



# State Taxation of Partnerships – Status Report

APRIL 15, 2026

## **APPROACH TO THE PROJECT**

- **Research existing state rules**
- **Studying particular sourcing issues that may need to be addressed – to provide greater clarity or uniformity**
- **Drafting white papers on these issues**
- **Drafting model provisions**

## IMPORTANT NOTES

- The provisions address **how state sourcing rules apply** to partnership income.
- Some unique partnership issues may call for uniform sourcing rules.
- **Consistency in sourcing with entity level taxes** is also key.
- Tax treatment –including sourcing—depends on the character of items.

## IMPORTANT NOTES

- Partnerships determine the character of partnership items.
- The character of partnership items is attributed to the partners' shares of those items.
- Attribution applies for state tax purposes, including when sourcing items.
- Tax attributes of the partner have a limited effect on sourcing.
  - Blending
  - Rare cases – non-apportionable items

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## IMPORTANT NOTES

- Application of the unitary business principle to partnerships is unclear.
- Anti-abuse rules and limits are essential.
- **Additional regulations will be needed** to implement the provisions here.
- As with partnership taxation generally, information reporting is essential.

## **COMBINED MODEL PROVISIONS – STATE SOURCING**

### **■ Summary – General Rules**

- Start at the partnership that first recognizes the income for tax purposes.**
- Determine tax character of partnership items – including whether they are apportionable or non-apportionable based on the partnership’s information and activities.**
- Determine related apportionment factors.**
- Capture and report necessary information to all direct partners to allow them to comply with state sourcing rules applied to income of businesses.**

## COMBINED MODEL PROVISIONS – STATE SOURCING

- **Summary – General Rules**
  - For tiered and corporate partners – determine if partnership items allocated directly from partnership are part of a unitary business in which the partner participates.
  - If so, apply blending – using the distributive share to determine the share of partnership factors to include in the partner’s formula, and applying the absolute value method if necessary.
  - Comply with all pass-through anti-abuse rules applied to prevent change in the character or source of income.

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## COMBINED MODEL PROVISIONS – STATE SOURCING

- **Summary – Guaranteed Payments for Services**
  - Sourced in the same way as that partner’s distributive share would be sourced. (See the general rules.)
  - Generous credit for taxes paid for residents taxed in another state on the same guaranteed payment based on location of services.

## COMBINED MODEL PROVISIONS – STATE SOURCING

- **Summary – Exception for Income of Investment Partnerships**
  - Applies only to nonresident individual partners (or persons taxed as nonresidents) who are not active in the investment partnership.
  - The activities of the investment partnership (as defined) will not affect the sourcing of income from the investments.
  - Rather, the partners will source the income from the investments as though they held the assets directly.

## **STATUS REPORT**

- Issued combined model provisions –  
March 15, 2026
  - General Provisions – Sourcing Partnership  
Income – Tiered & Corporate Partners
  - Sourcing of Guaranteed Payments for  
Services
  - Sourcing of Income of Investment  
Partnerships

## STATUS REPORT

- Made clarifying revisions to combined model language – April 15, 2026
- First section – sourcing of partnership income for tiered and corporate partners.
  - “Tax” character
  - “Partnership” items
  - Items versus assets
  - Tiered partners & partnerships
  - Added drafter’s notes to Part VI – sufficient unitary relationship

## **STATUS REPORT**

- Did not change the substance of the approaches.
- Did not try to specifically what would be a sufficient unitary relationship.
- Waiting on additional comments.



# QUESTIONS

