

Income/Franchise:

New York City: Federally Permitted Redemption Debt Interest Expense Deductions Deemed Allowable for UBT Purposes

TAT(H)20-32(UB), N.Y.C. Tax App. Trib., ALJ Div. (7/2/24). In a ruling involving a limited liability company (LLC) and its ability to deduct for New York City (City) Unincorporated Business Tax (UBT) purposes interest expenses related to a debt-financed distribution that were allowable deductions under federal income tax law, an administrative law judge with the New York City Tax Appeals Tribunal held in the LLC's favor that they constituted allowable deductions for UBT purposes, too. In doing so, the judge concluded that in the context of the introductory paragraph of City Administrative Code § 11-507, and for purposes of determining an item's deductibility under the UBT, the phrase "directly connected with or incurred in the conduct of the business" does *not* impose a discrete requirement that should be interpreted without reference to the phrase "allowable for federal income tax purposes for the taxable year." In this respect, because the redemption debt interest expenses at issue were deductible for federal income tax purposes, and none of the enumerated modifications of City Administrative Code § 11-507 applied, the judge granted the LLC's petition and permitted the deductions for UBT purposes. According to the judge, when considered in the context of legislative history of the UBT provisions and consistent with prior New York State Tax Appeals Tribunal and New York State Court opinions on the same issue, "a determination of whether a particular item is 'directly connected with or incurred in the conduct of the business' must be made under the applicable federal standard." Please contact us with any questions.

URL: <https://www.nyc.gov/assets/taxappeals/downloads/pdf/2032DET0724.pdf>

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