

On May 28, 2010, the IRS issued new tax reporting guidelines for Registered Domestic Partners in California. In 2006, California lawmakers ruled that beginning January 1, 2007, earned income would be treated as community property for state income taxes for RDPs as well for married couples. This obligated registered partners to file a joint return (or RDP filing separately) for California, yet having to file separate individual federal returns in which the registered domestic partnership was not recognized.

As Federal tax regulations generally respect state community property laws, the 2007 California change provided a basis for the IRS to adjust its rules upon being challenged. To conform to the newer California community property laws, the IRS made three changes, per a non binding letter ruling:

- Each taxpayer report one half the joint income that would be reported on the joint California return
- Each taxpayer is entitled to half the credits and withholding from joint wages.
- Dividing income does not result in any transfer of property or gift tax issues for federal purposes.

For example: Pam and Kim are registered with the state of California as domestic partners. In 2010 Pam earns wages of \$30,000 and Kim earns \$70,000. On their federal tax returns, their filing status will be single, and each will have wages of \$50,000. The total of the federal withholding will also be split equally, as would deductions and credits.

Likewise, if one partner's account is in collections for IRS debt, joint assets will be considered when establishing a reasonable payment plan.

For many RDP couples, this may result in a large tax advantage. Amended returns **may** be filed for 2007 onward but are **not** required.

*Please note: These new tax reporting rules will probably result in a non-alignment between informational returns such as W-2s and 1099s filed with the IRS by 3rd parties and the individual federal returns filed by each registered domestic partner. The preparation of the federal return has to be approached with caution to avoid inquiry and correspondence from the IRS.