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Subject: New York State Regulations on Taxation of Corporate Partners
Date: February 23, 2007

To Our Clients and Friends:

New York State has promulgated certain amendments to its regulations addressing the taxation of corporate partners. The amendments are effective for tax years beginning on or after January 1, 2007.

The term partnership is now defined to include a limited liability company taxed as a partnership for federal purposes.

Two methods, the aggregate method and the entity method, are provided for corporate partners to compute tax based on an ownership interest in a partnership. A corporate partner using the aggregate method takes into account its distributive share of receipts, income, gain, loss or deduction and its proportionate part of assets, liabilities and transactions from the partnership. A corporate partner using the entity method treats its partnership interest as an intangible asset classified as business capital. Corporate partners are required to use the aggregate method if sufficient information is available to compute the tax under that method. There is a presumption that sufficient information is available to use the aggregate method if any of seven specified criteria is met.

The amendments provide further guidance on corporate partner taxation including:

- . the computation of the tax base under the aggregate method and the entity method;
- . the definition of the term proportionate part;
- . treatment of gain or loss on the sale of a partnership interest;
- . the election to treat cash as business or investment capital;
- . the determination of whether a stock, bond or other security is held for sale to customers in the regular course of business;
- . the determination of whether a taxpayer is principally engaged in the business of lending funds;
- . the implications of corporate stock owned by a partnership; and
- . allocation rules.

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If you have any questions regarding the within or any other state and local tax matters, please do not hesitate to contact me.

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