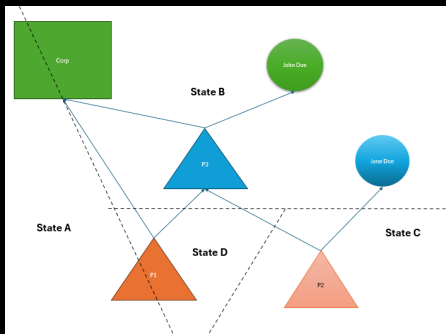
AHAB INC.



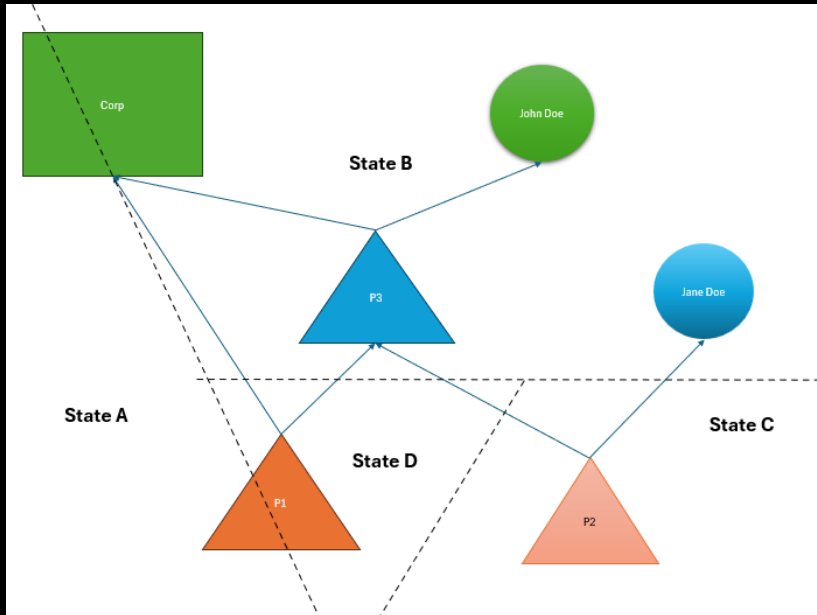
Corporate Combined Returns		Total	State A	State B	State C	State D
Receipts		\$ 45,550,000	\$ 30,850,000	\$ 3,000,000	\$ -	\$ 11,700,000
Payroll		\$ -	\$ -	\$ -	\$ -	\$ -
Property		\$ -	\$ -	\$ -	\$ -	\$ -
	Factor		1	1	0	1
			67.73%	6.59%	0.00%	25.69%
Ordinary Income - Type 1		\$ 13,850,000	\$ 9,380,296	\$ 912,184	\$ -	\$ 3,557,519
Ordinary Income - Type 2		\$ -	\$ -	\$ -	\$ -	\$ -
Deduction - Type 3		\$ -	\$ -	\$ -	\$ -	\$ -
Net capital gain (loss)		\$ -	\$ -	\$ -	\$ -	\$ -
	Total Net Blended Income	\$ 13,850,000	\$ 9,380,296	\$ 912,184	\$ -	\$ 3,557,519
	Separately Apportioned Income from P1	\$ -	\$ -	\$ -	\$ -	\$ -
	Separately Apportioned Income from P3	\$ -	\$ -	\$ -	\$ -	\$ -
	Separately Apportioned Income from P1 Received Through P3	\$ -	\$ -	\$ -	\$ -	\$ -
	Separately Apportioned Income from P2 Received Through P3	\$ 125,000	\$ -	\$ -	\$ 125,000	\$ -
	Total Separately Apportioned Income	\$ 125,000	\$ -	\$ -	\$ 125,000	\$ -
	Total Net Income	\$ 13,975,000	\$ 9,380,296	\$ 912,184	\$ 125,000	\$ 3,557,519

Ahab, Inc. blends its own income from the sale of coffee in states A and B with its distributive shares of Moby Dick's partnership income whether received directly, or indirectly from Pequod LLC.

Ahab Inc. reports its distributive share of Melville LLC using separate apportionment.



### EXAMPLE 3



### HYPOTHETICAL FACTS

- For P1 (Moby Dick LLC) and P2 (Melville LLC), same as Example 2
- For P3 (Pequod LLC ) Same as example 2, but it also receives \$150k of dividend allocated 50/50 between the partners.
- Ahab Inc. commercial domicile is in State A. Commercial domicile is determined using UDITPA rules.
- No blending is required in any of the states for individuals.

### EXAMPLE 3

COFFEE

AND

FISHERY

PEQUOD LLC (P3)



Income Subject to Blended Apportionment	\$ -	\$ -	\$ -	\$ -	\$ -
Separately Apportioned Income from P1	\$ 3,000,000	\$ 1,000,000			\$ 2,000,000
Factor Baseline	\$ 3,000,000				
Separately Apportioned Income from P2	\$ 250,000			\$ 250,000	
Factor Baseline	\$ 250,000				
Total Separately Apportioned income	\$ 3,250,000	\$ 1,000,000	\$ -	\$ 250,000	\$ 2,000,000
Non-apportionable income or loss specifically assigned	\$ 150,000	\$ -			

Pequod LLC qualifies as a qualified investment partnership (QIP):

- It does not manage Moby Dick LLC or Melville LLC.
- It has no unitary relationship with Moby Dick or Melville.
- It receives income from securities (dividends) of \$100k that the partners must assign to their state of residence or domicile.

Pequod LLC must still report distributive shares from Moby Dick LLC and Melville LLC with the same sourcing determined at the level of Moby Dick LLC and Melville LLC on a separate apportionment basis.

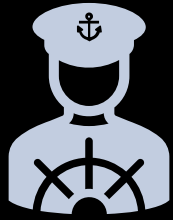
# EXAMPLE 3

COFFEE

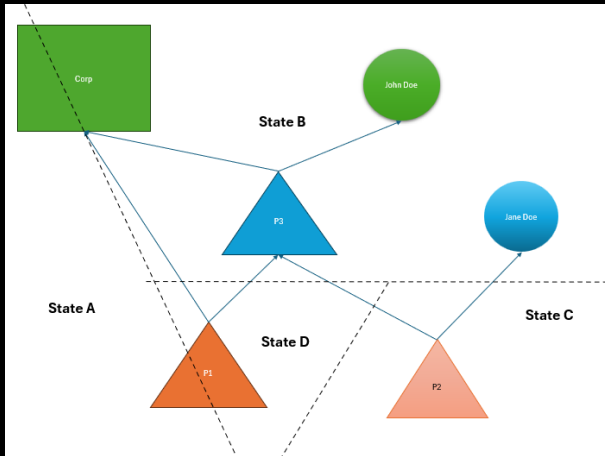
AND

FISHERY

AHAB INC



Dividend from Pequod LLC is sourced to state A, which is the state of commercial domicile of Ahab Inc.



Corporate Combined Returns					
	Total	State A	State B	State C	State D
Receipts	\$ 45,550,000	\$ 30,850,000	\$ 3,000,000	\$ -	\$ 11,700,000
Payroll	\$ -	\$ -	\$ -	\$ -	\$ -
Property	\$ -	\$ -	\$ -	\$ -	\$ -
Factor		1	1	0	1
		67.73%	6.59%	0.00%	25.69%
Ordinary Income - Type 1	\$ 13,850,000	\$ 9,380,296	\$ 912,184	\$ -	\$ 3,557,519
Ordinary Income - Type 2	\$ -	\$ -	\$ -	\$ -	\$ -
Deduction - Type 3	\$ -	\$ -	\$ -	\$ -	\$ -
Net capital gain (loss)	\$ -	\$ -	\$ -	\$ -	\$ -
Total Net Blended Income	\$ 13,850,000	\$ 9,380,296	\$ 912,184	\$ -	\$ 3,557,519
Separately Apportioned Income from P1	\$ -	\$ -	\$ -	\$ -	\$ -
Separately Apportioned Income from P3	\$ -	\$ -	\$ -	\$ -	\$ -
Separately Apportioned Income from P1 Received Through P3	\$ -	\$ -	\$ -	\$ -	\$ -
Separately Apportioned Income from P2 Received Through P3	\$ 125,000	\$ -	\$ -	\$ 125,000	\$ -
Total Separately Apportioned Income	\$ 125,000	\$ -	\$ -	\$ 125,000	\$ -
Non-apportionable income or loss specifically assigned	\$ 75,000	\$ 75,000	\$ -	\$ -	\$ -
Total Net Income	\$ 14,050,000	\$ 9,455,296	\$ 912,184	\$ 125,000	\$ 3,557,519

### EXAMPLE 3

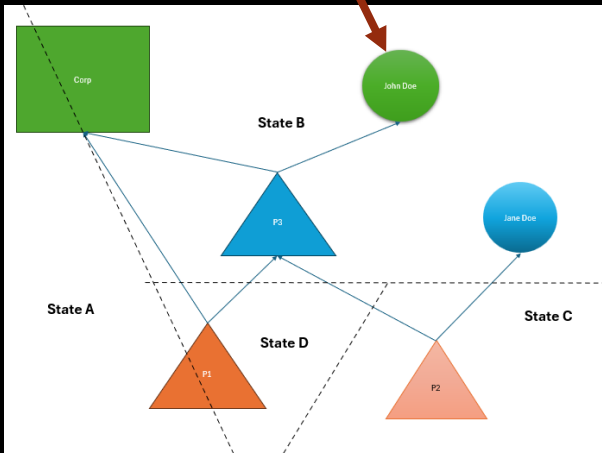
COFFEE

AND

FISHERY

JOHN DOE,  
RESIDENT OF  
STATE B

All the distributive shares are sourced based on separate apportionment or rules of assignment.



Total Net Blended Income	\$ -	\$ -	\$ -	\$ -	\$ -
Separately Apportioned Income from P3	\$ -	\$ -	\$ -	\$ -	\$ -
Separately Apportioned Income from P1 Received Through P3	\$ 150,000	\$ 50,000			\$ 100,000
Separately Apportioned Income from P2 Received Through P3	\$ 125,000			\$ 125,000	
Total Separately Apportioned Income	\$ 275,000	\$ 50,000	\$ -	\$ 125,000	\$ 100,000
Total Net Income	\$ 275,000	\$ 50,000	\$ -	\$ 125,000	\$ 100,000

	Everywhere	State A	State B	State C	State D
Ordinary Income - Type 1	\$ 275,000	\$ 50,000	\$ -	\$ 125,000	\$ 100,000
Ordinary Income - Type 2	\$ -	\$ -	\$ -	\$ -	\$ -
Deduction - Type 3	\$ -	\$ -	\$ -	\$ -	\$ -
Non-apportionable income or loss specifically assigned	\$ 75,000		\$ 75,000		
Net Ordinary Income	\$ 350,000	\$ 50,000	\$ 75,000	\$ 125,000	\$ 100,000

John Doe's dividend is sourced to his state of residence, state B.



QUESTIONS?