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Soroban: An Update After US Tax Court Ruling

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On May 28, 2025, the US Tax Court ruled that investment manager limited partners in Soroban Capital Partners were active limited partners and, as such, were ineligible for the limited partner exception to self-employment taxes described in Internal Revenue Code Section 1402(a)(13).[1]

As discussed in this December 2023 client alert, in November 2023, the US Tax Court held that state law limited partners are not per se entitled to the limited partner exception because the limited partner exception does not apply to a partner who is limited in name only.[2] Instead, a functional analysis must be applied to determine whether the limited partner exception applies (the *Soroban* holding). The case subsequently went to trial to be determined on the facts.

Under a functional analysis, the taxpayer bears the burden of establishing that a partner is not a limited partner in name only based on all relevant facts and circumstances – including, for example, the partner's role in generating the partnership's income, the partner's role in managing the partnership, the partner's time devoted to the partnership's business, the extent to which the partner's role in the partnership's business is advertised and the partner's capital contributions to the partnership. In the US Tax Court's determination that the limited partner exception did not apply, and that the limited partners' earnings were not "investment" in nature, it noted that the limited partners oversaw day-to-day management, worked for Soroban full time and were held out to the public as essential to the business.

Although several taxpayers[3] are challenging the *Soroban* holding, limited partners of investment managers claiming the limited partner exception should assess the application of the exception in their particular situation.

Notes

1. *Soroban Capital Partners LP v. Commissioner,* T.C. Memo. 2025-52.
2. *Soroban Capital Partners LP v. Commissioner,* 161 T.C. 310 (2023).
3. Denham Capital Management filed an appeal with the US Court of Appeals for the First Circuit regarding a US Tax Court holding that its limited partners are "active" limited partners ineligible for the limited partner exception; Sirius Solutions filed a similar appeal in the US Court of Appeals for the Fifth Circuit.

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