



Contact:

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Q. How are partnerships taxed?

A. A partnership does not pay income tax. Rather its income is taxed at the partner level on their individual tax returns. The tax is on their share of the partnership income, not how much was taken out of the partnership.

Q. How are partnership sales taxed?

A. If you sell your partnership interest it is generally taxed at long term capital gains rates. One must also determine if it is subject to what's called "net investment income tax" (consult your CPA). A partner may also have to pay ordinary tax rates on what's called "hot assets" in the partnership. That would include unrealized accounts receivable and inventory for example.

Q. Can a partner be paid wages?

A. No. A partner cannot be paid wages and be an employee of the partnership. They can be paid via equity draw or guaranteed payments. Consult your CPA.

Q. Do I need a partnership agreement to start a partnership?

A. No, however I strongly recommend one. Failure to have a partnership agreement will result in the governing rules of the partnership be ruled by state statutes. This is not ideal. I strongly recommend obtaining a partnership agreement at the beginning of the partnership. This sets the governing rules of the partnership, the profit and loss payouts, what happens in a dissolution, etc.

Q. When are partnership tax returns due?

A. Partnership tax returns are due March 15 after year end with an extension due date of September 15.