

Metro Business Income Tax Administrative Rule 7.07 – 1061

7.07 – 10601 Treatment of Currently Taxed Pass-Through Income

Business Income Tax requires that a tax be paid by a Partnership or S corporation doing business in the Metro District. This tax is measured by the net income of the entity at the entity level.

To avoid potential double taxation of partnership and S corporation income (loss) as it flows through to a partner or shareholder who is also liable to pay a tax for business activities separate from the flow-through activities, the partner or shareholder will reverse all income (loss) items and attributes that passed through from a currently taxed entity.

If the partnership or S Corporation is not subject to the Business Income Tax, the recipient entity is not entitled to reverse the net income (loss) pass-through items.

Example 1:

Ace Tools, a partnership, is located in the Metro district and pays business taxes on incomes earned in the Metro district. One of the partners of Ace Tools is another partnership, Top Brass. Top Brass also owns commercial buildings that generate \$500,000 per month. Top Brass must pay business income taxes for Metro business incomes that are not income reported by Ace Tools.

Ace Tools had net income of \$10,000,000. Top Brass received 75% of the partnership profit.

Top Brass has net income of \$4,700,000 including a loss of (\$2,800,000) in net rental income from commercial buildings. In determining the income for Metro, Top Brass will exclude the \$7,500,000 passed through from Ace Tools and will not include the distributive share of Ace Tools partnership ~~gross income sales~~ in either the numerator or denominator of the ~~apportionment sales~~ factor. Top Brass would report a loss of (\$2,800,000) ~~and gross income of \$6,000,000.~~

Example 2:

Bellevue Corporation, a taxpayer domiciled in the Metro district, is a partner in Costello Partnership in addition to other business activities in the Metro district. Costello Partnership conducts all its income producing activity outside the Metro district. Since Costello Partnership is not required to file or pay the business income tax, Bellevue will include the pass-through net income from Costello in reported net income, and will include the pass-through ~~gross income sales~~ from Costello in the denominator of the ~~apportionment formula sales factor~~ for business tax purposes.

Note: Applicable for tax years beginning on or after 1/1/2023.

XX-XX-2023

Date

Adopted XX-XX-2023

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