

The background of the slide is a blurred photograph of several people in business attire, including suits and ties, gathered around a table. One person on the left is holding a pen over a document. The overall color palette is warm, with reds and oranges, suggesting a professional and serious atmosphere.The logo consists of the letters "KLR" in a bold, dark green, serif font. Below the letters are two horizontal black bars of equal length, stacked vertically.

KLR

ATTENTION PARTNERS: New IRS Partnership Audit Rules Bring Big Changes



Presented by
JADE M. TOHER, CPA, MST
TAX MANAGER

I work closely with clients to help them
achieve their business goals through
strategic planning



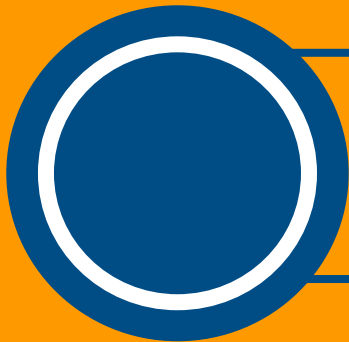
Presented by
NORMAN LEBLANC, CPA , MST
CHAIR, TAXPAYER DEFENSE

I help clients effectively resolve their
tax controversies

The background of the slide is a blurred photograph of several people in business attire, including suits and ties, gathered around a table. One person on the left is holding a pen over a document. The image has a warm, reddish-orange color cast.The logo consists of the letters "KLR" in a dark green, serif font, positioned above two horizontal black bars. The entire logo is contained within a white square.

KLR

ATTENTION PARTNERS: New IRS Partnership Audit Rules Bring Big Changes

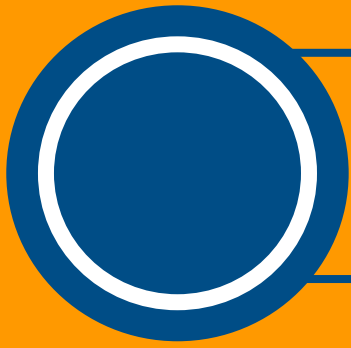


AGENDA

- Old Rules/New Rules
- How Does It Work?
- Alternatives
- What to Think About and Do Now
- Trouble Spots
- Key Takeaways

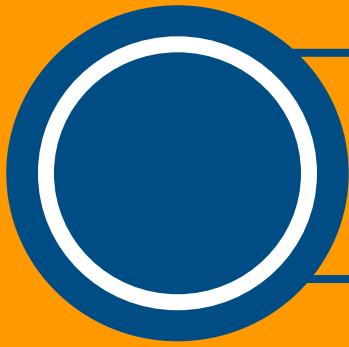
OLD RULES / NEW RULES





OLD RULES

- Partnership audits governed by TEFRA since 1982
- What are the old / current rules?
- Why the change?

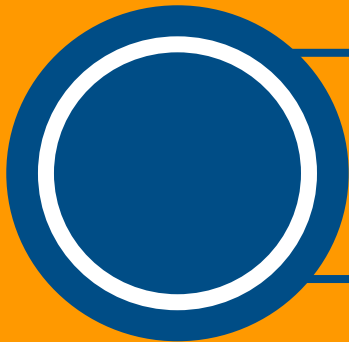


NEW RULES

- Legislation passed in 2015- Effective for years beginning after 12/31/2017
- Adjustment and Assessment both at the partnership level
 - Eliminated the IRS from engaging numerous partners for separate assessments

A collection of construction tools is scattered on a light-colored wooden surface. The tools include a claw hammer with a silver head and black handle, a hand saw with a yellow handle and metal blade, a yellow tape measure, a red and black spirit level, a silver adjustable wrench, and several silver screws. The text "HOW DOES IT WORK?" is overlaid in white on the right side of the image.

**HOW DOES
IT WORK?**



HOW DOES IT WORK?

1

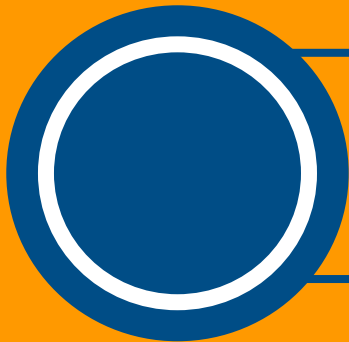
Tax matters partner is replaced with a **Partnership Representative**

2

Exam notices and assessments will now be sent to only the Partnership

3

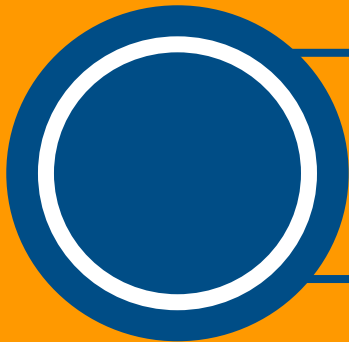
Tax rate



HOW DOES IT WORK?

1. Tax matters partner is replaced with a Partnership Representative

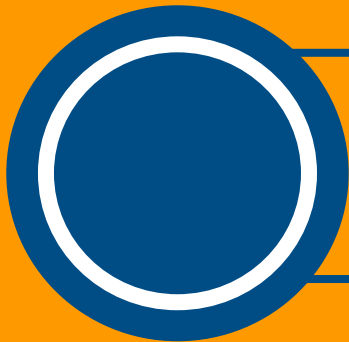
- ✓ This person can be a partner or anyone else
- ✓ Must have a substantial presence in the US
- ✓ May be an entity, but an individual must also be identified
- ✓ If an individual is not identified, the IRS will select one.
Likely the partner with the largest % of ownership



HOW DOES IT WORK?

Sole authority to act on behalf of the partnership and all of its partners on the following matters:

- Agreeing to binding settlements
- Agreeing to a notice of a final partnership adjustment
- Agreeing to payment of the partnership liability at the partnership level
- Agreeing to extend the statute of limitations
- The IRS is not required to communicate with anyone other than this representative



HOW DOES IT WORK?

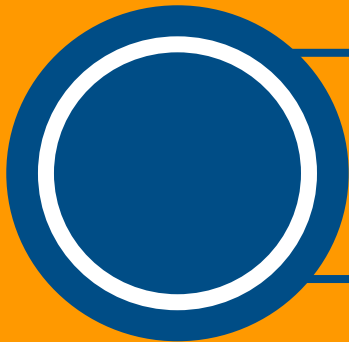
2. Exam notices and assessments will now be sent to only the Partnership Representative

The tax is considered assessed in the year the exam closes (Not the year under exam)



90 days to ...
petition the Tax Court





HOW DOES IT WORK?

3. What's the tax rate?

The highest rate of tax in effect for the year under exam

- The highest individual rate in effect for

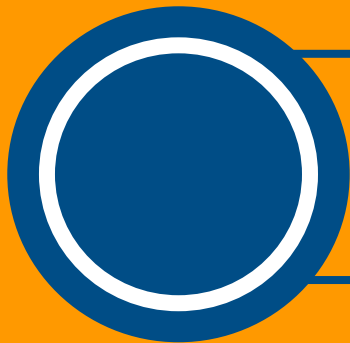
2018 is 39.6%

- Even if all partners are C Corporations, the Partnership will pay the 39.6% rate
- This assessment does not take into account the character of income, so capital gains, qualified dividends, etc. are all taxed at the 39.6%



ALTERNATIVES

- 1. PAYMENT BY PARTNERS**
- 2. OPTING OUT OF THE NEW RULES OVERALL**



ALTERNATIVES

1

Payment

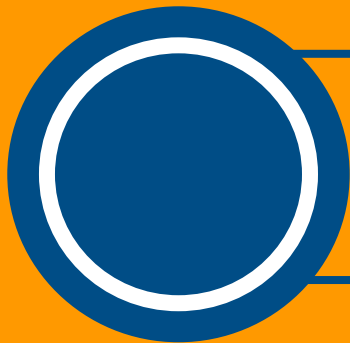
By Partners



- Within 45 days of notice of final adjustment Elect to issue a revised Schedule K-1 for the year of exam
 - Adjustment is calculated and reported in the year the exam closed, not the year under exam



The IRS has not issued clear guidance on this yet



ALTERNATIVES

2

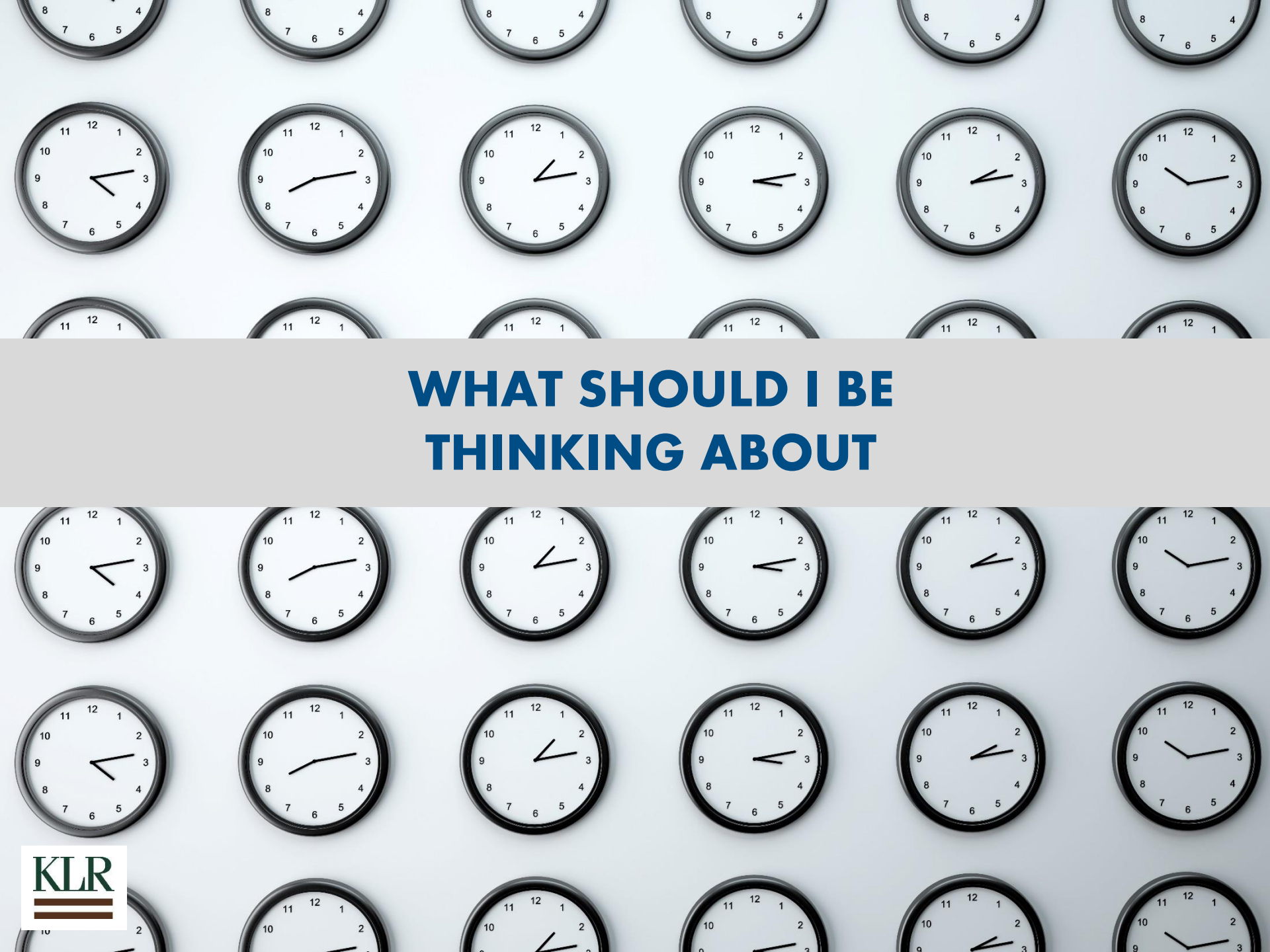
Opting Out



No action is considered Opting In (by default). Only partnerships with fewer than 100 K-1's and whose partners are individuals, corporations, or estates can opt out by filing an annual election.



Partnerships that have other partnerships or trusts as partners may not elect out of the new rules.



**WHAT SHOULD I BE
THINKING ABOUT**

KEY QUESTIONS



Information sharing requirements



Taxpayer representative: selection, resignation/removal, indemnification



Obligations of former partners



Buyers - Risk for prior-period tax liability will now be part of the negotiation



Sellers- push-out election



TAKE ACTION



- All new partnership agreements must address the new audit regime
 - Taxpayer rep appointment
 - Restrictions with transfers

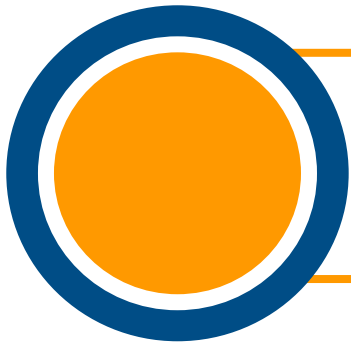


TAKE ACTION



- Purchase & Sale agreements should be redrafted or amended to address
 - Elections
 - Partner obligations such as cooperation, tax reimbursements, claw backs

TROUBLE SPOTS







TROUBLE SPOTS

FAQ's

1. What if partners have suspended loss carryovers?
2. What if partners have an NOL carryover?
3. Partnership interests held by an IRA or tax exempt entities
4. Should new partners be responsible for prior partner's tax liability?
5. What happens to partner basis?
6. State taxes

KEY TAKEAWAYS

-  Time for action is now
-  Monitoring - the IRS is authorized to issue more regulations (but has yet to issue clearer guidance)
-  Annual Elections need to be made on timely filed returns
-  Amendments to agreements

Let's Connect



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