Income/Franchise:
California FTB Issues Final Rule Changes on the Apportionment and Allocation of Partnership Income for Corporate and Individual Tax Purposes

Amended Regulation Sections 25137-1 and 17951-4 – Apportionment and Allocation of Partnership Income, Cal. FTB (eff. 1/1/19). The California Franchise Tax Board (FTB) has issued amended regulations that establish appropriate guidelines for determining the apportionment and allocation rules for individual and corporate taxpayers with ownership interests in tiered partnership structures, including those that sell a partnership interest, and how income derived in that context should be sourced. The amendments address tiered ownership structures, indicating that the various rules embedded in the regulation also apply to partnerships conducting business within and without California that are owned, or partially owned, by other partnerships that also conduct business within and without California. Addressing sales between a unitary partnership and other members of the combined reporting group, the amended regulations explicitly state that sales between a unitary partnership and other members of the taxpayer’s combined reporting group should not be reflected in the combined reporting group’s sales factor. Other changes include specifying that a taxpayer’s partnership interest for purposes of computing a taxpayer’s apportionment factors generally is determined by the portion of total interest in profits of the partnership assigned to the partner for the taxable year. The amended regulations additionally clarify the provisions applicable for determining a nonresident partner’s California source income from a partnership that conducts business both within and outside of California.

URL: https://www.ftb.ca.gov/law/regs/25137/Final-Text.pdf

See previously issued Multistate Tax Alert for more details on these revisions, and please contact us with any questions.


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