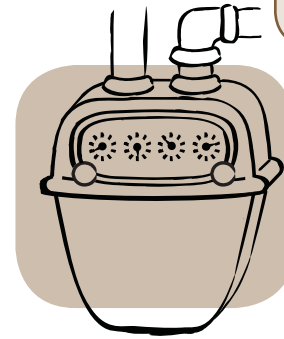


# Sales Tax Information for Public Utilities

**DRAFT**

**REVISED**

10:39 am, Jun 28, 2018



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## Introduction

This publication provides tax information relating to public utilities. It includes Utah law and Tax Commission rules, but is not all-inclusive. Future law or rule changes may change this publication.

Find general sales and use tax information in Publication 25.

## Delivery Locations

The location where a transaction is completed is the location where a purchaser receives gas or electricity sold by a public utility. This is the customer's residential or business address. The location of the meter is normally the point of sale or use.

The Tax Commission establishes a sales tax account's delivery location outlets according to the information provided by the account holder. These outlets are pre-printed on form TC-62M Schedule A in addition to brick-and-mortar outlets.

Public utilities report sales and use tax on form TC-62M and Schedule A. Each jurisdiction where service is delivered is listed as a delivery location on Schedule A.

## Municipal Energy Sales and Use Tax

A municipality may levy municipal energy sales and use tax of up to 6 percent of the delivered value of taxable energy (gas and electricity) sold or used within its borders. This is in addition to any local-option sales and use taxes the municipality imposes.

The easiest way to file all municipal energy sales and use tax returns, reports and payments is online, using Taxpayer Access Point (TAP), our online account management system. TAP:

- is fast
- is accurate
- calculates for you
- is available 24/7

You will need the following information to set up online access to your accounts:

- Federal Employer Identification Number (FEIN) or Social Security Number (SSN),
- Utah 14-digit account number
- Your PIN

The return and payment are both due at the same time as your *Sales and Use Tax Return*.

Exemptions from sales and use taxes do not apply to the municipal energy sales and use tax. However, municipalities must exempt:

- sales and use of motor fuel, special fuel and aviation fuel subject to motor and special fuel tax;
- sales and use of gas and electricity that the municipality is prohibited from taxing under federal law, the U.S. Constitution or the Utah Constitution;
- gas and electricity brought into Utah by a nonresident for the nonresident's personal use;
- sales or use of gas and electricity for any purpose other than use as a fuel or energy;
- sales or use of gas and electricity to a person if the primary use is for compounding or producing gas and electricity or a fuel subject to the motor and special fuel tax;
- sales of gas and electricity for use outside of the municipality imposing the tax;
- sales and use of gas and electricity purchased or stored in Utah for resale; or,
- sales of electricity produced from a new alternative energy source built after Jan. 1, 2016, as designated in the retail tariff by the Public Service Commission of Utah.

A municipality that generates electricity for customers within its borders may exempt customers who, as of July 1, 1997, were receiving electrical energy from a supplier other than the municipality and whose needs the municipality cannot meet.

The Tax Commission receives and distributes tax revenues for the participating localities, unless the municipality is the energy supplier, or the energy supplier collects at least \$1 million in municipal energy sales and use taxes annually from its Utah customers. In those cases, the energy supplier pays the municipal energy sales and use taxes it collects directly to the municipality and electronically files an annual information return (TC-62ER, *Municipal Energy Sales and Use Tax Report*) with the Tax Commission.

The delivered value is the arm's length sales price of the energy, including any transportation, freight, service or customer demand charges, or other costs incurred in obtaining the energy. The point of delivery of gas and electricity is normally the location of the meter.

A user of natural gas or electricity who has paid municipal energy sales and use tax to a supplier on a portion of the delivered value of the energy (evidenced by a separate charge on the invoice from the supplier) may credit the taxes paid to the supplier against the tax it pays the Tax Commission. The tax is distributed to the municipality that levied the tax.

Taxpayers who pay the municipal energy sales and use tax on a monthly basis qualify for a 1 percent seller discount.

## Energy Suppliers

An energy supplier includes an entity that bills a consumer for costs to transport taxable energy to that consumer. An entity that has Utah nexus and bills an end user for taxable energy transportation costs must include on the billing the municipal energy sales and use tax calculated on the transportation costs.

Some gas consumers buy energy from third-party suppliers, but another entity transports the gas. In such cases, if the transporter does NOT charge municipal energy sales and use tax on the transportation, then the consumer must become licensed for municipal energy sales and use tax and report the amount directly to the Tax Commission (form TC-62E).

Anyone who delivers taxable energy to the point of sale or use, but provides only the transportation component of the taxable energy, must report delivery volumes each quarter. Use Schedule TC-62ET to report delivery volumes for each user to whom you provide only the transportation component of the taxable energy's delivered volume.

## Multi-Channel Audio and Video Service

Amounts paid or charged for multi-channel video or audio services provided by a multi-channel video or audio service provider within Utah are taxable at the statewide rate of 6.25 percent. The provider or seller of multi-channel video and audio services must calculate, collect, report and pay the tax to the Tax Commission. Use form TC-62W, *Miscellaneous Sales Taxes, Fees and Charges Return*. Calculate the tax on the base price plus any franchise fee combined into the total service charge.

The return and payment are both due at the same time as your *Sales and Use Tax Return*. You may pay online at [tap.utah.gov](http://tap.utah.gov).

A multi-channel video or audio service provider is defined as any person or group of persons that:

- provides multi-channel video or audio service and directly or indirectly owns a significant interest in the multi-channel video or audio service; or
- otherwise controls or is responsible, through any arrangement, for the management and operation of the multi-channel video or audio service.

A multi-channel video or audio service provider includes the following, except those specifically exempted by state or federal law:

- a cable operator,
- a SMATV operator,
- a CATV provider,
- a direct-to-home satellite service provider,
- a multi-point distribution provider,
- a DBS provider, and
- a MMDS provider.

A multi-channel video or audio service provider may claim a nonrefundable tax credit against the multi-channel video or audio tax imposed on the provider. The credit is in an amount equal to 50 percent of the total amount of county or municipality franchise fees paid by the provider to all counties and municipalities that impose the franchise fee. The credit must be claimed each filing period on the return filed for that period and may not be carried forward or back. The tax credit does not reduce the cost of the service when calculating tax due.

The provider must pass through to its customers the amount of nonrefundable credit claims for a filing period and it must be done in the same period for which the credit is claimed by the provider. The tax rate may not be reduced to compensate for the claimed credit.

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Sales tax publications provide general guidance only. They do not contain all sales or use tax laws or rules. If you need more information, call 801-297-7705 or 1-800-662-4335, ext. 7705 (outside the Salt Lake area), or email [taxmaster@utah.gov](mailto:taxmaster@utah.gov).

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The provider must pass through to its customers the amount of nonrefundable credit claims for a filing period and it must be done in the same period for which the credit is claimed by the provider. The tax rate may not be reduced to compensate for the claimed credit.

# Pass-through Entity Withholding

**DRAFT**



**Utah State Tax Commission**

210 North 1950 West  
 Salt Lake City, Utah 84134  
 801-297-7705  
 1-800-662-4335, ext. 7705  
 tax.utah.gov

*If you need an accommodation under the Americans with Disabilities Act, call 801-297-3811, or TDD 801-297-2020. Please allow three working days for a response.*

## Contents

Introduction.....	1
General Information.....	1
Pass-through Entity Taxpayers Subject to Utah Withholding.....	2
Withholding Requirements.....	2
Withholding Calculation.....	2
Credits.....	2
Multi-level Pass-through Entities.....	2
Withholding Requirement Exceptions.....	2
Disregarded Entities.....	3
Income Subject to Withholding.....	3
Withholding Tax Rate.....	3
Withholding Due Date.....	3
Reporting Withholding to the Pass-through Entity Taxpayer.....	3
Waiver of Withholding Tax.....	3
Partnership, LLC, S Corporation or Trust.....	3
Trust with a Dependent Beneficiary.....	3
Partnership Extension Due Date.....	4
Forms.....	4
Filing Responsibilities.....	4
Frequently Asked Questions.....	5
Definitions.....	5

## Introduction

This guide provides information to help pass-through entities and pass-through entity taxpayers understand and comply with Utah's pass-through entity withholding requirements.

For tax years beginning on or after Jan. 1, 2009, pass-through entities must withhold Utah income tax on income from Utah sources for nonresident individual partners, members and shareholders, and for resident and nonresident non-individual partners, non-individual members and non-individual shareholders.

For tax years beginning on or after Jan. 1, 2013, estates and trusts are considered to be pass-through entities if they are required to divide income, gains, losses, deductions or credits and pass them through to beneficiaries. Pass-through entity estates and trusts must withhold Utah income tax on income from Utah sources for nonresident individual beneficiaries and for resident and nonresident non-individual beneficiaries. The determination of whether trust income is required to be distributed currently depends on the terms of the governing instrument and applicable state and local law.

Tax Commission publications are reference tools. They are not all-inclusive and should not be used as legal references. For more information, see Utah Code §§59-10-1401 through 1405 and Administrative Rule R865-9I-13.

Tax laws may change due to legislative action. Changes to law will supersede information in this publication.

## General Information

A pass-through entity is an entity whose income, gains, losses, deductions and credits flow through to partners, members, shareholders and beneficiaries for federal tax purposes. For purposes of Utah withholding, pass-through entities include:

- general partnerships, limited partnerships, limited liability partnerships;
- limited liability companies if classified as a partnership for federal income tax purposes;
- S corporations; and
- estates and trusts that are required to divide and pass-through income, gains, losses, deductions or credits.

# Pass-through Entity Taxpayers Subject to Utah Withholding

Pass-through entity taxpayers subject to Utah withholding tax are:

- nonresident individual partners, members, shareholders and beneficiaries; and
- all general partnerships, limited partnerships, limited liability partnerships, limited liability companies, S corporations, C corporations, and estates and trusts.

## Withholding Requirements

A pass-through entity must withhold a 4.95% income tax on its:

- Utah business income allocated to its pass-through entity taxpayers, and
- non-business income derived from or connected with Utah sources allocated to its pass-through entity taxpayers.

## Withholding Calculation

To arrive at the total Utah income subject to withholding, the entity uses:

- TC-20S Schedule A, if it is taxed as an S corporation;
- TC-65 Schedule A, if it is taxed as a partnership; or
- TC-41 Schedule W, if it is taxed as an estate or trust.

It then uses the Schedule N for the respective return to calculate the Utah withholding tax for each pass-through entity taxpayer.

## Credits

The only credits that may be used to reduce the withholding are the Utah mineral production withholding credit and Utah withholding from an upper tier pass-through entity that flows down to the pass-through entity.

An upper-tier pass-through entity is one in which the taxpayer is a partner, member, shareholder or beneficiary, and for whom the upper-tier pass-through entity withholds and pays Utah income tax as reported on the Utah Schedule K-1.

Other credits, such as the Historic Preservation Credit and the Commercial Energy Systems Credit, along with the allocated Utah mineral production withholding credit and Utah withholding from an upper tier pass-through entity, must be passed through to the pass-through entity taxpayers and claimed on the ultimate pass-through entity taxpayers' income tax returns.

## Multi-level Pass-through Entities

A pass-through entity that has another pass-through entity as a partner, member, shareholder or beneficiary is called a first tier or upper-tier entity. The partner, member, shareholder or beneficiary is a second tier entity or a downstream entity. A pass-through entity is directly related to a pass-through entity taxpayer if they occupy consecutive tiers.

For example, a first tier entity is directly related to a second tier entity. A second tier entity is directly related to a third tier entity. A first tier entity is not directly related to a third tier entity. Application of these rules is discussed in some of the following examples.

## Withholding Requirement Exceptions

The following entities may be exempt from withholding:

- A publicly traded partnership meeting the requirements of Utah Code §59-10-1403.2(1)(b)(iii) is not required to withhold tax on its partners. However, a publicly traded partnership that is a downstream entity is not exempt from having money withheld on Utah income allocated to it by an upper tier entity, and therefore, may have Utah withholding it needs to allocate and pass-through to its partners.
- A pass-through entity is not required to withhold tax if the pass-through entity is a plan under IRC §§401, 408 or 457 and is not required to file a Utah individual or corporation return.
- A pass-through entity is not required to withhold tax on behalf of a directly related pass-through entity taxpayer if the taxpayer is exempt under Utah Code §59-7-102(1) and the income is not unrelated business income. Section 59-7-102(1) includes IRC §501 entities (such as religious and charitable organizations), IRC §528 homeowners associations, admitted insurers taxed under Utah Code §59-9, and farmer's cooperatives.

### ▷ Example 1:

Partnership A is an LLC with Utah business income. It has three partners. Partner #1 is a homeowner's association under IRC §528, Partner #2 is an S corporation, and Partner #3 is a nonresident individual. Partnership A is not required to withhold Utah tax for Partner #1 as long as Partner #1 is not required to treat the income as unrelated business income. Partnership A must withhold on behalf of Partners #2 and #3.\*

- An individual retirement account (IRA) as defined under IRC §408(a) is exempt from withholding only if the IRA is not required to treat the income from the pass-through entity as unrelated business income.

### ▷ Example 2 :

Partnership A has two partners and Utah business income. Partner #1 is an IRA, and Partner #2 is an LLC that is not a disregarded entity. Partnership A is not required to withhold Utah tax for Partner #1 as long as Partner #1 is not required to treat the income as unrelated business income. Partnership A must withhold Utah tax on behalf of Partner #2.\*

- A real estate investment trust (REIT) is exempt from withholding if all of its earnings are distributed to the owners of the REIT.

### ▷ Example 3:

Partnership A is an LLC with Utah business income and has two partners. Partner #1 is a REIT that distributes all of its earnings to its owners, and Partner #2 is an S corporation. Partnership A must withhold Utah tax on behalf of its S corporation partner but does not need to withhold Utah tax on behalf of its REIT partner\* because the REIT distributes all of its earnings to its owners.

\*See *Waiver of Withholding Tax* on page 3

▷ **Example 4:**

Partnership B has Utah business income and two partners who are both partnerships. Partnership B is a first tier entity. Partner #1, a partnership, has a partner that is a REIT. Partner #2 is a partnership whose partners are all Utah resident individuals. Partners #1 and #2 are both second tier entities. Partnership B must withhold Utah tax for both of its partners, even though a partner of one of its partners (a third tier entity) is a REIT. Partnership B and the REIT are not directly related. Partnership B is only exempt from the withholding requirement if a directly related pass-through entity taxpayer is a REIT, an individual Utah resident, or otherwise exempt.\*

- An individual exempt from Utah income tax under Utah Code §59-10-104.1 is exempt from pass-through entity withholding from the pass-through entity to whom they are directly related.

▷ **Example 5:**

Partnership A is a family partnership with two nonresident individual partners. Each partner's federal adjusted gross income is less than the sum of the federal personal exemption and the federal standard deduction and as a result, both are exempt from Utah income tax under Utah Code §59-10-104.1. Partnership A is not required to withhold Utah tax for these partners. *Note: Each partner's total income must be below the filing limit, not just the amount of income attributable to Partnership A.*

▷ **Example 6:**

Partnership B has a partner that is a family partnership with some nonresident individuals who meet the exemption from Utah income tax. Partnership B must withhold Utah income tax for that partner.\* Partnership B, the first tier partner, is not directly related to the partners of the second tier family partnership.

Pay online by e-check or credit card at [tap.utah.gov](http://tap.utah.gov). You may also send a check or money order to:

Utah State Tax Commission  
210 N 1950 W  
Salt Lake City, UT 84134

When paying by check or money order, include:

- for a partnership or LLC, form TC-544, *Partnership Return Payment Coupon*;
- for an S corporation, form TC-559, *Corporate/Partnership Payment Coupon*; or
- for an estate or trust, form TC-549, *Fiduciary Income Tax Return Payment Coupon*.

## Reporting Withholding to the Pass-through Entity Taxpayer

The pass-through entity must provide each of its partners, members, shareholders or beneficiaries a statement showing the pass-through entity's federal identification number (EIN) and the amount of Utah pass-through entity withholding tax it reported on behalf of the partner, member, shareholder or beneficiary.

The pass-through entity must provide a Utah Schedule K-1 to its pass-through entity taxpayers showing the allocated Utah income and withholding amount.

## Waiver of Withholding Tax Partnership, LLC, S Corporation or Trust

A pass-through entity (including a downstream pass-through entity) that is a partnership, LLC, S corporation, estate or trust may request a waiver of the Utah withholding requirement by checking a box on the Schedule N of the applicable return. A pass-through entity may request waiver of the withholding requirement on all or some of its partners, members, shareholders or beneficiaries by completing the box on the Schedule N and on the Utah Schedule K-1 it provides to the partner, member, shareholder or beneficiary.

If a downstream entity or taxpayer for whom the waiver is claimed fails to file a return and make the required payment in a timely manner, the pass-through entity is not eligible for the waiver and is liable for the Utah withholding on those amounts, plus any penalties and interest.

## Trust with a Dependent Beneficiary

A trust that is a pass-through entity may also request a waiver of the Utah withholding requirement if the beneficiary is a dependent of another taxpayer and makes the required Utah tax payment in a timely manner, or the dependent beneficiary's adjusted gross income for the taxable year does not exceed the basic federal standard deduction for the dependent beneficiary and the trustee of the trust retains a statement:

- signed by the person who claims the dependent beneficiary as a dependent on their federal income tax return;
- attesting that the dependent is a dependent beneficiary; and

## Disregarded Entities

Entities that are disregarded for federal tax purposes are disregarded for purposes of pass-through entity withholding. See Q-8 in *Frequently Asked Questions* for more information.

## Income Subject to Withholding

All business and non-business income from Utah sources net of expenses is subject to Utah income tax withholding for pass-through entity taxpayers.

## Withholding Tax Rate

The Utah withholding tax rate is 4.95% (.0495).

## Withholding Due Date

Pass-through entity withholding is due on or before the original due date of the pass-through entity's return without regard to an extension.

\*See *Waiver of Withholding Tax* on this page

- indicating that the person expects the dependent beneficiary's adjusted gross income for that year will not exceed the basic federal standard deduction.

Use Utah form TC-41DB for this purpose. Keep this form with your tax records. Do not send it to the Tax Commission. This form must be provided to the Tax Commission upon request (see Utah Code §59-10-1403.2(6)(c)(ii)(B)).

## Partnership Extension Due Date

The extension period for a partnership return is five months. Therefore, to qualify for the waiver, the entity should ensure that all downstream entities and taxpayers for whom the waiver is claimed file and pay their Utah tax on or before the five-month extension period expires.

### ▷ Example 7:

Partnership A has two partners, Partnerships B and C. Partnership B has two partners, both Utah resident individuals. Partnership C has three nonresident partners, all of whom are subject to Utah income tax. Partnership A has no involvement or information regarding Partnership C's nonresident partners. Partnership A's responsibility for withholding is based on Partnerships B and C. Partnership A is not directly related to the partners of Partnerships B and C. Accordingly, Partnership A must withhold tax on behalf of Partnerships B and C. However, if both Partnership B and the partners of Partnership B file returns and pay any tax due by the filing due date for Partnership A, including extensions, Partnership A may elect to not withhold those amounts and may apply to the Tax Commission, by completing the waiver request box for Partnership B on Schedule N of the tax return, for a waiver of tax, penalty and interest on the amount Partnership A should have collected and remitted for Partnership B, but did not.

### ▷ Example 8:

Partnership D is a family partnership with two resident individual partners and one partner that is a family partnership with some nonresident individual partners. The federal adjusted gross income of each of the individual partners (both the resident partners of the first tier partnership and the nonresident partners of the second tier partnership) is less than the sum of their federal personal exemption and their federal standard deduction. As a result, all the individual partners are exempt from Utah income tax under Utah Code §59-10-104.1. Partnership D is not required to withhold Utah tax for the Utah resident partners. In addition, Partnership D may apply for a waiver of withholding on the second tier partnership by checking the waiver request box on Schedule N, because no Utah tax will ultimately be due from any of the downstream taxpayers.

### ▷ Example 9:

Partnership E has two partners, Partnerships F and G. Partnership F has two nonresident individual partners and Partnership G has two partners that are professional corporations. Partnership E's accountant prepares returns for all of the partnerships including the nonresident individuals, the professional corporations and their shareholders. Consequently, Partnership E can verify that all the downstream partners, including the nonresident individual partners and the professional corporation shareholders, filed and paid Utah tax on or before Partnership E's extended return due date. Partnership E may elect to not withhold the tax and apply to the Tax Commission for waiver of tax, penalty and interest, by checking the waiver request box on Schedule N for all pass-through entity taxpayers on the tax return.

### ▷ Example 10:

A trust has eight beneficiaries for which it is required to withhold Utah tax. Two of the beneficiaries are claimed as dependents on their parents' federal income tax returns (dependent beneficiaries). The trust receives signed forms TC-41DB for each dependent beneficiary. The trust may elect to not withhold Utah tax for the dependent beneficiaries and apply to the Tax Commission for a waiver by checking the waiver request box on TC-41, Schedule N for each dependent beneficiary.

## Forms

The withholding is reported on the following forms:

- Utah partnership and LLC Return (TC-65) – calculated on Schedule N and reported on page 1 of the return,
- Utah S corporation return (TC-20S) – calculated on Schedule N and reported on Schedule A, and
- Utah trust return (TC-41) – calculated on Schedule N and reported on page 2 of TC-41.

Each pass-through entity must complete Utah Schedules K and K-1 for each pass-through entity taxpayer.

## Filing Responsibilities

If a pass-through entity taxpayer (partner, member, shareholder or beneficiary) has Utah withholding tax withheld by the pass-through entity on the taxpayer's behalf, and the taxpayer has no other Utah source income or Utah credits, the taxpayer is not required to file a Utah return. However, if the taxpayer has any other Utah source income or Utah credits, the taxpayer must file a return reporting such income and claiming such credits, including the credit for the withholding tax paid on the taxpayer's behalf by the pass-through entity.



# Frequently Asked Questions

## **Q-1: Is a partnership required to withhold Utah tax if all of the ultimate downstream pass-through entity taxpayers are resident individuals?**

A-1: Yes. However, the partnership may request a waiver if all of the downstream entities and taxpayers file and pay the Utah tax on or before the partnership's filing due date, including extensions.

(See *Downstream Pass-through Entity Taxpayer* in the *Definitions*.)

## **Q-2: Is Utah withholding tax required when a pass-through entity taxpayer is a professional corporation and the professional corporation has withheld income taxes on all of its shareholders sufficient to pay the tax?**

A-2: Yes. See answer to previous question.

## **Q-3: In the past, partnerships that have all Utah resident partners have not been required to file a Utah partnership return. Has this changed?**

A-3: Yes, the rule now requires a partnership that is a pass-through entity taxpayer (a second tier partnership) to file a Utah partnership return. Therefore, a partnership that has Utah withholding tax credit from another pass-through entity must file a Utah partnership return, allocate the withholding credit to its partners, and give each partner a Utah Schedule K-1 showing the allocated withholding.

## **Q-4: Can a pass-through entity use credits it qualifies for to offset the withholding?**

A-4: The only credits that may be taken into account in calculating the required withholding tax are the Utah mineral production withholding and Utah withholding tax by an upper tier pass-through entity. Other credits, such as the Historic Preservation Credit, along with the Utah mineral production withholding and the Utah withholding tax by an upper tier pass-through entity, must be allocated and claimed on the ultimate pass-through entity taxpayer's return.

## **Q-5: Is a trust or estate required to withhold Utah tax?**

A-5: Effective Jan. 1, 2013, trusts and estates are considered pass-through entities for purposes of Utah withholding.

## **Q-6: How does a trust or estate handle the Utah withholding as a pass-through entity taxpayer?**

A-6: For any portion of the withholding allocated or apportioned to beneficiaries, the trust or estate should allocate and pass through its Utah withholding tax credit to its beneficiaries using a Utah Schedule K-1.

## **Q-7: Does Utah allow a composite partnership filing on Utah form TC-65?**

A-7: No. Composite partnership returns are no longer an option effective for tax years beginning in 2009. They were replaced by the Utah pass-through entity withholding tax requirements.

## **Q-8: Is Utah withholding required when the IRS considers a partner or shareholder a disregarded entity?**

A-8: It will depend on how IRS classifies the partner or shareholder for federal tax purposes. If the entity is disregarded for federal purposes, it is disregarded for pass-through entity Utah withholding tax purposes. For example, if the pass-through entity taxpayer is a single member LLC and when disregarded is treated as an individual Utah resident, then no Utah withholding is required. However, if the single member LLC when disregarded is treated as a nonresident individual or a corporation, withholding is required unless one of the exceptions applies.

## **Q-9: How does a pass-through entity report the Utah withholding tax to its partners, members, shareholders or beneficiaries?**

A-9: Pass-through entities must complete the Utah Schedule K-1 showing the withholding for each partner, member, shareholder or beneficiary.

## **Q-10: When is the Utah withholding tax due?**

A-10: The Utah withholding tax payment is due on the *original due date* of the pass-through entity's return, even if the entity takes an extension to file. An extension applies only to filing a return, not paying tax.

## **Q-11: Are interest and penalties charged on late Utah withholding tax payments?**

A-11: Interest is charged on the unpaid amount of withholding tax from the return due date to the date paid. Penalties may also be charged for failure to pay the required extension payment amount, for filing the return late and for paying late. See Publication 58, *Utah Interest and Penalties*.

## **Q-12: What happens if the pass-through entity does not withhold the tax?**

A-12: The pass-through entity is required to withhold, pay and report tax, unless one of the exceptions applies or it qualifies for a waiver. If the pass-through entity does not withhold the tax and does not qualify for waiver or any of the exceptions, we will assess and collect the withholding tax amount and any penalties and interest from the pass-through entity.

## Definitions

### **Business Income**

Income from transactions and activity arising in the regular course of the entity's trade or business. It includes income from tangible and intangible property if the acquisition, management and disposition of the property are an integral part of the entity's regular trade or business operation.

### **Dependent Beneficiary**

An individual beneficiary of a pass-through entity trust who is claimed as a dependent on another person's federal income tax return.

### **Downstream Pass-through Entity Taxpayer**

A pass-through entity taxpayer that is a pass-through entity taxpayer of any entity that is itself a pass-through entity taxpayer. The first pass-through entity is the first tier entity, its pass-through entity taxpayers are second tier entities, any pass-through entity taxpayers of the second tier entities are third tier entities and so on.

## **Nonbusiness Income from Utah Sources**

All income that is not business income and that is derived from or connected with Utah sources.

### **Pass-through Entity**

An entity whose income, gains, losses, deductions and credits flow through to partners, members and shareholders for federal tax purposes. For purposes of Utah withholding tax, pass-through entities include:

- General partnerships, limited partnerships, limited liability partnerships;
- Limited liability companies if classified as a partnership for federal income tax purposes; and
- S corporations.

A pass-through includes an estate or trust.

### **Pass-through Entity Taxpayers Subject to Utah Withholding Tax**

- Nonresident individual partners, members, shareholders and beneficiaries; and
- Resident and nonresident general partnerships, limited partnerships, limited liability partnerships, limited liability companies, S corporations, C corporations, and estates and trusts.

## **Portfolio Income**

Portfolio income listed on federal return schedules may be either business or nonbusiness income.

The following types of portfolio income are apportionable business income:

1. Interest, dividends, royalties, gains, etc. from the ordinary course of a pass-through entity's trade or business
2. Interest, dividends, gains, etc., of an entity whose primary business activity is investing funds (such as with a brokerage firm),
3. Income received from holdings in or the sale of partnership interests.

Nonbusiness portfolio income is treated as nonbusiness income on the Utah return. The burden of proof is on the taxpayer to justify the manner in which the income is claimed on the return.

## **Utah Source Income**

- For a C corporation, income derived from or connected with Utah sources per Utah Code §59-7, Part 3.
- For a partnership, S corporation, estate, trust, or individual, income derived from or connected with Utah sources (see Utah Code §§59-10-117 and 59-10-118).

# ~~REDLINE~~

## Introduction

This guide provides information to help pass-through entities and pass-through entity taxpayers understand and comply with Utah's pass-through entity withholding requirements.

For tax years beginning on or after Jan. 1, 2009, pass-through entities must withhold Utah income tax on income from Utah sources for nonresident individual partners, members and shareholders, and for resident and nonresident non-individual partners, non-individual members and non-individual shareholders.

For tax years beginning on or after Jan. 1, 2013, estates and trusts are considered to be pass-through entities if they are required to divide income, gains, losses, deductions or credits and pass them through to beneficiaries. Pass-through entity estates and trusts must withhold Utah income tax on income from Utah sources for nonresident individual beneficiaries and for resident and nonresident non-individual beneficiaries. The determination of whether trust income is required to be distributed currently depends on the terms of the governing instrument and applicable state and local law.

Tax Commission publications are reference tools. They are not all-inclusive and should not be used as legal references. For more information, see Utah Code §§59-10-1401 through 1405 and Administrative Rule R865-91-13.

Tax laws may change due to legislative action. Changes to law will supersede information in this publication.

## General Information

A pass-through entity is an entity whose income, gains, losses, deductions and credits flow through to partners, members, shareholders and beneficiaries for federal tax purposes. For purposes of Utah withholding, pass-through entities include:

general partnerships, limited partnerships, limited liability partnerships;

limited liability companies if classified as a partnership for federal income tax purposes;

S corporations; and

estates and trusts that are required to divide and pass-through income, gains, losses, deductions or credits.

## Pass-through Entity Taxpayers Subject to Utah Withholding

Pass-through entity taxpayers subject to Utah withholding tax are:

nonresident individual partners, members, shareholders and beneficiaries; and

all general partnerships, limited partnerships, limited liability partnerships, limited liability companies, S corporations, C corporations, and estates and trusts.

## Withholding Requirements

A pass-through entity must withhold a **54.95%** income tax on its:

Utah business income allocated to its pass-through entity taxpayers, and

non-business income derived from or connected with Utah sources allocated to its pass-through entity taxpayers.

## Withholding Calculation

To arrive at the total Utah income subject to withholding, the entity uses:

TC-20S Schedule A, if it is taxed as an S corporation;

TC-65 Schedule A-1, if it is taxed as a partnership; or

TC-41 Schedule W, if it is taxed as an estate or trust.

It then uses the Schedule N for the respective return to calculate the Utah withholding tax for each pass-through entity taxpayer.

## Credits

The only credits that may be used to reduce the withholding are the Utah mineral production withholding credit and Utah withholding from an upper tier pass-through entity that flows down to the pass-through entity.

An upper-tier pass-through entity is one in which the taxpayer is a partner, member, shareholder or beneficiary, and for whom the upper-tier pass-through entity withholds and pays Utah income tax as reported on the Utah Schedule K-1.

Other credits, such as the Historic Preservation Credit and the Commercial Energy Systems Credit, along with the allocated Utah mineral production withholding credit and Utah withholding from an upper tier pass-through entity, must be passed through to the pass-through entity taxpayers and claimed on the ultimate pass-through entity taxpayers' income tax returns.

## Multi-level Pass-through Entities

A pass-through entity that has another pass-through entity as a partner, member, shareholder or beneficiary is called a first tier or upper-tier entity. The partner, member, shareholder or beneficiary is a second tier entity or a downstream entity. A pass-through entity is directly related to a pass-through entity taxpayer if they occupy consecutive tiers.

For example, a first tier entity is directly related to a second tier entity. A second tier entity is directly related to a third tier entity. A first tier entity is not directly related to a third tier entity. Application of these rules is discussed in some of the following examples.

## Withholding Requirement Exceptions

The following entities may be exempt from withholding:

A publicly traded partnership meeting the requirements of Utah Code §59-10-1403.2(1)(b)(iii) is not required to withhold tax on its partners. However, a publicly traded partnership that is a downstream entity is not exempt from having money withheld on Utah income allocated to it by an upper tier entity, and therefore, may have Utah withholding it needs to allocate and pass-through to its partners.

A pass-through entity is not required to withhold tax if the pass-through entity is a plan under IRC §§401, 408 or 457 and is not required to file a Utah individual or corporation return.

A pass-through entity is not required to withhold tax on behalf of a directly related pass-through entity taxpayer if the taxpayer is exempt under Utah Code §59-7-102(1) and the income is not unrelated business income. Section 59-7-102(1) includes IRC §501 entities (such as religious and charitable organizations), IRC §528 homeowners associations, admitted insurers taxed under Utah Code §59-9, and farmer's cooperatives.

### Example 1:

Partnership A is an LLC with Utah business income. It has three partners. Partner #1 is a homeowner's association under IRC §528, Partner #2 is an S corporation, and Partner #3 is a nonresident individual. Partnership A is not required to withhold Utah tax for Partner #1 as long as Partner #1 is not required to treat the income as unrelated business income. Partnership A must withhold on behalf of Partners #2 and #3.\*

An individual retirement account (IRA) as defined under IRC §408(a) is exempt from withholding only if the IRA is not required to treat the income from the pass-through entity as unrelated business income.

### Example 2:

Partnership A has two partners and Utah business income. Partner #1 is an IRA, and Partner #2 is an LLC that is not a disregarded entity. Partnership A is not required to withhold Utah tax for Partner

#1 as long as Partner #1 is not required to treat the income as unrelated business income. Partnership A must withhold Utah tax on behalf of Partner #2.\*

A real estate investment trust (REIT) is exempt from withholding if all of its earnings are distributed to the owners of the REIT.

**Example 3:**

Partnership A is an LLC with Utah business income and has two partners. Partner #1 is a REIT that distributes all of its earnings to its owners, and Partner #2 is an S corporation. Partnership A must withhold Utah tax on behalf of its S corporation partner but does not need to withhold Utah tax on behalf of its REIT partner\* because the REIT distributes all of its earnings to its owners.

**Example 4:**

Partnership B has Utah business income and two partners who are both partnerships. Partnership B is a first tier entity. Partner #1, a partnership, has a partner that is a REIT. Partner #2 is a partnership whose partners are all Utah resident individuals. Partners #1 and #2 are both second tier entities. Partnership B must withhold Utah tax for both of its partners, even though a partner of one of its partners (a third tier entity) is a REIT. Partnership B and the REIT are not directly related. Partnership B is only exempt from the withholding requirement if a directly related pass-through entity taxpayer is a REIT, an individual Utah resident, or otherwise exempt.\*

An individual exempt from Utah income tax under Utah Code §59-10-104.1 is exempt from pass-through entity withholding from the pass-through entity to whom they are directly related.

**Example 5:**

Partnership A is a family partnership with two nonresident individual partners. Each partner's federal adjusted gross income is less than the sum of the federal personal exemption and the federal standard deduction and as a result, both are exempt from Utah income tax under Utah Code §59-10-104.1. Partnership A is not required to withhold Utah tax for these partners. *Note: Each partner's total income must be below the filing limit, not just the amount of income attributable to Partnership A.*

**Example 6:**

Partnership B has a partner that is a family partnership with some nonresident individuals who meet the exemption from Utah income tax. Partnership B must withhold Utah income tax for that partner.\* Partnership B, the first tier partner, is not directly related to the partners of the second tier family partnership.

## Disregarded Entities

Entities that are disregarded for federal tax purposes are disregarded for purposes of pass-through entity withholding. See Q-8 in *Frequently Asked Questions* for more information.

## Income Subject to Withholding

~~The following income~~ All business and non-business income from Utah sources net of expenses is subject to Utah income tax withholding for pass-through entity taxpayers:

~~Non-business income from Utah sources net of expenses, except portfolio income (see the *Portfolio Income* definition below); and~~

~~Utah business income net of expenses.~~

## Withholding Tax Rate

The Utah withholding tax rate is ~~5%~~ (.05495% (.0495)).

## Withholding Due Date

Pass-through entity withholding is due on or before the original due date of the pass-through entity's return without regard to an extension.

Pay online by e-check or credit card at [tap.utah.gov](http://tap.utah.gov). You may also send a check or money order to:

Utah State Tax Commission  
210 N 1950 W  
Salt Lake City, UT 84134

When paying by check or money order, include:

for a partnership or LLC, form TC-544, *Partnership Return Payment Coupon*;

for an S corporation, form TC-559, *Corporate/Partnership Payment Coupon*; or

for an estate or trust, form TC-549, *Fiduciary Income Tax Return Payment Coupon*.

## Reporting Withholding to the Pass-through Entity Taxpayer

The pass-through entity must provide each of its partners, members, shareholders or beneficiaries a statement showing the pass-through entity's federal identification number (EIN) and the amount of Utah pass-through entity withholding tax it reported on behalf of the partner, member, shareholder or beneficiary.

The pass-through entity must provide a Utah Schedule K-1 to its pass-through entity taxpayers showing the allocated Utah income and withholding amount.

## Waiver of Withholding Tax

### Partnership, LLC, S Corporation or Trust

A pass-through entity (including a downstream pass-through entity) that is a partnership, LLC, S corporation, estate or trust may request a waiver of the Utah withholding requirement by checking a box on the Schedule N of the applicable return. A pass-through entity may request waiver of the withholding requirement on all or some of its partners, members, shareholders or beneficiaries by completing the box on the Schedule N and on the Utah Schedule K-1 it provides to the partner, member, shareholder or beneficiary.

If a downstream entity or taxpayer for whom the waiver is claimed fails to file a return and make the required payment in a timely manner, the pass-through entity is not eligible for the waiver and is liable for the Utah withholding on those amounts, plus any penalties and interest.

### Trust with a Dependent Beneficiary

A trust that is a pass-through entity may also request a waiver of the Utah withholding requirement if the beneficiary is a dependent of another taxpayer and makes the required Utah tax payment in a timely manner, or the dependent beneficiary's adjusted gross income for the taxable year does not exceed the basic federal standard deduction for the dependent beneficiary and the trustee of the trust retains a statement:

signed by the person who claims the dependent beneficiary as a dependent on their federal income tax return; attesting that the dependent is a dependent beneficiary; and

indicating that the person expects the dependent beneficiary's adjusted gross income for that year will not exceed the basic federal standard deduction.

Use Utah form TC-41DB for this purpose. Keep this form with your tax records. Do not send it to the Tax Commission. This form must be provided to the Tax Commission upon request (see Utah Code §59-10-1403.2(6)(c)(ii)(B)).

## **Partnership Extension Due Date**

The extension period for a partnership return is five months. Therefore, to qualify for the waiver, the entity should ensure that all downstream entities and taxpayers for whom the waiver is claimed file and pay their Utah tax on or before the five-month extension period expires.

### **Example 7:**

Partnership A has two partners, Partnerships B and C. Partnership B has two partners, both Utah resident individuals. Partnership C has three nonresident partners, all of whom are subject to Utah income tax. Partnership A has no involvement or information regarding Partnership C's nonresident partners. Partnership A's responsibility for withholding is based on Partnerships B and C. Partnership A is not directly related to the partners of Partnerships B and C. Accordingly, Partnership A must withhold tax on behalf of Partnerships B and C. However, if both Partnership B and the partners of Partnership B file returns and pay any tax due by the filing due date for Partnership A, including extensions, Partnership A may elect to not withhold those amounts and may apply to the Tax Commission, by completing the waiver request box for Partnership B on Schedule N of the tax return, for a waiver of tax, penalty and interest on the amount Partnership A should have collected and remitted for Partnership B, but did not.

### **Example 8:**

Partnership D is a family partnership with two resident individual partners and one partner that is a family partnership with some nonresident individual partners. The federal adjusted gross income of each of the individual partners (both the resident partners of the first tier partnership and the nonresident partners of the second tier partnership) is less than the sum of their federal personal exemption and their federal standard deduction. As a result, all the individual partners are exempt from Utah income tax under Utah Code §59-10-104.1. Partnership D is not required to withhold Utah tax for the Utah resident partners. In addition, Partnership D may apply for a waiver of withholding on the second tier partnership by checking the waiver request box on Schedule N, because no Utah tax will ultimately be due from any of the downstream taxpayers.

### **Example 9:**

Partnership E has two partners, Partnerships F and G. Partnership F has two nonresident individual partners and Partnership G has two partners that are professional corporations. Partnership E's accountant prepares returns for all of the partnerships including the nonresident individuals, the professional corporations and their shareholders. Consequently, Partnership E can verify that all the downstream partners, including the nonresident individual partners and the professional corporation shareholders, filed and paid Utah tax on or before Partnership E's extended return due date. Partnership E may elect to not withhold the tax and apply to the Tax Commission for waiver of tax, penalty and interest, by checking the waiver request box on Schedule N for all pass-through entity taxpayers on the tax return.

### **Example 10:**

A trust has eight beneficiaries for which it is required to withhold Utah tax. Two of the beneficiaries are claimed as dependents on their parents' federal income tax returns (dependent beneficiaries). The trust receives signed forms TC-41DB for each dependent beneficiary. The trust may elect to not withhold Utah tax for the dependent beneficiaries and apply to the Tax Commission for a waiver by checking the waiver request box on TC-41, Schedule N for each dependent beneficiary.

## Forms

The withholding is reported on the following forms:

Utah partnership and LLC Return (TC-65) – calculated on Schedule N and reported on page 1 of the return,

Utah S corporation return (TC-20S) – calculated on Schedule N and reported on Schedule A, and

Utah trust return (TC-41) – calculated on Schedule N and reported on page 2 of TC-41.

Each pass-through entity must complete Utah Schedules K and K-1 for each pass-through entity taxpayer.

## Filing Responsibilities

If a pass-through entity taxpayer (partner, member, shareholder or beneficiary) has Utah withholding tax withheld by the pass-through entity on the taxpayer's behalf, and the taxpayer has no other Utah source income or Utah credits, the taxpayer is not required to file a Utah return. However, if the taxpayer has any other Utah source income or Utah credits, the taxpayer must file a return reporting such income and claiming such credits, including the credit for the withholding tax paid on the taxpayer's behalf by the pass-through entity.

## Frequently Asked Questions

**Q-1: Is a partnership required to withhold Utah tax if all of the ultimate downstream pass-through entity taxpayers are resident individuals?**

A-1: Yes. However, the partnership may request a waiver if all of the downstream entities and taxpayers file and pay the Utah tax on or before the partnership's filing due date, including extensions.

(See *Downstream Pass-through Entity Taxpayer* in the *Definitions*.)

**Q-2: Is Utah withholding tax required when a pass-through entity taxpayer is a professional corporation and the professional corporation has withheld income taxes on all of its shareholders sufficient to pay the tax?**

A-2: Yes. See answer to previous question.

**Q-3: In the past, partnerships that have all Utah resident partners have not been required to file a Utah partnership return. Has this changed?**

A-3: Yes, the rule now requires a partnership that is a pass-through entity taxpayer (a second tier partnership) to file a Utah partnership return. Therefore, a partnership that has Utah withholding tax credit from another pass-through entity must file a Utah partnership return, allocate the withholding credit to its partners, and give each partner a Utah Schedule K-1 showing the allocated withholding.

**Q-4: Can a pass-through entity use credits it qualifies for to offset the withholding?**

A-4: The only credits that may be taken into account in calculating the required withholding tax are the Utah mineral production withholding and Utah withholding tax by an upper tier pass-through entity. Other credits, such as the Historic Preservation Credit, along with the Utah mineral production withholding and the Utah withholding tax by an upper tier pass-through entity, must be allocated and claimed on the ultimate pass-through entity taxpayer's return.

**Q-5: Is a trust or estate required to withhold Utah tax?**

A-5: Effective Jan. 1, 2013, trusts and estates are considered pass-through entities for purposes of Utah withholding.

**Q-6: How does a trust or estate handle the Utah withholding as a pass-through entity taxpayer?**

A-6: For any portion of the withholding allocated or apportioned to beneficiaries, the trust or estate should allocate and pass through its Utah withholding tax credit to its beneficiaries using a Utah Schedule K-1.



**Q-7: Does Utah allow a composite partnership filing on Utah form TC-65?**

A-7: No. Composite partnership returns are no longer an option effective for tax years beginning in 2009. They were replaced by the Utah pass-through entity withholding tax requirements.

**Q-8: Is Utah withholding required when the IRS considers a partner or shareholder a disregarded entity?**

A-8: It will depend on how IRS classifies the partner or shareholder for federal tax purposes. If the entity is disregarded for federal purposes, it is disregarded for pass-through entity Utah withholding tax purposes. For example, if the pass-through entity taxpayer is a single member LLC and when disregarded is treated as an individual Utah resident, then no Utah withholding is required. However, if the single member LLC when disregarded is treated as a nonresident individual or a corporation, withholding is required unless one of the exceptions applies.

**Q-9: How does a pass-through entity report the Utah withholding tax to its partners, members, shareholders or beneficiaries?**

A-9: Pass-through entities must complete the Utah Schedule K-1 showing the withholding for each partner, member, shareholder or beneficiary.

**Q-10: When is the Utah withholding tax due?**

A-10: The Utah withholding tax payment is due on the *original due date* of the pass-through entity's return, even if the entity takes an extension to file. An extension applies only to filing a return, not paying tax.

**Q-11: Are interest and penalties charged on late Utah withholding tax payments?**

A-11: Interest is charged on the unpaid amount of withholding tax from the return due date to the date paid. Penalties may also be charged for failure to pay the required extension payment amount, for filing the return late and for paying late. See Publication 58, *Utah Interest and Penalties*.

**Q-12: What happens if the pass-through entity does not withhold the tax?**

A-12: The pass-through entity is required to withhold, pay and report tax, unless one of the exceptions applies or it qualifies for a waiver. If the pass-through entity does not withhold the tax and does not qualify for waiver or any of the exceptions, we will assess and collect the withholding tax amount and any penalties and interest from the pass-through entity.

## Definitions

### Business Income

Income from transactions and activity arising in the regular course of the entity's trade or business. It includes income from tangible and intangible property if the acquisition, management and disposition of the property are an integral part of the entity's regular trade or business operation.

### Dependent Beneficiary

An individual beneficiary of a pass-through entity trust who is claimed as a dependent on another person's federal income tax return.

### Downstream Pass-through Entity Taxpayer

A pass-through entity taxpayer that is a pass-through entity taxpayer of any entity that is itself a pass-through entity taxpayer. The first pass-through entity is the first tier entity, its pass-through entity taxpayers are second tier entities, any pass-through entity taxpayers of the second tier entities are third tier entities and so on.

### Nonbusiness Income from Utah Sources

All income that is not business income and that is derived from or connected with Utah sources. ~~It does not include portfolio income if the income would not be reportable to Utah on a pass-through entity taxpayer's Utah income tax return or the Utah income tax return of any downstream pass-through entity taxpayer.~~

## Pass-through Entity

An entity whose income, gains, losses, deductions and credits flow through to partners, members and shareholders for federal tax purposes. For purposes of Utah withholding tax, pass-through entities include:

General partnerships, limited partnerships, limited liability partnerships;

Limited liability companies if classified as a partnership for federal income tax purposes; and

S corporations.

A pass-through includes an estate or trust.

## Pass-through Entity Taxpayers Subject to Utah Withholding Tax

Nonresident individual partners, members, shareholders and beneficiaries; and

Resident and nonresident general partnerships, limited partnerships, limited liability partnerships, limited liability companies, S corporations, C corporations, and estates and trusts.

## Portfolio Income

Portfolio income listed on federal return schedules may be either business or nonbusiness income. ~~But business income does not qualify as Utah portfolio income, so portfolio income that is business income is apportionable income for Utah purposes. Generally, Utah portfolio income includes gross income, other than income derived in the ordinary course of a trade or business and Utah nonbusiness income.~~

~~Portfolio income may (but does not necessarily) include:~~

~~interest;~~

~~dividends;~~

~~royalties;~~

~~income from the disposition~~ The following types of property that produces income of a type defined as portfolio income;

~~income from the disposition of property held for investment; and~~

~~income from a real estate investment trust, a regulated investment company, a real estate mortgage investment conduit, a common trust fund, a qualified electing fund, or a cooperative.~~

~~Interest, dividends, royalties, etc., earned in the ordinary course of the trade or business of a pass-through entity are **not** portfolio apportionable business income.~~

### **Example 10:**

~~Interest, dividends, etc. may constitute Utah portfolio income if the pass-through entity holds funds that were not used to further the trade or business. Such funds could not be commingled with the operating funds of the business, nor comprise working capital at any time during the tax year, nor have been used as collateral or to obtain financing for any other business purposes.~~

~~Portfolio income is attributable to the resident's state.~~

~~1. Interest, dividends, royalties, gains, etc. earned or arising in the ordinary course of or used to advance the trade or business of a pass-through entity constitute apportionable business income rather than Utah portfolio income. Income received from holdings in or the sale of partnership interests also constitutes apportionable business income rather than portfolio income if the from the ordinary course of a pass-through entity's trade or business~~

~~2. Interest, dividends, gains, etc., of an entity whose primary business activity is investing funds, (such as with a brokerage firm).~~

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**Utah Source Income**

For a C corporation, income derived from or connected with Utah sources per Utah Code §59-7, Part 3.

For a partnership, S corporation, estate, trust, or individual, income derived from or connected with Utah sources (see Utah Code §§59-10-117 and 59-10-118).