

City of Philadelphia – Department of Revenue

Statement of Policy

Partnerships – Technical Terminations under IRC § 708(b)(1)(B)

March 2006

In the Fall of 1999, the Philadelphia Department of Revenue (“PHLDOR”) responded to a question posed by the Pennsylvania Institute of Certified Public Accountants (“PICPA”) as to Philadelphia’s treatment of the *technical termination* of a partnership under IRC § 708(b)(1)(B). At that time, PHLDOR stated that if a partnership terminated under IRC 708(b)(1)(B) it would be considered as terminated for purposes of the Business Privilege Tax and Net Profits Tax. The terminated partnership would then file a final Net Profits Tax return within 105 days of the date of the technical termination. The *new* partnership would in turn apply for a new City Business Tax Account Number and secure a new Business Privilege Tax license.

For technical terminations that occur on or after January 1, 2005, this previous policy is revised.

For partnerships that have gone through a technical termination under IRC § 708(b)(1)(B) on or after January 1, 2005 and where the *new* partnership retains the same Federal EIN as the *terminated* partnership [in accordance with USTR § 301.6109-1(d)(2)(iii)], the successor partnership will be considered to be a continuation of the predecessor partnership. In the calendar year of the technical termination, **both** short-period Federal Partnership returns (Form 1065) will be used for purposes of reporting on one (1) Business Privilege Tax and one (1) Net Profits Tax return. Net losses from one short-period return may offset the Net Income/Profit from the other short period. Business Privilege Tax loss carry-forwards (“LCF”) may be carried to the successor partnership. There will be no need to acquire a new Business Privilege Tax License.

For partnerships that have gone through a technical termination under IRC § 708(b)(1)(B) on or after January 1, 2005 and where the *new* partnership were to receive a new Federal EIN under any applicable provision of the Internal Revenue Code (or Regulations promulgated thereunder), the *terminated* partnership will be considered by the PHLDOR as having terminated. The terminated partnership will need to file a final Business Privilege Tax return and a final Net Profits Tax return. The successor partnership will be required to apply to the PHLDOR for a new Business Tax Account number and secure a new Business Privilege Tax License. Any LCF from the *terminated* partnership cannot be used by the successor partnership.

Note

This policy is being issued to provide guidance to taxpayers and their practitioner representatives. Though it does not carry the force of a statute or PHLDOR promulgated regulation, taxpayers may rely upon it in filing their Business Privilege Tax and Net Profits Tax returns. Should the underlying Federal Internal Revenue Code provisions noted above be amended, the PHLDOR reserves the right to amend this policy. The PHLDOR reserves the right to amend this policy at any time provided that such amendment will be applied prospectively and after notice of such revision is posted on our website.