Impact of Increased IRS Focus on Partnership Compliance

The IRS is significantly increasing its focus on partnership compliance. Between additional IRS funding and the rollout of the Large Partnership Compliance Program in October 2023, taxpayers should expect to see more partnerships examined by the IRS. Additionally, many taxpayers are still adjusting for the new procedures for amending partnerships returns subject to the Bipartisan Budget Act of 2015. Those BBA partnerships can no longer amend Form 1065 or issued revised Schedules K-1, instead they must file administrative adjustment requests (AAR).

5 insights you should know

1. Due to increased IRS funding, the Large Partnership Compliance Program, various IRS Campaigns related to partnership issues, and a greater focus interest on pass-through entities generally, there is expected to be a significant increase in IRS partnership examinations.

2. The IRS is reassigning and hiring new employees for partnership compliance.

3. Partners must file consistently with the partnership return and their Schedule K-1 unless they file a Form 8082 as a notice of inconsistent treatment with their tax return.

4. A BBA partnership's filing of an AAR extends the IRS's statute of limitations to adjust partnership-related items. BBA partnerships should consider the impact on the statute of limitations when deciding whether to file an AAR.

5. When a BBA partnership pushes out a taxpayer-favorable adjustment as part of an AAR, the favorable adjustment is generally limited to the partner's reporting year tax (like a nonrefundable credit).

5 actions to take now

1. Consider a pre-controversy audit readiness review to help prepare for a BBA examination. Preparing for an examination prior to contact from the IRS can be very valuable, particularly if the taxpayer has not been examined recently or has undergone significant organizational changes. Such a review would include analyzing IRS campaigns and other areas of potential compliance risk, as well as understanding the BBA partnership audit procedures.

2. File extensions for Form 1065. Even if the partnership intends to file by original due date, it may still want to consider filing an extension request. That way, if the partnership needs to correct the return and Schedule K-1s before the extended due date, it can do so without going through the AAR process.

3. Don't delay in filing AAR's. Once the IRS selects the partnership for audit, the partnership and its partners have a limited time to file AARs and amended returns.

4. Discuss AAR timing with pass-through partnerships that receive a push-out statement. Pass-through partnerships have until the extended due date of the adjustment year to push out adjustments. Delay in the issuance of push-out statements can cause problems for upper-tier partnerships and ultimate individual and corporate partners at the top of the structure as push-out statements for all tiers of the structure must be issued by the extended due date of the adjustment year.

5. Review the IRS.gov BBA website. Keep informed and up to date on all the latest forms/instructions and procedures by reviewing the IRS site: BBA Centralized Partnership Audit Regime: Internal Revenue Service IRS.gov.

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