



MULTISTATE INCOME/FRANCHISE TAX

New York enacts provisions for reporting federal partnership adjustments

Tax Alert

Overview

On May 9, 2025, the New York budget bill, [A3009C/S3009C](#), for fiscal year 2026 (“Budget Bill”) was enacted into law. The Budget Bill includes changes to the reporting and payment requirements for federal partnership adjustments, regardless of the tax impact.

This Tax Alert summarizes the provisions related to reporting federal partnership adjustments in New York.

Requirements for reporting federal partnership adjustments

Scope

- Partnerships that have a New York resident partner or income derived from New York sources are required to report federal partnership adjustments regardless of tax impact.
- Impacted partnerships include a partnership that was issued a final federal adjustment; or made a federal election for alternative payment with the Internal Revenue Service (“IRS”) as part of a federal partnership level audit; or filed an administrative adjustment request (“AAR”) with the IRS.

Timing

- Impacted partnerships are required to report federal partnership adjustments arising from a partnership level audit or AAR within 90 days after the final determination date or date the AAR was filed.
- This includes amending its New York State partnership return for the reviewed year (the partnership taxable year to which the item being adjusted relates), amending the group return for nonresident partners (if originally filed for the reviewed year), and remitting any additional nonresident withholding tax due as a result of the adjustment(s).
- The timeframe for reporting federal partnership adjustments may be extended automatically, upon written notice to the commissioner, by 60 days for an impacted partnership which has 10,000 or more direct partners.

Partner implications

- Direct partners must report federal partnership adjustments arising from a partnership level audit or AAR and remit any additional tax due, including any penalties and interest, within 180 days after the final determination date or date the AAR was filed, as applicable.
- Tiered partners must report federal partnership adjustments arising from a partnership level audit or AAR within 90 days after the deadline for furnishing statements to tiered partners and their partners under Internal Revenue Code section 6226 (i.e., the extended due date of the federal return for the year in which the adjustment is made or becomes final).
 - The timeframe for reporting federal partnership adjustments may be extended automatically, upon written notice to the commissioner, by 60 days for a tiered partner which has 10,000 or more direct partners.

Alternative payment mechanism

- Impacted partnerships and their tiered partners can elect to pay taxes on behalf of their direct and indirect partners.
- The election must be made within 90 days after the final determination date or date the AAR was filed, as applicable, and payment must be made within 180 days after the final determination date or date the AAR was filed, as applicable.
- The impacted partnership must remit such amount as is necessary to ensure payment of the total amount that would have been due had the federal partnership adjustments been properly originally reported, together with applicable penalties; such total amount being the sum of the following:
 - Direct Article 9-A (corporations) and Article 33 (insurance companies) partners – distributive share of income apportioned to New York using New York corporate apportionment rules under Article 9-A multiplied by the highest corporate tax rate under Article 9-A in effect for the reviewed year; and
 - Direct nonresident partners under Article 605(b) (includes individuals, trusts, and estates) - distributive share of income sourced to New York using New York allocation rules applicable under Article 22 (applicable to nonresident individuals, estates, trusts, and partnerships) multiplied by the highest individual income tax rate for the reviewed year; and
 - Direct New York resident partners under Article 605(b) (includes individuals, trusts, and estates) - distributive share of income multiplied by the highest individual income tax rate for the reviewed year; and
 - New York City resident individual partners - distributive share of income multiplied by the highest New York City individual income tax rate for the reviewed year; and
 - Tiered partners – distributive share of income included based on the rules outlined above applicable to the ultimate taxpaying partner. However, if it cannot be reasonably established who the ultimate taxpaying partner is, then the distributive share of income should be treated as if it were the distributive share of income of a New York resident partner; and
 - Any penalties and interest applicable under Article 22 (personal income tax).
- In computing the amount required to be remitted pursuant to this alternative payment mechanism, the partnership may claim a credit for

amounts already paid or withheld and remitted on behalf of direct partners.

Alternative reporting and payment method

- An impacted partnership or tiered partners may enter into an agreement with the commissioner to utilize an alternative reporting and payment method if the impacted partnership or tiered partner demonstrates that the requested method will reasonably provide for the reporting and payment of taxes, penalties, and interest due under these provisions, or if the impacted partnership or tiered partnership can show that their direct partners have agreed to allow a refund of the tax to the entity.
- Application for approval of an alternative reporting and payment method must be made within the timeframe for reporting federal partnership adjustments applicable to the impacted partnership or tiered partner, as outlined above.

Penalties for failure to report federal adjustments

- Any partnership, S corporation, or trust subject to these reporting requirements that fails to file an amended return or report federal partnership adjustments or files a return or report which fails to show all required information as required is subject to a per partner penalty under N.Y. Tax Law section 685. The amount of such penalty for each month (for a maximum of 5 months) that the failure continues is the product of \$50, multiplied by the number of partners subject to tax under Article 22 (individuals, estates, and trusts), except that, in the case of a trust, the penalty is equal to \$150 per month, up to a maximum of \$1,500 per taxable year.

Statute of limitations

- If a partnership or partner reports federal partnership adjustments in a timely manner, a deficiency resulting from the adjustments may be assessed at any time within two years after the federal adjustment report or New York amended return was filed as required under N.Y. Tax sections 659-a.
- Claims for refund or credits of tax arising from a federal partnership adjustment may be claimed on or before the later of: the expiration of the last day for filing a claim for refund or credit of tax pursuant to N.Y. Tax section 687, including any extensions, or one year from the date the final federal adjustments were required to be reported to New York, including any extensions.

Effective date

- These provisions are effective immediately upon enactment on May 9, 2025.
- Adjustments with a final determination date or AAR occurring prior to the effective date must be reported within one year of the effective date. No interest shall accrue on adjustments made prior to the effective date.

New York City business taxes

- The Budget Bill also contains provisions related to the reporting of federal partnership adjustments for partnerships and its partners subject to the New York City Unincorporated Business Tax, General Corporation Tax, Banking Corporation Tax, and Corporation Tax.

- Any taxpayer subject to an alternative adjustment action (i.e., a final federal adjustment, federal election for alternative payment (push-out election under Internal Revenue Code section 6226), or filing of an AAR), or that is a partner in a partnership subject to an alternative adjustment action, shall report such alternative adjustment action within 90 days after the alternative adjustment action occurs, as applicable, regardless of the tax impact.

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