

Tax Insights | April 20, 2022
**Tracking Tax News,
You Need to Know**



IRS Adds More Instructions for Partnership Foreign Income Forms

The IRS updated its [instructions](#) for foreign reporting requirements for partnerships. The new FAQs and answers on Schedules K-2 and K-3 provide responses to certain questions on how a RIC can fill out Schedules K-2 and K-3 for international tax reporting exemption, when an S Corporation is required to complete the relevant part of the forms and which parts of the forms are required to be completed for “dormant foreign corporations. See our prior coverage [here](#).

Tax Court Determines Nonprofit’s Founder To Be Employee

The U.S. Tax Court held that a non-profit founder would be considered a statutory employee required to pay employment taxes. In [The REDI Foundation, Inc. v. Commissioner, T.C. Memo 2022-34](#), the taxpayer, which is a 501(c)(3) foundation, was formed by the founder, who also acted as treasurer of the organization. The taxpayer compensated the founder based on his performance, but it did not pay employment taxes. The IRS determined the founder to be an employee, and the court agreed, based on the services performed by the founder.

New York State Budget Bill Amends Pass-through Entity Tax

New York Governor Kathy Hochul signed the Fiscal Year 2023 budget legislation ([Budget Bill](#)) that amends the state’s pass-through entity tax (PTET) by creating a new S corporation class for entities with all resident shareholders, expanding the scope of the PTET base for such S corporations to include all taxable income flowing up to the resident shareholders. The amendment is expected to provide more benefit to the resident shareholders. The Budget Bill also creates a new tax code to create a PTET for New York City, similar to the state PTET, effective for tax years beginning on or after Jan. 1, 2023. Under the new code, certain eligible city partnerships and city resident S corporations can make an annual NYC PTET election. The base of the NYC PTET, imposed at a flat rate of 3.876%, includes all items of income included in the city taxable income of a partner or resident shareholder of the electing city partnership or S corporation.



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