



# This Week in State Tax (TWIST)

December 8, 2025



## New York City: Tribunal rules on relationship of IRC and City Tax

The New York City Tax Appeals Tribunal recently affirmed an Administrative Law Judge (ALJ) determination that the New York City Department of Finance improperly denied a taxpayer's interest expense deduction related to a debt-financed distribution. The Department had asserted Unincorporated Business Tax (UBT) deficiencies against a television network for the audit period covering tax years 2012 – 2014. The core dispute centered on the interpretation of "unincorporated business deductions," specifically whether the City could deny a deduction for interest expense that was allowable for federal income tax purposes, even when no specific UBT statutory modification applied.

The New York City Administrative Code defines "unincorporated business deductions of an unincorporated business" as:

"... the items of loss and deduction directly connected with or incurred in the conduct of the business, *which are allowable for federal income tax purposes for the taxable year* (including losses and deductions connected with any property employed in the business), with [certain] modifications...." (emphasis added).

For the tax years at issue, the taxpayer deducted interest expenses related to financing used to redeem the equity interest of one of its partners in arriving at federal taxable income. The Internal Revenue Service audited the deduction and issued a no-change letter. Despite the Service having accepted the deductibility of these expenses, the Department denied them for UBT purposes, claiming that the language of the City Administrative Code imposes two separate requirements: that the expense must be allowed for federal income tax purposes *and* must be directly connected with or incurred in the conduct of the business for UBT purposes. Therefore, the Department argued that even if a business expense is permitted at the federal level, the expense must also pass a second level of scrutiny and be "directly connected with trade or business" under the UBT.

The Tribunal strongly disagreed with the Department's interpretation based on the clear intent of the legislative history to bring the UBT into substantial conformity with the Internal Revenue Code as found by the ALJ. The Tribunal further noted that the Department's proposed reading would allow it to deny an allowable federal deduction under the UBT by imposing its own alternative interpretation of deductibility that differs from the federal income tax, an interpretation that "would produce an absurd result, essentially empowering the City to apply the federal income tax under the UBT whenever and however it chooses." Because the legislature clearly intended for the UBT to substantially conform to the federal income tax, federal principles should control, absent a specific New York City modification. Please contact [Aaron Balken](#) and [Alec Schwartz](#) with questions about [Matter of A&E Television Networks, LLC](#).

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