

Correcting Partnership Capital Accounts



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IRS FOCUS ON PARTNERSHIPS



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LB&I Partnership Compliance Efforts – Part 1



- Large Partnership Compliance Program (October 1, 2021 stand-up)
 - Like Large Corporate Compliance Program in its anticipated use of data analytics
 - After collecting and classifying data, this fall the risk assessment model (which reportedly utilizes a machine learning algorithm) was used to identify 150 partnerships for further review
 - GAO has criticized methodology
- Dozens of new agents trained in partnership issues
- Recently revised forms give IRS better tools for audit selection – tax basis capital account reporting, unrecognized 704(c) gain/loss reporting, separate activity “at risk” reporting, new Forms K-2 and K-3 for partnerships with international activities



LB&I Partnership Compliance Efforts – Part 2



- Large Partnership Compliance (LPC) Program – uses data analytics
 - By the end of the October, the IRS indicated it would open examinations of 75 of the largest partnerships in the U.S. that represent a cross section of industries including hedge funds, real estate investment partnerships, publicly traded partnerships, large law firms and other industries. On average, these partnerships each have more than \$10 billion in assets.
- Partnership Balance Sheet Discrepancies
 - The IRS has identified ongoing discrepancies on balance sheets involving partnerships with over \$10 million in assets, which is an indicator of potential non-compliance. Taxpayers filing partnership returns are showing discrepancies in the millions of dollars between end-of-year balances compared to the beginning balances the following year. The number of such discrepancies has been increasing over the years. Many of these taxpayers are not attaching required statements explaining the difference. This effort will focus on high-risk large partnerships to quickly address the balance sheet discrepancy. This effort began in early October when the IRS mailed letters to around 500 partnerships asking for explanations



LB&I Compliance Campaigns



- Issue based audits
- Examinations of a “return” versus an “issue”
- Development of substantive expertise on issues
- Interrelationship with Global High Wealth enterprise audits
 - Audit of a designated issue versus broader review of all activities by a high net worth individual
 - Recent recommendation by TIGTA to triple GHW unit
 - Most GHW audits involve partnerships/LLCs
- Tax Cuts and Jobs Act (TCJA) Campaign extended into CARES Act compliance

LB&I Compliance Campaigns



- SECA Campaign (paused as cases have been teed up)
- Distributions in excess of basis
- Sales of partnership interest – improper gain rates
- Losses in excess of basis (added 2022)

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