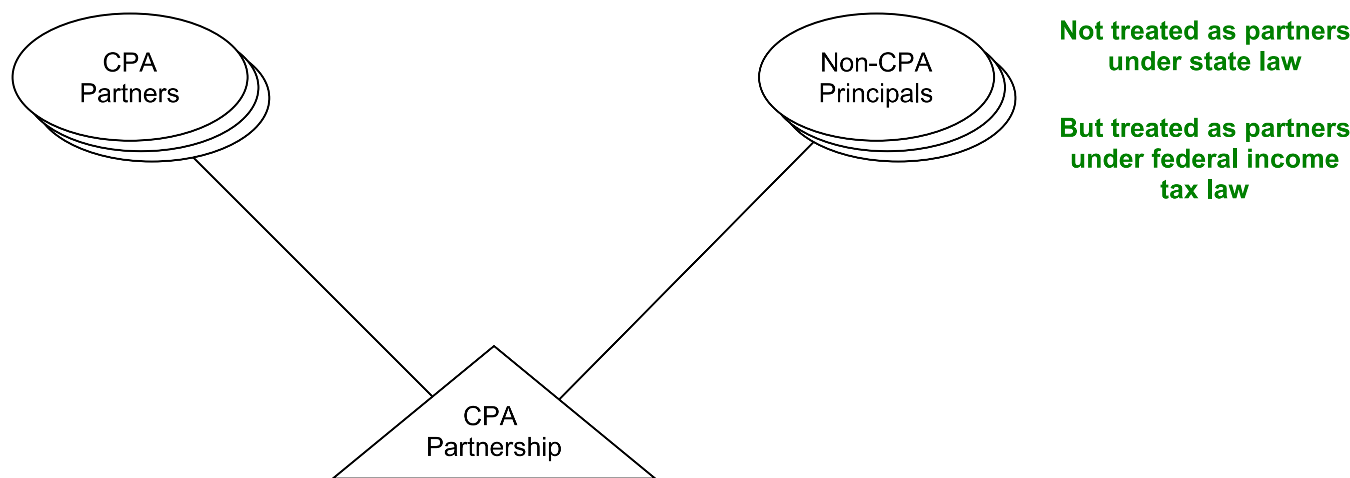
Revenue Ruling 77-332

Principals of CPA Firm Treated as Partners

Copyright © 2024 Andrew Mitchel LLC
International Tax Services
www.andrewmitchel.com



In order to provide greater incentives for certain of its management consulting personnel, a CPA partnership established the category of "principal." Under state law, since these individuals are not CPAs, they are not recognized as partners of the partnership. Nevertheless, for certain purposes, the principals are treated as partners by the firm. The partnership formalized the status of a principal under a written partnership agreement among all the partners and the principals of the firm. The non-CPA principals acquired "units of interests", which represent shares in the partnership for the purposes of voting and profit and loss sharing.

The IRS ruled that, although the non-CPAs are not partners for state law purposes, they are partners for federal income tax purposes. In support of this conclusion, the IRS cited *Commr. v. Tower*, 327 U.S. 280 (1946), *Commr. v. Culbertson*, 337 U.S. 733 (1949), *Nichols v. Commr.*, 32 T.C. 1322 (1959), and Rev. Rul. 58-243.

HUNDREDS of additional charts at www.andrewmitchel.com