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Investment management tax alert
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Internal Revenue Service Releases DRAFT 2019 Form Schedules K-1

The Internal Revenue Service ("IRS") recently released a draft version of the 2019 Form Schedule K-1, which will be used for the 2019 tax filings for partnerships once finalized. These proposed changes are part of an initiative to broaden the scope of information being disclosed with the partnership tax return. Specifically, the IRS is seeking enhanced reporting of an investor's tax capital and any unrecognized built-in gain or loss on property contributed to the partnership. The IRS has also proposed the inclusion of certain additional disclosures relating the investor's activity in the partnership.

Background

Provisions with the Greatest Impact

Prior to 2019, a taxpayer chose the method of accounting they used in the partner's capital account analysis section on the Form Schedule K-1. If a partner had negative tax capital, that needed to be disclosed beginning in 2018. The proposed change would eliminate any optional reporting and instead, would mandate that the partnership track tax capital for ALL partners.

In addition, prior to 2019 a taxpayer was only required to disclose property contributed to the partnership with built-in gain or loss. The IRS now is requiring taxpayers to disclose beginning and ending unrealized gain or loss on contributed property on an annual basis.

If the partner's share of profit, loss or capital sharing decreases in any year due to a sale or exchange of the interest in a partnership, that is noted on the face of the K-1 as well.

Deloitte's View

The IRS' proposed enhanced reporting on the Form Schedule K-1 may require significant additional time and resources for tax service providers to gather required information. Likely the ones that will be the most time consuming would be historical tax capital and unrecognized built-in gain or loss by partner. Please consult with your Deloitte engagement team for additional details.

Contacts

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