

NET PROFITS TAX: Deductibility of 401K and Pension Contributions

Q: For a partnership, are employers' contributions to 401K plans and pension plans on behalf of both partners and employees deductible for purposes of the Net Profits Tax?

A: *The partnership's contributions to a pension / profit sharing / retirement plan on behalf of its employees are deductible for Net Profits Tax purposes. Contributions to a partner's retirement plan, however, are not deductible for NPT purposes. The expense is not seen by the PHLDOR as ordinary, necessary and reasonable as is required under the definition of "Net Gain" at Income Regulation 101(h.). A contribution to the retirement plan of a partner is not an expense; it is a distribution and use of the partnership's profits.*