

## U.S. Tax Court Issues Ruling on Self-Employment Tax Exception for Limited Partners

Alert

06.11.2025

By Charley Jensen, Jay Simpson, Charles Hutchison & Vaughn McMahon

On Wednesday, May 28, the U.S. Tax Court ruled in *Soroban Capital Partners LP v. Commissioner* that a “functional analysis” test applies when determining whether a limited partner who contributes services to a partnership may take advantage of the limited partner exception to self-employment tax.

To appreciate this ruling’s implications, it is helpful to first review the legal framework governing this exception. Section 1401(a) imposes a tax on self-employment income, which, in general, includes a partner’s distributive share of partnership income. Section 1402(a)(13), however, excludes from the self-employment tax “the distributive share of any item of income . . . of a limited partner, as such,” other than certain guaranteed payments for services rendered.

Section 1402(a)(13) does not define the phrase “limited partner, as such.” Significantly, in *Renkemeyer, Campbell & Weaver, LLP v. Commissioner*, the U.S. Tax Court found that the legislative history of Section 1402(a)(13) “does not support a holding that Congress contemplated excluding partners who performed services for a partnership in their capacity as partners . . . from liability for self-employment taxes.” This interpretation was echoed in *Denham Capital Management LP v. Commissioner*, a case in which the U.S. Tax Court applied a functional analysis test to determine whether purported limited partners occupied a role akin to that of a passive investor.

Against this backdrop, the U.S. Tax Court in *Soroban* applied the functional analysis test, as articulated in *Denham*, to determine whether Soroban’s limited partners (i.e., certain individuals designated as limited partners under state law) had acted “as such.” Under the test, to exclude a limited partner’s distributive share of partnership income from net self-employment earnings, the surrounding circumstances of the partner’s economic relationship with the partnership must sufficiently indicate that it is one of passive

# U.S. Tax Court Issues Ruling on Self-Employment Tax Exception for Limited Partners

investment. To make such a determination, the U.S. Tax Court in *Soroban* considered the extent to which the partners' time, skills and judgment were essential to the partnership's income, what roles the partners played in the business, the amount of time the partners devoted to the business, and whether the partnership advertised any specific skills or expertise of the partners. Ultimately, the U.S. Tax Court concluded that all income allocable to Soroban's limited partners was subject to self-employment tax for the years at issue. This holding reflects an evolution in the way the U.S. Tax Court defines a "limited partner, as such" in the context of the limited partner exception to self-employment tax.

After the U.S. Tax Court's ruling in *Soroban*, it is advisable that any similarly situated limited partnership consult with its tax advisors in assessing the degree to which its limited partners risk incurring self-employment tax liability. This is the third relatively recent U.S. Tax Court decision on this issue that uses a fact-based test to determine self-employment tax liability in the partnership setting and ignores the designations assigned to the owners by the entity taxed as a partnership.

*Vaughn McMahon is a 2025 summer associate with Stinson and is attending the University of Kansas law school.*

## CONTACTS

Charles E. Hutchison

Charles F. Jensen

John (Jay) W. Simpson

## RELATED CAPABILITIES

Business Taxation

Corporate Finance

STINSON

STINSON LLP / STINSON.COM