

Understanding **GUARANTEED PAYMENTS** from a Tax Partnership



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Do you receive payments from a partnership or multi-member LLC treated as a tax partnership?

Payments from a partnership may generally be in the form of **guaranteed payments or distributions**.

When payments are made without regard to the partnership's income (are not paid based on ownership share), these are generally known as guaranteed payments. Guaranteed payments can be for the **performance of services by a partner, or for the use of their capital**.



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Guaranteed payments can include **salary-like payments, interest payments** to partners on money or other assets they have loaned or contributed to the partnership, or items like **health care premiums** paid by the partnership.

Guaranteed payments are treated as **taxable income**, and if the partner is active in the business, are subject to **self-employment taxes** as well.

However, **guaranteed payments should not be treated the same as other payroll payments**. In fact, partners in a partnership generally do not participate in W-2 payroll, per tax rules! Additionally, **partners are responsible for making estimated tax payments**, instead of having payroll taxes withheld.



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Distribution payments are treated differently. Distributions based on the partner's profit interest percentage or for items like estimated tax payments, may or may not be treated as taxable income, **depending on the partner's basis in the partnership.**

Basis in part includes a partner's share of income, which will be **taken into account for taxable income purposes at their individual level.** We will explore basis calculations in a future share!



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If you receive payments from a partnership, it is important to understand the rules and reporting requirements that apply!



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