



MANUAL TRANSMITTAL

Department of the Treasury
Internal Revenue Service

4.31.9

JANUARY 24, 2024

EFFECTIVE DATE

(01-24-2024)

PURPOSE

- (1) This transmits revised IRM 4.31.9, Pass-Through Entity Handbook, Centralized Partnership Audit Regime (BBA) Field Examination Procedures.

MATERIAL CHANGES

- (1) IRM 4.31.9.1.1 - Revised this subsection to comply with IRM 1.11.2.2.4.
- (2) IRM 4.31.9.1.2 - Added this subsection to breakout authority from background in accordance with IRM 1.11.2.2.4.
- (3) IRM 4.31.9.1.3 - Added roles and responsibilities in this subsection in accordance with IRM 1.11.2.2.4.
- (4) IRM 4.31.9.1.4 - Added program management and review to this subsection in accordance with IRM 1.11.2.2.4.
- (5) IRM 4.31.9.1.5 - Added this subsection for program controls in accordance with IRM 1.11.2.2.4.
- (6) IRM 4.31.9.1.6 - This was renumbered from 4.31.9.1.3 due to the addition of the subsections named above. The following changes were also made:
 - In the term table, clarified definition of push out.
 - In the acronym table, added ATDNR.
 - In the acronym table, added CCP.
 - In the acronym table, added CH 2/2A.
 - In the acronym table, added to definition of FPA.
 - In the acronym table, spelled out BBA in the definition of PBBA.
 - In the acronym table, removed system from the definition of PPA.
 - In the acronym table, edited PTE to be PTE/PTEPA and added that some IRS systems use a 3-character acronym for PTEPA.
 - In the acronym table, added TEFRA.
- (7) IRM 4.31.9.1.7 - This was renumbered from 4.31.9.1.4 due to the addition of the subsections named above.
- (8) IRM 4.31.9.2 - Moved the first paragraph to 4.31.9.1.1, Background.
- (9) IRM 4.31.9.3 - Removed the mandatory referral to a BBA point of contact for any election out of the BBA that is denied. Added procedures from IRM 4.4.9 to have a Form 13496, IRC Section 6020(b) Certification completed.
- (10) IRM 4.31.9.3.1 - Clarified BBA SFR amounts included in a BBA report and added an example.
- (11) IRM 4.31.9.3.2 - Edited language that the examiner should include on Letter 2205-D. Added new procedures for the examiner and manager to follow if a valid Form 8979 is or is not received. Added a best practice suggestion.
- (12) IRM 4.31.9.4 - Clarified when the BBA regime applies during compliance assurance process (CAP) exams for LB&I.

- (13) IRM 4.31.9.6 - Added examples of items that are not partnership-related items (PRIs)
- (14) IRM 4.31.9.6.2 - Added information required of partnerships related to classifying partners as active or passive and giving partners information to allow partners to correctly figure their Net Investment Income Tax (NIIT). Added procedures for examiners to control, and link partners' returns when working a NIIT-SECA coverage issue.
- (15) IRM 4.31.9.6.3 - Added instructions for examiners auditing a BBA partnership but not auditing its partners and examiners auditing both a BBA partnership and its partners
- (16) IRM 4.31.9.6.4 - Added linkage requirements. Added terms and definitions to table in paragraph 6.
- (17) IRM 4.31.9.6.5 - Clarified language in all the different scenarios. Added examples to assist examiners in processing partners with non-pass-through adjustments.
- (18) IRM 4.31.9.6.6 - Added the requirement of a mandatory referral to a BBA POC. Added examples where the examiner may need to control both the partnership and partner returns.
- (19) IRM 4.31.9.7.1 - Added the requirement of a mandatory referral to a BBA POC to determine if a subsequent filing meets the requirements to be treated as an AAR. Added procedures for previous audit adjustments. Added procedures for negative adjustments.
- (20) IRM 4.31.9.7.2 - Added 3 reasons for automatic denials of and election out under IRC 6221(b). Removed the requirement to contact a BBA POC if a partnership representative is not in effect or if there is an invalid Form 8979.
- (21) IRM 4.31.9.7.4.3 - Added instructions to update ERCS/AIMS that the return is subject to the BBA regime.
- (22) IRM 4.31.9.7.5 - Added instruction that the partnership should be given 30 days to file a BBA AAR before the NAPs are issued if the IRS accepts the revocation of the election out of the BBA.
- (23) IRM 4.31.9.7.5.1 - Added instruction to update the "IRC6235A1 - PPA-DEADLINE-DT" field on Form 5348.
- (24) IRM 4.31.9.7.6 - Clarified that the PR and DI must have a substantial presence in the United States. Added links to the Form 8979 instructions and the partnership representative of record job aid.
- (25) IRM 4.31.9.7.6.1 - Clarified that the PR (and DI if the PR is an EPR) must have a substantial presence in the United States.
- (26) IRM 4.31.9.7.6.3 - Added instructions to send two Letters 6007.
- (27) IRM 4.31.9.7.6.5 - Added instructions to make contact with the BBA POC if the partnership filed multiple AARs with Form 8979. Added language to Letter 2205-D if there is no valid PR designation in effect.
- (28) IRM 4.31.9.7.6.6 - Added subsection on providing an opportunity to the partnership to make a PR designation.
- (29) IRM 4.31.9.7.6.7 - Renumbered accordingly due to the addition of IRM 4.31.9.7.6.6. Reworded and reordered instructions if there is no PR designation in effect.
- (30) IRM 4.31.9.7.6.8 - Renumbered accordingly due to the addition of IRM 4.31.9.7.6.6.
- (31) IRM 4.31.9.7.6.9 - Renumbered accordingly due to the addition of IRM 4.31.9.7.6.6. Reworded and reordered instructions for irresponsive partnership.

- (32) IRM 4.31.9.7.7.2 - Added the requirement that an examiner may determine that a subsequent filing is not an AAR only in conjunction with a BBA POC. Removed instructions that the examiner may determine that a subsequent filing is an AAR but not valid.
- (33) IRM 4.31.9.7.8 - Added that Letter 2205-D does not have to be mailed certified. Added instructions for mailing or reissuing Letter 2205-D.
- (34) IRM 4.31.9.7.10.1 - Removed Part I from the title.
- (35) IRM 4.31.9.7.10.2 - Removed Part II from the title. Added when a Form 2848 might be needed outside of the BBA regime for Chapter 2, 2A, 3 and 4 items. Added reference to IRM 4.31.5.12.1.2 for who can sign Part 1 of Form 2848, Line 7.
- (36) IRM 4.31.9.8.1:
 - Added that registered mail must be utilized to mail the NAP if there is a foreign address. Added instructions on actions to take if one or both NAP letters are returned as undeliverable. Added a best practice suggestion.
 - Added new Figure 4.31.9-11 to show an example of a generic NAP.
- (37) IRM 4.31.9.8.4 - Removed note in paragraph (1). Clarified heading in table to state time remaining on statute when received by technical services.
- (38) IRM 4.31.9.8.4.3:
 - Modified instructions to issue Letter 928-M. Removed reference to 06-2004 version.
 - Figure 4.31.9-11 was renumbered to Figure 4.31.9-12.
 - Figure 4.31.9-12 was renumbered to Figure 4.31.9-13.
- (39) IRM 4.31.9.8.4.3.1:
 - Figure 4.31.9-13 was renumbered to Figure 4.31.9-14.
 - Figure 4.31.9-14 was renumbered to Figure 4.31.9-15.
- (40) IRM 4.31.9.9.1 - Added statement that the examiner will not prepare a summary report package or NOPPA package for an agreed no-change. Added instructions on what to do if LB&I and the PR do not agree with the no-change determination and the PR presented an informal claim.
- (41) IRM 4.31.9.9.2.1 - Figure 4.31.9-15 was renumbered to Figure 4.31.9-16.
- (42) IRM 4.31.9.9.2.2.2 - Added two adjustments to credit grouping.
- (43) IRM 4.31.9.9.2.9 - Added note defining credit grouping and instructions to submit an inquiry through request tracker for a BBA POC for guidance on the imputed underpayment calculation. Added instructions on adjustments to items that are not items of income, gain, loss, deduction or credit.
- (44) IRM 4.31.9.9.3.1 - Added instructions for examiners to consider if there are other adjustments to partnership-related items, such as adjustments to IRC 199A. Added link to IRC 199A report writing guidance.
- (45) IRM 4.31.9.9.3.3 - Revised paragraph (4)(b) to include guidance from interim guidance memo LB&I-04-0423-0004.
- (46) IRM 4.31.9.9.3.3.1 - Removed the table that showed an example of the COMPD report and added Figure 4.31.9-17 to comply with 508 requirements.
- (47) IRM 4.31.9.10.1 - Added procedure to skip issuance of the summary report if the PR has indicated its desire to go to Appeals.

- (48) Updated Ogden BBA Unit to Ogden BBA Operations throughout.
- (49) Updated Chapters 2 and 2A to Ch 2/2A throughout.
- (50) Updated PPA/NOPPA to NOPPA throughout.
- (51) Replaced the Partnership Representative Form 8979 Validation Mandatory Check Sheet with Form 15416, Form 8979 Validation Check Sheet throughout as the check sheet is now an official published product.
- (52) Editorial changes made throughout the IRM for clarity. Reviewed and updated plain language, grammar, titles, website addresses and IRM references.

EFFECT ON OTHER DOCUMENTS

This IRM incorporates Interim Guidance Memo: LB&I-04-0423-0004, Interim Guidance for Approval of Penalties under Internal Revenue Code (IRC) 6751(b)(1) for LB&I Examinations. IRM 4.31.9 dated September 22, 2022 is superseded.

AUDIENCE

LB&I, SB/SE and IRS Independent Office of Appeals (Appeals) employees

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4.31.9

Centralized Partnership Audit Regime (BBA) Field Examination Procedures

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4.31.9.1
(07-10-2020)
Program Scope and Objectives

- (1) **Purpose:** The purpose of this IRM is to provide field examination procedures, processes, and guidelines to LB&I, SB/SE, and Appeals employees who examine or work on partnership returns under the BBA centralized partnership audit regime.
- (2) **Audience:** LB&I and SB/SE employees are the primary users of this IRM.
- (3) **Policy Owner:** LB&I Policy under the Strategy, Policy and Governance office in the Assistant Deputy Commissioner Compliance Integration organization.
- (4) **Program Owner:** Director, Pass-Through Entities Practice Area
- (5) **Primary Stakeholders:** Employees in LB&I, SB/SE and IRS Independent Office of Appeals (Appeals) who work on partnership cases.

4.31.9.1.1
(01-24-2024)
Background

- (1) This IRM sets forth field exam procedures implementing the BBA regime include the scope and election out of the BBA, partnership representative, consistency principle, imputed underpayment with respect to any partnership adjustment, administrative adjustment request, statute of limitations on making adjustments, communication, report writing, and case disposition guidelines.

4.31.9.1.2
(01-24-2024)
Authority

- (1) Section 1101 of the Bipartisan Budget Act of 2015 (BBA) as amended by the Protecting Americans from Tax Hikes Act of 2015 (PATH Act) and sections 201 through 207 of the Tax Technical Corrections Act of 2018 (TTCA) repealed the TEFRA partnership procedures and the electing large partnership provisions and replaced them with a new centralized partnership audit regime.
- (2) Delegation Order 4-52 (Rev. 2), Partnership Matters Under the Centralized Partnership Audit Regime. See IRM 1.2.2.5.40, Servicewide Delegations of Authority.

4.31.9.1.3
(01-24-2024)
Roles and Responsibilities

- (1) All of the practice areas in LB&I share an equal responsibility in conducting a thorough examination. The practice area director is responsible for ensuring their employees follow the procedures outlined in the IRM.
- (2) The director, examination headquarters, is the executive responsible for providing policy and guidance for SB/SE examination employees and ensuring consistent application of policy, procedures and tax law administration.
- (3) The director, LB&I PTE practice area provides management oversight of the PTE specialty groups.
- (4) All IRS personnel have the responsibility to ensure that taxpayer rights are protected and observed.

4.31.9.1.4
(01-24-2024)
Program Management and Review

- (1) **Program Reports:** Each year an exam plan is created for partnership examinations.
- (2) **Program Effectiveness:** the exam plan is monitored to ensure the partnership examination objectives are met. Open examinations are monitored to ensure a BBA determination is made and that the BBA Notice of Administrative Proceeding (NAP) date is entered on the Examination Returns Control System (ERCS).

4.31.9.1.5
(01-24-2024)

Program Controls

- (1) Technical Services monitors a report to ensure BBA returns are identified in a timely manner. A report is generated in ERCS that shows all BBA cases in a field examination status. This report is generated monthly.

4.31.9.1.6
(01-24-2024)

**Terms/Definitions/
Acronyms**

- (1) The following tables list commonly used terms and acronyms:

Terms

Term	Definition
BBA regime or PBBA regime	Examination subject to the Bipartisan Budget Act of 2015 (BBA or PBBA). This term is used interchangeably with "centralized partnership audit regime".
Reviewed year	Partnership tax year under exam or to which a partnership adjustment relates.
Adjustment year	Partnership tax year in which: <ul style="list-style-type: none"> The decision of a court becomes final in a proceeding brought under IRC 6234; An administrative adjustment request is filed under IRC 6227 or; In any other case, a notice of final partnership adjustment is mailed under IRC 6231 or a waiver is executed to waive the restrictions under IRC 6232(b).
Partnership	Any partnership required to file a return under IRC 6031(a).
Partnership adjustment	Any adjustment to a partnership-related item as defined in IRC 6241.
Pass-through partner	Any pass-through entity that holds an interest in a partnership.
Push Out	An election to push out adjustments to partners under IRC 6226 instead of paying the imputed underpayment.

Acronyms

Acronym	Definition
AAR	Administrative Adjustment Request
ATDNR	Adjustments That Do Not Result
BBA	Bipartisan Budget Act of 2015
BEO	BBA Elect Out
CAP	Compliance Assurance Process
CCP	Centralized Case Processing
CH 2/2A	Chapters 2 and/or 2A of the IRC
DI	Designated Individual

Acronym	Definition
ECI	Effectively Connected Income
EPR	Entity Partnership Representative
ESBT	Electing Small Business Trust
FDAP	Fixed, Determinable, Annual or Periodical Income
FPA	Notice of Final Partnership Adjustment (Some IRS systems use a 3-character acronym)
ILSC	Investor Level Statute Control
IPR	Individual Partnership Representative
IU	Imputed Underpayment
IUA	Imputed Underpayment Amount
LEP	LB&I Examination Process
NAP	Notice of Administrative Proceeding
NIIT	Net Investment Income Tax
NOPPA	Notice of Proposed Partnership Adjustment
PBBA	Partnership Bipartisan Budget Act
PCS	Partnership Control System
POA	Power of Attorney
POC	Point of Contact
PPA	Notice of Proposed Partnership Adjustment (Some IRS systems use a 3-character acronym for NOPPA)
PR	Partnership Representative
PRI	Partnership-Related Item
PTE/PTEPA	Pass-Through Entities Practice Area (Some IRS systems use a 3-character acronym for PTEPA)
PTP	Pass-Through Partner
PTPP	Pass-Through Partnership Partner
QSST	Qualified Subchapter S Trust
SECA	Self-Employment Contributions Act
SFR	Substitute for Return
SND	Statutory Notice of Deficiency
SRS	Specialist Referral System
TC	Transaction Code

Acronym	Definition
TCS	Tax Computation Specialist
TEFRA	Tax Equity and Fiscal Responsibility Act of 1982
TIN	Taxpayer Identification Number
TNPA	Total Netted Partnership Adjustment
TS	Technical Services
TSPC	Technical Service Pass-Through Coordinator

4.31.9.1.7
(01-24-2024)

Related Resources

- (1) See the BBA Centralized Partnership Audit Regime website at <https://www.irs.gov/businesses/partnerships/bba-centralized-partnership-audit-regime>.
- (2) See the BBA landing page in the partnerships knowledge base on the virtual library at <https://irs.gov.sharepoint.com/sites/ETD-KMT-KB038/SitePages/AuditProcedures/BBA/BBALandingPg.aspx>.
- (3) See Pub 5388, Bipartisan Budget Act (BBA) Roadmap for Taxpayers.
- (4) See Rev. Proc. 2020-23, Revenue Examiner Guidance for Amended BBA Partnership Returns Under Revenue Procedure 2020-23.
- (5) See Rev. Proc. 2021-29, Revenue Examiner Guidance for Amended BBA Partnership Returns Under Revenue Procedure 2021-29.

4.31.9.2
(01-24-2024)

General Guidelines

- (1) A partnership must designate a partnership representative. The partnership representative has sole authority to act on behalf of the partnership. Partners are bound by the decisions made by the partnership representative. Direct and indirect partners who have not been designated as the partnership representative for the year under exam have no participation rights during the examination. There may only be one designated partnership representative for a partnership's tax year at any time. A power of attorney may not designate a partnership representative.
- (2) The BBA regime also provides that if an adjustment is identified on account of a mathematical or clerical error appearing on the partnership return, the IRS may make an adjustment to correct the error and may assess the partnership an imputed underpayment resulting from that adjustment. The notice to the partnership of a mathematical adjustment or correction of error is not considered a notice of final partnership adjustment under IRC 6231(a)(3). Math error correction also applies to an adjustment to any inconsistently reported partnership-related item on a partner's return when notice of such inconsistency is not provided.
- (3) Any partnership adjustment and the applicability of any penalty, addition to tax, or additional amount (plus interest as provided by law) that relates to such adjustment are generally determined and assessed at the partnership level.

- (4) After a case is disposed from the field to Technical Services and a notice of any proposed partnership adjustment (NOPPA) has been issued, the next phases of the examination process will be handled by Technical Services, Appeals or Ogden BBA Operations.
- (5) The payment relating to any imputed underpayment, interest or penalties that is made by the partnership is non-deductible and must be treated as an expenditure described in IRC 705(a)(2)(B).
- (6) These procedures apply to all partnerships for tax years beginning after December 31, 2017 unless a valid election out of the BBA described in IRC 6221(b) has been made.
- (7) These procedures also apply to partnerships that elect into the BBA regime for tax years beginning after November 2, 2015 and before January 1, 2018. Refer to IRM 4.31.9.12, Early Elections.
- (8) The examiner and manager are expected to have knowledge of existing procedures, specifically IRM 4.10 and, for LB&I IRM 4.46, and this guidance will mainly focus on exam procedures and processes that are impacted by the BBA regime.
- (9) Document and file all actions, determinations, forms, letters, and job aids under a 600 Section for SB/SE or SAIN 724 for LB&I cases.

4.31.9.3
(01-24-2024)
**Delinquent Return and
Substitute for Return
(SFR)**

- (1) Delinquent returns and substitute for returns are subject to the BBA regime. Election out of the BBA can only be made on an original timely filed return.
 - a. If the delinquent return secured includes such an election out, it is automatically deemed invalid and should be denied.
 - b. Refer to IRM 4.4.9 for AIMS procedures and processing instructions for delinquent returns and SFRs.
- (2) Issue Letter 3798, Non-Filer Appointment, first in non-filer cases where return solicitation language is unwarranted. Letter 3798 is not a notice for selection for examination.
- (3) Once you determine to conduct an examination of a non-filed or late filed return, issue Letter 2205-D, Initial Contact to Schedule Appointment - Partnership Returns, and follow the BBA procedures, including completion of Form 15262, Bipartisan Budget Act (BBA) Partnership Procedures Check Sheet.

Note: For non-filed returns, establish the SFR before mailing the Letter 2205-D.

- (4) Per IRM 4.4.9.5.3.1.1(2), all SFRs having tax adjustments that follow deficiency procedures with the failure to pay (FTP) penalty applied under IRC 6651(g) must have a Form 13496, IRC Section 6020(b) Certification, completed. See IRM 20.1.2, Penalty Handbook - Failure to File/Failure to Pay Penalties for more information. BBA partnerships are **not** exempt from this requirement.
- (5) When examining a BBA delinquent return or SFR, consider Ch 2/2A implications. If there is a material adjustment to self-employment earnings or net investment income tax, the relevant partners should be linked. See IRM 4.31.9.6.2, Auditing Chapters 2 & 2A - BBA Partnership is the Key Case. Link

the relevant partners regardless of whether they are also non-filers. If the relevant partners are non-filers, field examiners may be required to set up an SFR exam for non-filer partners.

- (6) Failure to File Penalty (IRC 6698, Failure to File Partnership Return) considerations - This penalty is not part of the IU computation but will need to be assessed separately.

4.31.9.3.1
(01-24-2024)

Delinquent Returns Are Processed in Accordance With IRM 4.4.9, AIMS Procedures and Processing Instructions, Delinquent and Substitute for Return Processing:

- (1) If a return is received after an SFR TC 150 has posted, see IRM 4.4.9.6, Delinquent return received after SFR TC 150 Posted at Master File.
- The BBA, unlike other pass-through regimes, does not allow for linking and the related campus consistency checks of linked partner returns with filed K-1's. With a BBA SFR, all amounts should, by default, be included in a BBA report. However, agents have the discretion to not include the amounts if the partners included their K-1's in their respective tax returns.

Example: A Form 1065 was prepared, K-1's were distributed, and the partners included the K-1's on their respective Form 1040s. However, that Form 1065 was, for whatever reason, not E-filed with the IRS. In this example, it would be appropriate for the IRS to not include the SFR amounts in a BBA report.
 - Do not forward the delinquent return to submission processing or CCP for posting of a TC 150.
 - Request the input of a TC 971 AC 282 using the return received date in the trans date field. This updates the master file to show that examination secured a delinquent return. When exam controls are requested on an unfiled return using Push Code 036, this automatically generates an SFR and inputs a TC150 on the module.
- (2) For delinquent return statute concerns see IRM 4.4.9.6.2, Statute Concerns.
- Update the IRC 6235(a)(1) date to 3 years from the date that the delinquent return was received.
- (3) Prepare BBA Reports and Form 5344, Examination Closing Record. See IRM 4.4.9.6.3.1, Prepare Examination Report and Form 5344, Examination Closing Record.

4.31.9.3.2
(01-24-2024)

Steps For Determining a Partnership Representative (PR) When the Partnership is a Non-Filer

- (1) Issue Letter 2205-D, Initial Contact to Schedule Appointment - Partnership Returns, with paragraph 5 selected for BBA. In the field that lists the PR, the examiner should write "OUR RECORDS DO NOT REFLECT A PARTNERSHIP REPRESENTATIVE FOR THE PARTNERSHIP TAXABLE YEAR".
- (2) Allow 30 days for the partnership to submit a Form 8979, Partnership Representative Revocation/Resignation and Designation, that properly designates a PR. Utilize Form 15416, Form 8979 Validation Check Sheet to determine if the Form 8979 is valid.
- If a valid Form 8979 is received, proceed to paragraph 4 below, in this section.
 - If a valid Form 8979 is **not** received, proceed to paragraph 3 below, in this section.

- (3) The examiner and manager should proceed in accordance with IRM 4.31.9.7.6.6(4)(b), Providing an Opportunity to the Partnership to Make a PR Designation.
- (4) When it is time to send the NAP letters, mail certified Letter 5893 to the last known address of the partnership, mail certified Letter 5893-A to the last known address of the partnership representative, and separately mail certified a generic Letter 5893-A to "PARTNERSHIP REPRESENTATIVE" at the last known address of the partnership.

Note: It is a best practice to print and save the INOLES and save the certified mail receipt (the receipt for mailing, not the green signature card) for both NAP letters and file them under Section 600 for SB/SE and SAIN 724 for LB&I.

4.31.9.4
(01-24-2024)
**Compliance Assurance
Process For LB&I**

- (1) Compliance Assurance Process (CAP) is a method of identifying and resolving tax issues through open, cooperative, and transparent interaction between the IRS and LB&I taxpayers prior to the filing of a return. Refer to IRM 4.51.8 for CAP information and procedures.
- (2) Partnerships participating in the CAP are only subject to the BBA regime during the post-filing phase of the audit. The post-filing representation procedures (IRM 4.51.8.3.6, Post-Filing Representation) for issues will be performed under the BBA regime.

4.31.9.5
(01-24-2024)
**Partnerships in
Bankruptcy or
Partnerships That Cease
to Exist**

- (1) BBA partnerships in bankruptcy or that have ceased to exist may still be audited. Active audits can still be completed after a change in status.
- (2) In general, the running of any period of limitations for making a partnership adjustment and assessment or collection of the imputed underpayment is suspended during the period the IRS is prohibited from making the adjustment, assessment or collection in a Title 11 case. The following actions are allowed in Title 11 cases:
 - a. A BBA examination
 - b. The mailing of any notice with respect to a BBA examination,
 - c. The issuance of a NAP, NOPPA, and FPA,
 - d. A demand for tax returns,
 - e. The assessment of any tax and imputed underpayment, or
 - f. The issuance of notice and demand for payment.
- (3) For information on bankruptcy examinations and points of contact, refer to:
 - a. IRM 4.27.1, Bankruptcy, Examiner Responsibilities and Procedures
 - b. LB&I Bankruptcy & Remittance Table of Contents at <https://irs.gov.sharepoint.com/sites/ETD-KMT-KB051/SitePages/LBIExamProcedures/Bankruptcy&Remittance/BankruptcyRemittLandingPg.aspx>
 - c. Bankruptcy Knowledge Base at <https://irs.gov.sharepoint.com/sites/ETD-KMT-KB020/>
 - d. LB&I Bankruptcy & Remittance Guide at <https://irs.gov.sharepoint.com/sites/ETD-KMT-KB051/SitePages/LBIExamProcedures/Bankruptcy&Remittance/BankruptcyGuide.aspx>

- e. Technical Services Exam Bankruptcy Coordinator at <https://irs.gov.sharepoint.com/sites/ETD-KMT-KB051/Lists/Bankruptcy%20Technical%20Service%20Codes/AllItems.aspx>

- (4) When a partnership ceases to exist for BBA purposes, partnership adjustments may be taken into account by the former partners of the partnership. A partnership ceases to exist if the IRS makes a determination that such partnership (including partnership-partner):
 - a. Terminates within the meaning of IRC 708(b)(1), or
 - b. Does not have the ability to pay, in full, any amount due or that may be due (not collectible).
- (5) The cease to exist determination will be made by Ogden BBA Operations. A partnership ceases to exist if the IRS determines that the partnership does not have the ability to pay in full any amount that the partnership may become liable for under the centralized partnership audit regime.

4.31.9.6
(01-24-2024)
**BBA Scope –
Adjustments at the
Partnership Level**

- (1) A partnership adjustment and the applicability of any penalty, addition to tax, or additional amount that relates to such adjustment is determined at the partnership level. Any legal or factual determinations underlying any partnership adjustment or determination are also determined at the partnership level.
- (2) A partnership adjustment is any adjustment to a partnership-related item (PRI) and includes any portion of an adjustment to a PRI. IRC 6241(2)(B) defines the term PRI as:
 - a. Any item or amount with respect to the partnership which is relevant in determining the tax liability of any person under Chapter 1 of subtitle A of the code;
 - b. Any partner's distributive share of any such item or amount; and
 - c. Any imputed underpayment determined under the BBA regime.
- (3) An item or amount is with respect to the partnership if it's:
 - a. Shown or reflected, or required to be shown or reflected, on a return of the partnership under IRC 6031, the regulations thereunder, or the forms and instructions prescribed by the IRS for the partnership's tax year or is required to be maintained in the partnership's books or records, or
 - b. Relating to any transaction with, liability of, or basis in the partnership but only if it's described in the preceding sentence.

Note: An item or amount shown or required to be shown on a return of a person other than the partnership (or in that person's books and records) that results after application of the Code to a PRI based upon the person's specific facts and circumstances, including an incorrect application of the Code or taking into account erroneous facts and circumstances of the partner, is not an item or amount with respect to the partnership.

- (4) Examples of PRIs include:
 - a. The character, timing, source, and amount of the partnership's income, gain, loss, deductions, and credits;
 - b. The character, timing, and source of the partnership's activities;
 - c. The character, timing, source, value, and amount of any contributions to, and distributions from, the partnership;

- d. The partnership's basis in its assets, the character and type of the assets, and the value (or revaluation) of the assets;
- e. The amount and character of partnership liabilities and any changes to those liabilities from the preceding tax year;
- f. The category, timing, and amount of the partnership's creditable expenditures;
- g. Any item or amount resulting from a partnership termination;
- h. Any item or amount resulting from an election under IRC 754;
- i. Partnership allocations and any special allocations; and
- j. The identity of a person as a partner in the partnership.

(5) Examples of items that are not PRIs include:

- a. A deduction shown on the return of a partner that results after applying (correctly or incorrectly) a limitation under the Code (such as IRC 170(b)) at the partner level to a partnership-related item based on the partner's facts and circumstances;
- b. A partner's adjusted basis in his/her partnership interest (outside basis);
- c. A determination whether a partner is at risk, within the meaning of IRC 465, in the activity of the partnership; and
- d. A determination whether a partner materially participates or is passive, within the meaning of IRC 469, in the activity of the partnership.

Note: The partner's adjusted basis may be affected by adjustments to PRIs.

4.31.9.6.1
(10-29-2021)
Non-Chapter 1 Taxes

- (1) The BBA regime applies to Subtitle A, Chapter 1 Income Tax only and will not apply to the other taxes as shown below.
 - a. Chapter 2 (Tax on Self-Employment Income – “SECA”)
 - b. Chapter 2A (Unearned Income Medicare Contribution – “NIIT”)
 - c. Chapter 3 (Withholding of Tax on Nonresident Aliens and Foreign Corporations)
 - d. Chapter 4 (Taxes to Enforce Reporting on Certain Foreign Accounts)

Note: No guidance exists for coordination of the BBA with Chapter 6 Consolidated Returns or any other Subtitle of the section at the time this IRM was released.

- (2) If the IRS makes adjustments to PRIs or determinations about PRIs in a BBA audit, those adjustments or determinations must be taken into account when determining a tax under Chapters 2, 2A, 3 & 4.
- (3) IRC 6501(c)(12) provides in the case of any partnership adjustment determined under the BBA regime, the period for assessment of any tax imposed on a partner under Ch 2 or 2A which is attributable to such adjustment shall not expire before the conclusion of the BBA audit which is the date that is one year after one of two events.
 - a. In the case of an adjustment pursuant to the decision of a court in a proceeding brought under IRC 6234, the period for assessment shall not expire before the date that is one year after the decision becomes final.

- b. In any other case, the period for assessment shall not expire before the date that is one year after 90 days after the date on which the FPA is mailed under IRC 6231.
- (4) If a partnership adjustment subjects the partnership to withholding requirements under Chapter 3 or 4, the partnership can either pay the Chapter 1 tax (imputed underpayment under IRC 6225) allocable to the foreign partner's distributive share of the adjustment or, if electing to push out the adjustments, remit Chapter 3 or 4 withholding tax on the foreign partner's distributive share of the adjustment and file all applicable withholding tax returns.
- (1) All partnerships are required to determine a partner's distributive share of Net Earnings from Self-Employment on Sch K/K-1 Line 14. Partnerships are also required to classify partners who are individuals as active or passive on the Analysis of Net Income/Loss. Partnerships do not determine whether their partners are subject to NIIT. However, partnerships are required to give partners information to allow partners to correctly figure their NIIT. Partnerships report information about NIIT by giving information directly to partners or on Schedules K and K-1, line 20, code Y (Line references 2018 through the 2021 version).
- SECA and/or NIIT may be collected through a process that is outside the BBA. For BBA audits with relevant partners, additional partner level SECA and/or NIIT may be adjusted/assessed at the conclusion of the BBA audit.
 - IRC 6501(c)(12) holds open the partners' IRC 6501(a) statutes for one year after adjustments made under the BBA become final for the purpose of adjusting/assessing any partner level SECA and/or NIIT related to a BBA partnership adjustment.
 - Examiners are required to make a relevant partner determination by completing Form 15263 for the purpose of adjusting/assessing additional partner level SECA and/or NIIT at the conclusion of the BBA audit.
- (2) If there are relevant partners, PCS Linkage is required. See IRM 4.31.9.6.4, BBA Linkage Procedures. If there are no relevant partners, no linkage is required.
- (3) The partners' returns can be controlled in the field or in Ogden PTE BBA Ch 2/2A Team but must still be PCS linked.
- (4) Examiners must control and link partners' returns when working an NIIT-SECA Coverage issue. For partners who claim they are not subject to either SECA nor NIIT on their distributive share of partnership trade or business income, examiners should prepare a partner-specific Form 886-A detailing why the partner is subject to either SECA or NIIT.

If...	Then...
There is a related adjustment to Schedule K/K-1, Line 14 on the BBA Partnerships return AND a determination that the partner is subject to SECA	The examiner will draft the partner-specific Form 886-A to include in the partner case file

4.31.9.6.2

(01-24-2024)

Auditing Chapters 2 & 2A (Ch 2/2A) – BBA Partnership is the Key Case

If...	Then...
The assertion of SECA tax is the only partner-level issue	The BBA Ch 2/2A Team will issue the Form 886-A at the conclusion of the BBA audit because there is a correlative adjustment to a BBA PRI
There are other non-pass-through issues at the partner level	See IRM 4.31.9.6.5 Processing Partner Non-Pass-Through Adjustments
There is a determination that the partner is subject to NIIT	There is generally no correlative adjustment to a BBA PRI. The examiner will issue the partner Form 4549 to adjust and assess the NIIT

4.31.9.6.3
(01-24-2024)
Auditing Chapters 2 & 2A – Form 1040 is the Key Case

- (1) Assessments of Ch 2/2A taxes are made at the partner (direct and indirect) level in proceedings outside of the BBA regime.
- (2) For examiners auditing a BBA partnership but are not auditing its partners, the procedure for assessing Ch 2/2A taxes resulting from partnership adjustments is to link the relevant partners of the BBA partnership and allow the BBA Ch 2/2A Team to assess the additional Ch 2/2A taxes, at the partner level, at the conclusion of the BBA examination in the one-year period under IRC 6501(c)(12). See IRM 4.31.9.6.5, Processing Partner Non-Pass-Through Adjustments.
- (3) For examiners auditing both a BBA Partnership and its partners, the examiner is required to link the key Form 1065 and relevant partners. The examiner may allow the BBA Ch 2/2A Team to assess the additional Ch 2/2A taxes, at the partner level, at the conclusion of the BBA examination; or, under Treas. Reg. 301.6241-6, the examiner may adjust PRIs at the partner-level and assess any additional Ch 2/2A tax related to those adjustments to PRIs. See IRM 4.31.9.6.5, Processing Partner Non-Pass-Through Adjustments.
- (4) When the examiner has secured the investor return and is examining only the issue of Ch 2/2A related to a BBA partnership, the examiner should use Letter 3458, Notice of Potential Adjustment Affecting Taxes under Chapters 2 and 2A, to inform the investor's of the examination instead of a Letter 2205, Initial Contact. This assures the investor's first contact is not a request for a statute extension, a 30-day letter, or a notice of deficiency. Separate notice requirements should be considered for taxpayers filing joint returns.

4.31.9.6.4
(01-24-2024)
BBA linkage procedures

- (1) PCS linkage is required when auditing a BBA partnership that is a key case and the agent has determined there are additional assessments of Ch 2/2A taxes to be made at the partner level; this is because partners are subject to general deficiency proceedings for assessment of SECA or NIIT related to BBA Partnership adjustments. Linkage is required if there is a possibility that the

IRS will be relying on the IRC 6501(c)(12) statute exception to make assessments of Ch 2/2A taxes at the partner level at the conclusion of the BBA examination.

- (2) The examiner and manager must determine who the relevant partners are (direct or indirect) prior to submitting the PCS linkage request. Form 15263, Bipartisan Budget Act (BBA) Partnership Chapter 2/2A Relevant Partner Determination, has been developed to assist the examiner in making relevant partner determinations. A relevant partner determination for BBA linkage purposes is based on IRM 25.6.23.4.5.1 for inconsistent application for investor
- (3) Form 15264, Bipartisan Budget Act (BBA) Chapter 2/2A Linkage Check Sheet is used to submit linkages for BBA Partnerships with relevant partners that have Chapter 2/2A issues.
- (4) The group manager must review the package and sign both Form 15263 and 15264 before submission to the linkage mailbox. The manager’s signature on Form 15263 signifies approval of the relevant partners or lack of relevant partners. The manager’s signature on Form 15264 indicates the linkage package has been reviewed, is accurate and complete. Incomplete packages can be returned to the group and will cause a delay in the linkage. If there are no relevant partners determined on Form 15263, then Form 15264 is not required.
- (5) Where the examiner is controlling a partner’s return, the examiner is responsible for protecting the partner’s IRC 6501(a) statute. The examiner is responsible for securing partner statute extensions using the partners’ appropriate Form 872. Examiners are always responsible for statutes for partners under their control. In general, partner returns may be transferred to Technical Services when the audit of non-pass-through issues is complete; in situations where the examiner is auditing an NIIT-SECA Coverage issue, refer to IRM 4.31.9.6.2(4). In addition, refer to IRM 4.31.9.6.5, Processing Partner Non-Pass-Through Adjustments and IRM 4.31.5.11, Investor Level Statute Control (ILSC) Examinations - Field Office Procedures, Extension of Investor Statute for ILSC Items.
- (6) Update ERCS (via 5348 - PBBA Section, BBA-Chapter-2-2A-CD) with the Ch 2/2A codes:

#

Value	Literal	Term Used on Form 15264	Definitions
0	No Issues/ Default		

Value	Literal	Term Used on Form 15264	Definitions
1	SECTION6501c12OYD Programming to be changed to: Standard-PartnerLanguage	Campus controlled partner (standard partner language to assess either more C2 and/or C2A tax)	Applies when the partner reported their distributive share of Sch K, Line 1 as either subject to SECA or NIIT, any guaranteed payment adjustment subject to SECA, and any investment income such as interest, dividends, and capital gains subject to NIIT.
2	SECTION6501a Dual Programming to be changed to: FieldDraft-edLanguage	Field controlled partner (field drafted language to determine whether C2 and/or 2A tax applies)	Applies when the partner did not report their distributive share of Sch K, Line 1 as either subject to SECA or NIIT. Includes non-filers.
3	SECTION6501a and c12 Programming to be changed to: FieldDraft-edLanguageAnd StandardPartnerLanguage	Campus and Field controlled partners	Applies when a partnership has both types of partners.
4	Withdrawn		

4.31.9.6.5 (01-24-2024) **Processing Partner Non-Pass-Through Adjustments**

- (1) The examiner may have AIMS control of a partner that is linked because either the examiner controls the BBA partnership as well as the partner or that the partner is linked by another BBA partnership with Ch 2/2A issues. Below are sample scenarios to help you correctly process a partner with non-pass-through adjustments.
- (2) **Scenario 1 - No-Change or Survey:** You audit an individual for non-pass-through items and that individual is linked to a BBA partnership. If you do not propose any non-pass-through adjustments then you will close the individual to the TSPC due to the linkage. Before closing the case to the TSPC, you must update the partner's statute to alpha code AF (or RR until AF is available) if the partner's statute is within 210 days of expiration. The TSPC will send the individual to CCP to address the no-change or survey. Once CCP processes the no-change or survey, the individual will be transferred to the Ogden PTE BBA Ch 2/2A Team to suspend the return until the BBA audit is finalized and the Ch 2/2A issues stemming from the BBA audit can be finally determined and assessed.
 - a. For partners that are linked and are a full no-change (no-change for both non-flow through issues and no-change for BBA Ch 2/2A issues), you must include a Form 8339 to TSPC. The Form 8339 will resolve the linkage if the partnership is determined to be a no-change for the BBA Ch 2/2A issue or must revise their relevant partner determination if the no-change determination applies only to the specific partner. Also, you must ensure the 4605-A and 886-S in the BBA audit file consistently reflect any adjustment to this partner as ZERO.

- b. For partners who 1) have the NIIT-SECA coverage issue, and 2) the examiner determines there is a related partnership adjustment to the BBA return Sch K/K-1 Line 14 NESE, then you must include the partner-specific Form 886-A in the partner case file for the BBA Ch 2/2A Team to use to assess the additional SECA at the conclusion of the BBA exam. You must update the partner's statute to alpha code AF (or RR until AF is available) before closing the case to the TSPC. Ensure the Partnership's BBA-Chapter-2-2A-CD reflects a "2" or a "3". If the partners want to agree to the determination and assessment of SECA before the BBA case is resolved, see scenario 2 below.
 - c. For all other partners, the BBA Ch 2/2A Team will use standard language to assess the additional SECA and/or NIIT at the conclusion of the BBA exam. Ensure the partnership's BBA-Chapter-2-2A-CD reflects a "1".
- (3) When issuing a Form 4549 to a BBA linked partner under this scenario and no Ch 2 and/or 2A tax is included in the report, the following statement should be added in the explanation of items: "The following BBA partnerships are subject to partnership level proceedings pursuant to the Centralized Partnership Audit Regime under Subchapter C of Chapter 63 of the IRC with respect to the taxable year(s) included in this report and accordingly, you may be notified of an additional deficiency under Chapters 2 and/or 2A, to the extent partnership adjustments are relevant to such determination: (LIST BBA PARTNERSHIP LINKAGES)."
- (4) **Scenario 2 - Agreed:** You audit an individual for non-pass-through items and audit the related BBA partnership. The individual is linked to the BBA partnership for material IRC 6501(c)(12) Ch 2/2A issues. If the **individual agrees** with their individual non-pass-through adjustments, then you have two options with respect to the Ch 2/2A taxes related to the BBA Partnership Adjustment:
- (5) **Option 1:** If the taxpayer agrees with the additional Ch 2/2A taxes related to the BBA Partnership Adjustment; then you may include the additional Ch 2/2A tax on the partner's Form 4549. The report should specifically note: "The IRS is, under Treas. Reg. 301.6241-6, adjusting PRIs on this partner's return solely for the purpose of adjusting and assessing additional Ch 2 and/or 2A tax related to the partner's interest in the BBA partnership." An examiner utilizing this option must include a Form 8339 to resolve the linkage when closing a linked partner to the TSPC.
- (6) **Option 2:** If the taxpayer disagrees with the additional Ch 2/2A taxes related to the BBA partnership adjustment; then the next processing step is based on the number of days left on the partner's ASED.
 - a. If the partner has less than 210 days on their ASED, then you must process a partial assessment (process a prompt assessment if there are less than 90 days) and update the partner's statute to alpha code AF (or RR until AF is available) before closing the case to the TSPC. The individual will be transferred to the Ogden PTE BBA Ch 2/2A Team to suspend the return until the BBA audit is finalized and the Ch 2/2A issues stemming from the BBA audit can be finally determined and assessed.
 - b. If the partner has more than or exactly 210 days on their ASED, then you will close the individual to the TSPC due to the linkage. The field is responsible for preparing all the partial documents and including them in the case file. The TSPC will send the individual to CCP for a partial assessment of the individual's non-pass-through adjustments. Once CCP inputs this partial assessment, the individual will be transferred to the

Ogden PTE BBA Ch 2/2A Team to suspend the return until the BBA audit is finalized and the Ch 2/2A issues stemming from the BBA audit can be finally determined and assessed.

- (7) When issuing a Form 4549 to a BBA linked partner under Scenario 2 and no Ch 2/2A tax is included on the report, add the following statement in the explanation of items: "The following BBA partnerships are subject to partnership level proceedings pursuant to the Centralized Partnership Audit Regime under Subchapter C of Chapter 63 of the IRC with respect to the taxable year(s) included in this report and accordingly, you may be notified of an additional deficiency under Chapters 2 and/or 2A, to the extent partnership adjustments are relevant to such determination: (LIST BBA PARTNERSHIP LINKAGES)."
- (8) For partners who 1) have the NIIT-SECA Coverage issue, and 2) the examiner determines there is a related partnership adjustment to the BBA return Sch K/K-1 Line 14 NESE, you must include the partner-specific 886-A in the partner case file for the BBA Ch 2/2A Team to use to assess the additional SECA at the conclusion of the BBA exam. You must update the partner's statute to alpha code AF (or RR until AF is available) before closing the case to the TSPC. Ensure the Partnership's BBA-Chapter-2-2A-CD reflects a **2** or a **3**.
- (9) For all other partners, the BBA Ch 2/2A Team will use standard language to assess the additional SECA and/or NIIT at the conclusion of the BBA exam. Ensure the partnership's BBA-Chapter-2-2A-CD reflects a **1**.
- (10) **Scenario 3 - Unagreed to Appeals:** You audit an individual for non-pass-through items and the individual is linked to a BBA partnership. If the **individual does not agree** with their individual non-pass-through adjustments and files a protest in response to the 30-day letter and requests to go to Appeals, then include the additional Ch 2/2A tax on the partner's Form 4549. The report should specifically note "The IRS is, under Treas. Reg. 301.6241-6, adjusting PRIs on this partner's return solely for the purpose of adjusting and assessing additional Ch 2 and/or 2A tax related to the partners interest in the BBA partnership." Close the Form 1040 case to local Technical Services. Local Technical Services will send the Form 1040 case to Appeals. **If an agreement** between the individual and Appeals is reached, Appeals will send the case to Appeals and Processing Support (APS) for processing. If an agreement is reached regarding the individual non-pass-through items, but not the Ch 2/2A issue, the individual will be transferred to the Ogden PTE BBA Ch 2/2A team to suspend the return until the BBA audit is finalized and the Ch 2/2A issues stemming from the BBA audit can be finally determined and assessed.
- (11) **Scenario 4 - Unagreed SND:** You audit an individual for non-pass-through items and the individual is linked to a BBA partnership. If the **individual does not agree** with their individual non-pass-through adjustments (requiring issuance of a SND), you will close the Form 1040 case to local Technical Services and a SND will need to be issued to the individual (by local Technical Services) that will include any potential Ch 2/2A adjustments. The Form 4549-A issued with the SND should specifically note "The IRS is, under Treas. Reg. 301.6241-6, adjusting PRIs on this partner's return solely for the purpose of adjusting and assessing additional Ch 2 and/or 2A tax related to the partners interest in the BBA partnership." Once the individual agrees to the SND, the

SND defaults, or the individual petitions the SND and the Tax Court's decision is becomes final, any necessary assessment will be made.

- (12) **Scenario 5 - BBA partnership audit finalized prior to investor audit:** You are auditing an individual for non-pass-through items and the individual is linked to a BBA partnership. If the individual audit is being conducted (meaning the case is in ST12) and the BBA partnership audit has been finalized, then the BBA Ch 2/2A Team will send a closing package prepared for the Ch 2/2A adjustments stemming from the BBA partnership audit to you for you to solicit a partial agreement and complete a partial assessment. If a partial agreement cannot be secured, combine all adjustments on Form 4549. Follow the preceding scenarios in that event, but do not include any note regarding Treas. Reg. 301.6241-6. If the Ch 2/2A adjustment is the only unagreed issue, Close the individual to local Technical Services to issue a notice of deficiency.

4.31.9.6.6
(01-24-2024)

Non-PRI Report Writing

- (1) This requires a mandatory referral to a BBA POC. See instructions in IRM 4.31.9.7.2, Mandatory Referral to the BBA Point of Contact (POC).
- (2) If after reviewing the Form 1065 filed by the partnership, it is determined that adjustments to non-PRI should be made for purposes of tax under Ch 2/2A, then these adjustments are made outside of the BBA.
- (3) Procedures for allocating or reporting non-PRI adjustments to the partners of a BBA partnership may require the agent to examine both the partnership and partner, even though linked, to adjust and assess any SECA and/or NIIT.
 - One example is required on Sch K/K-1, Line 20, Code Y (Net Investment Income) line reference is from Form 1065 for tax years 2018-2021. Adjustments to items required to be disclosed by the partnership under this form instruction only affect partners' Ch 2A liability. The examiner will need to examine both the partnership and partner and make the adjustments to both the partnership Sch K, Line 20, Code Y and the partner's return to adjust and assess additional NIIT.
 - Another example is a SECA disclosure to a partner who receives a disguised payment for services. The determination of a disguised payment for services is a PRI, however there is no line item on Form 1065 to report such an amount to the affected partner. As such examiners will be responsible for issuing Form 4549 to the affected partner to assess SECA related to an adjustment asserting the receipt of a disguised payment for services.
- (4) A Form 4605-A adjusting and allocating or reporting adjustments to non-PRI must be prepared and issued to the partnership, following general IRM 4.31.5 ILSC procedures, at the same time as the summary report is issued to the partnership representative.
- (5) Forms 886-A and 886-S must be prepared for each partner receiving an allocable share of the non-PRI adjustments.

4.31.9.6.7
(01-24-2024)

Examples of Partner-level Audits

- (1) An examiner is auditing the Form 1040 of an individual taxpayer. Taxpayer is a partner in a partnership that is subject to the BBA regime. The partnership issued a Schedule K-1 to the partner reporting \$100,000 of ordinary income on line 1 and \$100,000 of income subject to SECA on line 14 of Schedule K. The partner did not report the income as subject to SECA. The examiner determines, as part of the individual's audit, a Chapter 2 deficiency of \$3,800

(\$100,000 X 3.8% maximum Medicare rate). BBA doesn't apply to taxes under Chapter 2 and the inconsistent reporting rules under IRC 6222 can't be used to assess non-chapter 1 taxes. The examiner is not required to open an audit of the BBA partnership because there are no adjustments to PRIs.

- (2) An examiner is auditing the Form 1040 of an individual taxpayer. That taxpayer is a partner in a partnership that is subject to the BBA. The partnership issued a Schedule K-1 to the partner reporting \$100,000 of IRC 1231 gain on line 10 of Schedule K from the sale of assets used in one of its trade or business activities. The partner did not report the income as subject to NIIT. The examiner determines, as part of the individual's audit, that the partner was a passive investor in the BBA partnership and its activities. As such the examiner determines a Chapter 2A deficiency of \$3,800. This adjustment and assessment is made in a proceeding outside of the BBA regime. The examiner is not required to open an audit of the partnership under the BBA regime, because the partner's failure to include this income as NIIT is exclusively a partner level issue.
- (3) An examiner is auditing the Form 1040 of an individual taxpayer. That taxpayer is a partner in a partnership that is subject to the BBA. The partnership issued a Schedule K-1 to the partner reporting \$100,000 of ordinary income on line 1 and \$0 of income subject to SECA on line 14 of Schedule K. The partner did not report the income as subject to SECA. Examiner reviews the partnership's other partners and notes that all its partners took similar positions with respect to SECA that they, as partners, were not subject to SECA. The examiner may open the partnership for examination and follow procedures in IRM 4.31.9.6.2, Auditing Chapters 2 & 2A - BBA Partnership is the Key Case.

4.31.9.6.8
(01-24-2024)
**Examples of
Partnership-level Audits**

- (1) See Exhibit 4.31.9-1, Example 1 - \$1,000,000 Adjustment to Sch K line 1 Ordinary Income and \$1,000,000 Adjustment to Sch K line 14 Net Earnings from Self-Employment (NESE)- IRC 6501(c)(12) Applies
- (2) See Exhibit 4.31.9-2, Example 2 - \$1,000,000 Adjustment to Sch K Portfolio Income Items - IRC 6501(c)(12) Applies

4.31.9.6.9
(01-24-2024)
Auditing Chapters 3 & 4

- (1) A partnership (domestic or foreign) is subject to the U.S. withholding tax rules that apply to payments of U.S. source income to foreign partners. If the partnership has any foreign partner, the examiner should:
 - a. Refer to the International Knowledge Base and select Repatriation/ Withholding Book from the Business Inbound shelf for more information. The International Knowledge Base is located at [https://irs.gov.sharepoint.com/sites/ETD-KMT-KB008](https://irs.gov/sharepoint.com/sites/ETD-KMT-KB008).
 - b. Coordinate with the Withholding Practice Network.
- (2) Assessing Chapters 3 and 4 taxes are generally in proceedings outside of the BBA regime. If foreign withholding is the only issue, the examination is not subject to the BBA regime and the examiner does not have to follow these procedures.
- (3) Rate adjustments and failure to file or withhold are determinations that must be made under a Chapter 3 or 4 audit; such as:

- a. Applying an incorrect withholding rate on Form 8804 or 1042 on partner level income.
 - b. A partnership's failure to withhold any tax on FDAP income to third parties.
 - c. A partnership's failure to withhold on a disposition of U.S. real property interests (FIRPTA withholding).
 - d. A failure to file Forms 1042 and/or 8804 but no disagreement of amount of FDAP or ECI.
- (4) Base adjustments may be made under either a Chapter 1 BBA audit or a Chapter 3 or 4 audit which include items identified by Form 1042 or Form 8804 audit; such as:
 - a. Income omissions by the partnership.
 - b. Determination that partnership is engaged (or treated as engaged) in a U.S. trade or business and has effectively connected income.
 - c. Determination that a partnership has U.S. or foreign source income.
 - d. Any other changes to the character or source of the partnership's income.
- (5) A base adjustment to increase the partnership's income is an adjustment to a PRI and will likely result in an IU. The tax imposed on the partnership for its failure to withhold on that income, however, is not a tax imposed by Chapter 1; rather, it is a tax imposed by Chapter 3.
 - a. A partnership paying the IU will satisfy its Chapters 3 and 4 withholding obligations.
 - b. For partnerships that elect to push out the Chapter 1 adjustments, the partnership must pay the amount of tax required to be withheld under Chapters 3 and 4 on any adjustment. If the Chapter 3 or 4 audit is completed first, then any partnership adjustments for which Chapter 3 or 4 withholding has been paid are removed from the calculation of the IU.
 - c. An audited partnership may have withholding and reporting obligations if it furnishes a Form 8986 to a reviewed year partner that includes an adjustment subject to withholding under Chapter 3 or Chapter 4. In those cases, the audited partnership must withhold the amount required under Chapter 3 or Chapter 4 and deposit the amount with the IRS before the due date for furnishing the Form 8986. See Instructions for Form 1042 or Form 8804 for deposit procedures. The audited partnership must also file an applicable withholding tax return, Form 1042 or Form 8804, and the associated information returns, Forms 1042-S, or Forms 8805, for the calendar year (if filing Forms 1042/1042-S) or tax year (if filing Forms 8804/8805) that includes the date on which the Form 8986 was furnished.
- (6) Examples of Chapter 3 or 4 audits:
 - a. An examiner is auditing Form 1042 filed by a partnership subject to the BBA regime. The partnership has 2 equal partners, one is a U.S. citizen and one is a non-resident alien who is a resident of another country. The partnership earned \$200 of U.S. source royalty income and reported \$100 on each partner's Schedule K-1. The partnership withheld \$15 from the foreign partner. The examiner proposes a rate adjustment and determines that the partnership should have withheld \$30 from the foreign partner. As such the examiner determines a Chapter 3 deficiency of \$15. This adjustment and assessment is made in a proceeding outside of the

BBA because the tax imposed on the partnership for its failure to withhold on that income, however, is not a tax imposed by Chapter 1. Rather, it is a tax imposed by Chapter 3, which is not covered by the BBA. Even though the examiner is auditing the partnership's Form 1042, the examiner is not required to open an audit of the BBA partnership's Form 1065.

- b. An examiner is auditing Form 1065 filed by a partnership subject to the BBA. The partnership has 2 equal partners, one is a U.S. citizen and one is a nonresident alien who is a resident of another country. The partnership earned \$200,000 of U.S. source royalty income and reported \$100,000 on each partner's Schedule K-1. The examiner notes that the partnership properly withheld \$30,000 from the foreign partner. The examiner determines, as part of the Form 1065 audit, the partnership should have reported \$400,000 of U.S. source royalty income and proposes a base adjustment. The imputed underpayment is \$74,000, calculated as the \$200,000 adjustment to royalty income subject to Chapter 1 income tax times the maximum individual rate of 37%. The examiner notes that the partnership should have withheld an additional \$30,000 from the foreign partner. In this instance, the \$37,000 imputed underpayment attributable to the foreign partner's \$100,000 allocable share of the adjustment satisfies the partnership's requirement to withhold Chapter 3 tax. If the partnership elects to push out the partnership adjustment, the partnership must remit \$30,000 of Chapter 3 withholding on behalf of the foreign partner's \$100,000 allocable share of the adjustment. The audited partnership must also file an applicable withholding tax return, Form 1042, and the associated information returns, Forms 1042-S, Foreign Person's U.S. Source Income Subject to Withholding.
- c. Similar facts as example (b) except that the examiner is auditing Form 1042 (instead of Form 1065) and discovers the under-reported royalty. The examiner may determine, assess, and collect Chapter 3 tax attributable to an adjustment to a partnership-related item (increase the partnership's royalty income) without conducting a BBA examination. The examiner's assessment will be limited to \$30,000 (not the \$74,000 imputed underpayment), the Chapter 3 withholding attributable to the foreign partner. This adjustment and assessment is made in a proceeding outside of the BBA because the tax imposed on the partnership for its failure to withhold on that income, however, is not a tax imposed by Chapter 1. Rather, it is a tax imposed by Chapter 3, which is not covered by the BBA. Even though the examiner is auditing the partnership's Form 1042, the examiner is not required to open an audit of the BBA partnership's Form 1065.

4.31.9.7 (01-24-2024) Planning the Examination

- (1) During the planning phase of the examination, the examiner will prepare a risk assessment of the tax return (including any AARs or other subsequent filings) to determine whether audit potential exists, to understand the partnership's organizational structure, to determine if the examination is subject to the BBA regime, and to identify the initial PR.
- (2) An exam shouldn't be initiated with less than 12 months remaining on the statute of limitations on making adjustments under IRC 6235(a)(1) without first securing written managerial approval. If the examiner and manager decide to initiate the examination with less than 12 months on the statute, the examiner will need to request an extension or proceed under imminent assessment

statute procedures. See IRM 4.31.9.8.4, Statute of Limitations (SOL) on Making Adjustments.

- (3) A Tax Computation Specialist (TCS) will confirm the preliminary imputed underpayment for Form 886-A and prepare Forms 14791 and 14792. A TCS is requested through the Specialist Referral System (SRS) at <https://srs.web.irs.gov/default.aspx>.
 - a. For LB&I, follow existing procedures and request the TCS at the beginning of the examination.
 - b. For SB/SE, the request should be made after all Forms 886-A (for substantive issues) have been finalized and issued to the partnership representative.
 - c. TCS will generally respond within 2 weeks from the date of the request.

4.31.9.7.1
(01-24-2024)
Risk Analysis

- (1) **Subsequent filings:** To establish a correct starting point of examination, obtain IDRS prints to determine whether:
 - a. There are subsequently filed returns for the tax year under examination. If so, secure a copy of the subsequent filings unless already provided. Any subsequent filing would constitute the starting point for any risk analysis and issue consideration, despite that all filings will be considered during the risk analysis.
 - b. Secure BMFOLT and check for TC 976.
 - c. Generally, BBA partnerships are required to file administrative adjustment requests (AAR) to amend filed returns for the tax year. When there is a subsequent filing, the examiner must make a mandatory referral to a BBA POC in accordance with IRM 4.31.9.7.2, Mandatory Referral to the BBA Point of Contact (POC). The BBA POC will help determine whether the subsequent filing meets the requirements to be treated as an AAR.
 - d. Only AARs have special statute update procedures. If the subsequent filing is an AAR, work with the BBA POC to ensure the IRC 6235(a)(1) date is updated properly. See IRM 4.31.9.8.4, Statute of Limitations (SOL) on Making Adjustments. The examiner should consider all adjustments reported on the subsequent filings in addition to Form 1065.
- (2) Previous audit adjustments
 - a. If the partnership return being risk assessed includes payments of an IU, penalties and interest that resulted from a prior year BBA audit (meaning that the reviewed year partnership return is also an adjustment year return) Then the payments for IU and related penalties and interest are nondeductible expenses. Determine if there were any payments of IU, penalties and interest that resulted from a prior year BBA audit that should have been reported in the adjustment year (the current year under examination). If any such payments were deducted, an adjustment should be made.
 - b. Research IDRS to determine if an IU was actually made by securing a BMFOLT. Upon reviewing the BMFOLT, the recording of an IU is as follows:

Example:

Module	Description
Adjustment Year module (the current year under exam)	<ul style="list-style-type: none"> TC 971 with AC 813 – Identifies the reviewed year: “BBA: REVIEWED-YR:YYYYMM” and dollar amount of the IU: “SEC TRANS AMOUNT: N,NNN.NN”. This is the cross reference indicating the original reviewed year which is posted to the “adjustment year” when a previous BBA Exam is closed.
Reviewed Year module (previous BBA Exam year)	<ul style="list-style-type: none"> TC 300 with RC 187 with the amount of the IU. TC 971 with AC 817 – Records the adjustment year MISC>IU-ADJ-YR:YYYYMM, no amount listed separately as it’s listed under TC 300/RC 187. The adjustment year is the year in which the BBA adjustments and IU amount are considered final.

- (3) **Negative adjustments (see IRM 4.31.9.9.2.1(2)(b) for definition:** If it is determined that the year currently under examination is also an adjustment year for a previous audit with negative adjustments, the examiner should determine if negative adjustments flowing from the previous audit were reported correctly in the adjustment year. To check if negative adjustments were reported in the review year:
- The negative adjustments related to a prior year BBA examination reported in the adjustment year (the current year under examination) should be consistent in the amount, character, category and timing with amounts reported on Form 15027 or Form 14792 (and corresponding Form 886-As) from the reviewed year or Final court decision if an FPA was petitioned.
 - If the negative adjustments reported in the adjustment year are not consistent with how those adjustments were reflected on Form 14792 or Form 15027, the examiner should consider proposing an adjustment in order to reflect the correct reporting.
 - To determine if there are any negative adjustments to be reported in the audit year, run BMFOLZ for the audit year. For the year for which the negative adjustment was reported, run BMFOLA to determine the adjustment year in which the negative adjustment must be reported. If the adjustment year for a prior examination is also the audit year for the current examination, make sure the partnership filed the tax return for the

current examination year consistently with the negative adjustments reflected on Form 14792 or Form 15027 for the prior examination year. If not, propose adjustments for the current examination year to have the partnership be consistent.

- (4) Consider any potential non-chapter 1 tax issues; such as, Chapter 2, 2A, 3, and 4 issues.

4.31.9.7.2
(01-24-2024)

Mandatory Referral to the BBA Point of Contact (POC)

- (1) The examiner must contact the appropriate BBA POC if the partnership exam year involves any of the following:
- a. An election into the centralized partnership audit regime for tax years beginning after November 2, 2015 and before January 1, 2018
 - b. An invalid election out under IRC 6221(b) for reasons other than 1) late filed return, 2) invalid partners, and/or 3) over 100 K-1's were required to be issued (including by any S corporation partners) for the tax year. These three reasons are automatic denials.
 - c. Adjustments impacting Chapters 2, 2A, 3, and 4
 - d. Notice to partner of inconsistent treatment under IRC 6222
 - e. Netting any of the groupings or subgroupings with negative adjustments that are considered in computing the imputed underpayment
 - f. Determining one or more specific imputed underpayments, in addition to the general imputed underpayment
 - g. Penalties, especially when there are negative adjustments
 - h. Where any subsequent return filing has been filed for a tax year under examination (make the referral to the BBA POC prior to updating the IRC 6235(a)(1) date to ensure such an update is appropriate)
- (2) A referral should be made as soon as the need is identified.
- a. For LB&I, submit an inquiry into the Request Tracker and request for a BBA POC. The Request Tracker can be found at <https://organization.ds.irsnet.gov/sites/LbiEaPaRequestTracker/layouts/15/start.aspx#/SitePages/Homepage.aspx>.
 - b. For SB/SE, submit the request through the SRS system at <https://srs.web.irs.gov/>.

4.31.9.7.3
(10-29-2021)

Determine if a Partnership is Subject to the BBA Regime

- (1) The centralized partnership audit regime applies to all partnerships required to file information returns under IRC 6031(a) whose tax years begin on or after January 1, 2018, except:
- a. Partnerships electing out of the BBA; and
 - b. Partnerships electing out of partnership status pursuant to IRC 761(a). Refer to IRM 4.31.5, Investor Level Statute Control (ILSC) Examinations - Field Office Procedures.
- (2) The examiner must determine, for each tax year, whether the partnership return is subject to the BBA regime by completing Form 15260, Determination of Pass-through Audit Regime check sheet. This is necessary for each tax year since a partnership may have elected out of the BBA for one year under examination but not another. Once Form 15260 is completed by the examiner, it must be signed by the manager and filed in the case file under SAIN 724 for LB&I or Section 600 for SB/SE.

- (3) Section 1101(g)(4) of the BBA also provides that partnerships may “elect” to have the centralized partnership audit regime apply to partnership returns filed for tax periods beginning after November 2, 2015 and before January 1, 2018. This election may only be made within 30 days of the date the IRS first notifies a partnership in writing that its return has been selected for examination (via Letter 2205-D) or by filing an Administrative Adjustment Request under IRC 6227.
- (4) If the partnership is not subject to the BBA regime, the examination is subject to deficiency procedures at the partner level. Follow IRM 4.31.5, Investor Level Statute Control (ILSC) Field Office Procedures.
- (5) Record the determination whether it’s a BBA partnership or not on the activity record.

Note: The BBA partnership rules, and the deficiency procedures are mutually exclusive. Application of the wrong rules will impact and potentially bar the assessment of tax.

4.31.9.7.4
(01-24-2024)

Election Out of the BBA – Tax Periods Beginning On or After 1/1/2018

- (1) If there is an election out, determine if the election is valid. An election out is deemed valid until the IRS says it’s invalid.
- (2) Eligible partnerships may make the election under IRC 6221(b) to elect out of the centralized partnership audit regime on their timely filed Form 1065/1066, Schedule B, question 25 (including extensions). AMDISA in the BBA PART-NERSHIP section will display “ELECT-OUT-OF-BBA-CD>1” if there’s an election out.

Note: Form 1065/1066, Schedule B question 25 (2018 through 2020), question 29 (2021), question 30 (2022).

- (3) In addition, eligible partnerships must attach Schedule B-2 to provide information concerning their partners as required by IRC 6221(b)(1)(D) to include each partner’s name, correct TIN, and federal tax classification.
- (4) The goal is to have a complete list of the terminal partners for linkage and assessment purposes. The examiner and his/her manager have the discretion to approve the election out even if the information reflected on Schedule B-2 was transposed incorrectly, and the IRS has information that would remedy the incorrect information. Always consult the BBA POC if there are any concerns.

4.31.9.7.4.1
(10-29-2021)

Determining if an Election Was Made Timely

- (1) Before determining whether a partnership is eligible to elect out, ensure that the election was made timely. Non-filers can’t elect out because there was no return filed. The election can’t be made on an SFR. The SFR will be subject to the centralized partnership audit regime. Similarly, a constructive or de facto partnership would be subject to the centralized partnership audit regime because it would not have made a timely election.
- (2) The TC 150 date should be used for determining timeliness of the election out of the BBA. If the TC 150 date reflects a late filing, the examiner may use the partnership’s proof of timely filing, such as E-File receipts or certified mailing

slips. To assess whether a return has been timely filed, refer to IRM 20.1.2.2.1, When Timely Mailing Equals Timely Filing or Paying (Received Date vs. Filing/Payment Date).

- (3) If the election is not made on a timely filed return (including extensions), the election out is invalid.

4.31.9.7.4.2
(10-29-2021)

Eligibility to Elect Out of the BBA

- (1) There are two criteria that a partnership must meet to be eligible to elect out of the BBA:
 - a. The partnership may only have partners each of whom is an individual, a C corporation, an estate of a deceased partner, or an S Corporation, and
 - b. The partnership is required to furnish 100 or fewer Schedule K-1s.
- (2) If either one of these requirements is not met, the partnership is not eligible to elect out and is automatically subject to the BBA regime.

4.31.9.7.4.2.1
(01-24-2024)

Criterion #1 - Partnership May Only Have Certain Types of Partners (Eligible Partners)

- (1) In the first criterion, a partnership may only have direct partners each of whom is an individual, a C corporation, an estate of a deceased partner, or an S Corporation.
- (2) A partner that is a foreign entity generally will be considered an eligible partner if the foreign entity would be treated as a C corporation if it were a domestic entity.
- (3) S Corporations may have shareholders (such as QSSTs and/or ESBTs) that would otherwise be ineligible if they were direct partners. The type of shareholders doesn't factor into the determination of eligible partners.

Note: Partnerships that have Q-Sub(s) as a direct partner are not permitted to elect out.

- (4) An estate of a deceased partner filing Form 1041 may issue Schedule K-1s to its beneficiaries. Similar to S Corporations, an estate may have beneficiaries that would otherwise be ineligible if they were direct partners. The type of beneficiaries doesn't factor into the determination of eligible partners.
- (5) Another way to assess whether a partnership meets the criterion for the type of partners is if any of the following entities or persons are direct partners, then the partnership is not eligible to elect out of the BBA and is subject to centralized partnership audit regime:
 - a. A partnership or limited liability company
 - b. Any type of trust, even a grantor trust
 - c. A foreign entity that is not treated as a C Corporation if it were a domestic entity
 - d. A wholly owned entity disregarded as separate from its owner for Federal income tax purposes
 - e. An estate of an individual other than a deceased partner
 - f. Any person who holds an interest in the partnership on behalf of another person
 - g. A qualified Subchapter S subsidiary, as defined in IRC 1361(b)(3)(B)

4.31.9.7.4.2.1.1
(01-24-2024)

Determining if the Partnership Has Any Ineligible Partner During the Tax Year

- (1) The examiner must confirm that there are no ineligible partners at any time during the year. Form 1065, Schedule B-2, requires that each partner's federal tax classification be listed, which should agree to the Schedule K-1 entry for "type of entity".
- (2) In reviewing the Schedule B-2 to determine the type of partners, the partner information contained in the schedule should be cross referenced with the related Schedule K-1 information for each partner, compared to IDRS, YK-1, TST and other usual verification tools. Any inconsistencies should be investigated, especially the type of partner indicated; investigation may require deferring the determination until the partnership agreement is obtained and reviewed.
- (3) If any of the partners is an LLC whose type of entity is reported as a corporation, IDRS must be researched to verify the filing status of the LLC as a corporation and not a pass-through entity.
- (4) If determined that the partnership had ineligible partners during the tax year, the election out is invalid.

4.31.9.7.4.2.2
(01-24-2024)

Criterion #2 - Partnerships Required to Furnish 100 or Fewer Schedule K-1s

- (1) In the second criterion, the number of Schedule K-1s required to be furnished can't exceed 100.
- (2) In the determination of whether the 100 or fewer Schedule K-1 threshold is met, the standard is based upon the number of Schedule K-1s required to be furnished, not the actual number of Schedule K-1s furnished. Therefore, if the taxpayer fails to furnish one or more Schedule K-1s, those not furnished but required to be furnished will be included in the total count.
- (3) Because S corporations are allowable partners and issue Schedule K-1s to their shareholders, in the determination of whether the partnership has furnished 100 or fewer Schedules K-1s, the Schedule K-1 furnished to the S corporation partner counts as one Schedule K-1 while all of the Schedule K-1s required to be furnished to the shareholders of the S corporation partner count as additional Schedule K-1s. Please refer to criterion # 1, IRM 4.31.9.7.4.2.1(5)(g), a qualified Subchapter S subsidiary, as defined in IRC 1361(b)(3)(B) is not an eligible partner but an S Corporation is an eligible partner.
- (4) Regarding a partner that is an estate of a deceased partner, the estate may file Form 1041 and furnish Schedule K-1s to its beneficiaries. For purposes of determining the number of Schedule K-1s required to be furnished by the partnership, any Schedule K-1s furnished by the estate are **not** taken into account for purposes of determining whether the partnership has furnished 100 or fewer K-1 statements.
- (5) If more than 100 Schedule K-1s are required to be furnished, the partnership is not eligible to elect out.

4.31.9.7.4.2.2.1
(10-29-2021)**Determining the Number of Schedule K-1s Required to be Furnished**

- (1) If a statement (Schedule K-1) is required to be furnished (whether issued or not) under IRC 6031(b) with respect to each partner, then each such statement is included in the calculation of the number of Schedule K-1s and should be disclosed on Schedule B-2, Part III, Line 3.
- (2) Page 1 of the Form 1065 requires an entry for the number of Schedule K-1s attached to the return. This entry will provide a preliminary assessment as to whether the partnership is close to or has exceeded the maximum 100 threshold, notwithstanding whether any partners are S corporations or whether certain Schedule K-1s were actually issued.
- (3) If an S Corporation partner is listed, the examiner should ensure that the Schedule K-1 issued to the S Corporation is counted as well as the number of Schedule K-1s the S Corporation is required to furnish to its shareholders under IRC 6037(b).

Example: The partnership PS has two partners, S1 and S2, each of which is an S corporation. S1 has 20 shareholders and S2 has 35 shareholders. Solely for purposes of determining eligibility to elect out, partnership PS is deemed to be required to furnish 57 Schedule K-1s, consisting of S1 and S1's 20 shareholders (21 total) and S2 and S2's 35 shareholders (36 total) for a total count of 57.

- (4) If it is determined that the number of Schedule K-1s required to be furnished is more than 100, the election out is invalid.

4.31.9.7.4.3
(01-24-2024)**Determination that an Election Out of the BBA is Invalid**

- (1) Elections out that are determined to be invalid at the field level must be coordinated with a BBA POC before notifying the partnership and/or proceeding with the examination.
 - a. A determination that an election out is invalid is not immediately and independently appealable.
 - b. If substantive issues are unagreed in addition to a denial of an election out of the BBA, Appeals will consider both. The audit should be handled under dual procedures as both a BBA and a BEO audit.
 - c. A denial of an election out of the BBA is a mandatory referral to a BBA POC.
- (2) Letter 6062, Notice of Invalid Election Out of the BBA, is used to notify a partnership of the IRS's determination. Mail or issue this letter separately and no earlier than the issuance of Letter 2205-D.
- (3) Update ERCS/AIMS to indicate the return is subject to the BBA regime.
 - a. Prepare Form 5348, AIMS/ERCS Update (Examination Update) and in the "PBBA" section of the form, locate the "ELECT-OUT-OF-BBA-CD" line and request to change the value to "2".
 - b. Update "IRC6235A1-PPA-DEADLINE-DT" to the Form 1065 postmarked date. Refer to TC 150 posting.
 - c. Ensure the AMDISA shows "ELECT-OUT-OF-BBA-CD>2" and the 6235(a)(1) was updated accordingly.

4.31.9.7.5
(01-24-2024)
**Revocation of the
Election Out**

- (1) Once an election is made by the partnership to elect out of the BBA regime, it cannot be revoked without the consent of the IRS.
- (2) A request to revoke the election out of the BBA regime can be made within the first 30 days after the partnership has received notification from the IRS that an examination will take place (via Letter 2205-D). An election to revoke an election out must be done on a year-by-year basis.
- (3) Partnership must mail or submit Form 15288, Request to Revoke Partnership Election under IRC 6221(b) or Request to Revoke Election under 1101(g)(4), to the person whose name appears on Letter 2205-D:
 - a. Form 15288 must be prepared on a year-by-year basis. Form 15288 cannot be prepared for multiple years.
 - b. Form 15288 should be signed and dated by any person who is authorized to sign the Form 1065. Any partner or LLC member is considered an authorized person to sign Form 1065.
 - c. The partnership must also designate a partnership representative and submit Form 8979, Partnership Representative Revocation/Resignation and Designation.
- (4) If IRS accepts the Revocation of the Election Out of the BBA, the partnership should be given 30 days to file a BBA AAR before the NAPs are issued.

4.31.9.7.5.1
(01-24-2024)
**Validate the Statement
Revoking the Election
Out of BBA**

- (1) Ensure that Form 15288 was submitted timely, signed by an authorized person and included the required information. Also, validate Form 8979 and identify the PR of record.
- (2) If the examiner accepts the revocation of a valid IRC 6221(b) election out, the partnership examination is subject to the BBA regime.
 - a. The case/group manager must approve the determination (accept or reject). The activity record should record this action.
 - b. The examiner must update ERCS/AIMS to indicate the return is subject to the BBA regime. Prepare Form 5348, AIMS/ERCS Update (Examination Update) and in the "PBBA" section of the form, locate the "ELECT-OUT-OF-BBA-CD" line and request to change the value to "2". Ensure the AMDISA in the BBA PARTNERSHIP Section screen shows "ELECT-OUT-OF-BBA-CD>2". Also update the "IRC6235A1 – PPA-DEADLINE-DT" field.
- (3) Regardless of its acceptance or rejection the revocation statement should be filed under Section 600 for SB/SE or SAIN 724 for LB&I.

Note: Only under unusual circumstances and when it is administratively convenient for the IRS and the partnership, will a request to revoke an election out of the BBA regime be considered if received after the first 30 days after the issuance of Letter 2205-D. This scenario should be coordinated with the BBA POC.

4.31.9.7.5.2
(01-24-2024)

Election Out Forms and Notices

- (1) The following are election out forms and notices:
 - a. Form 15288, Request to Revoke Partnership Election under IRC 6221(b) or Request to Revoke Election under 1101(g)(4)
 - b. Letter 6062, Notice of Invalid Election Out of BBA

4.31.9.7.6
(01-24-2024)

Partnership Representative (PR)

- (1) The partnership must designate a PR on each return filed for tax years beginning after December 31, 2017. The designation is effective on the date the return is filed.
 - a. Form 1065, page 3 should reflect the designation of the PR. Generally, this is the initial designation of record.
 - b. There may only be one designated partnership representative for a partnership's tax year at any time.
- (2) A PR has a key role in a BBA proceeding. Under IRC 6223, the PR that has the sole authority to act on behalf of the partnership. All partners and the partnership are bound by the PR's actions and the PR's final decision in a BBA proceeding.
- (3) A PR can be any person, including the partnership itself. The PR is not required to be a partner, an employee, or have any other relation to the partnership. This allows the partnership to select the person best situated to represent the partnership. The PR must have a substantial presence in the United States. See IRM 4.31.9.7.6.1 for Substantial Presence Test.
- (4) A partnership representative can be either an entity or an individual person.
 - a. Typically, both are referred to as the "partnership representative" or "PR"; a partnership representative that is itself an entity may alternatively be referred to as an "entity partnership representative" or "EPR". If an EPR is designated, a designated individual (DI) must also be appointed at the same time. The DI acts on behalf of the entity PR. The DI must also have substantial presence in the United States.
 - b. A partnership representative that is an individual may alternatively be referred to as an "individual partnership representative" or "IPR".

Note: For simplicity, throughout this IRM, the term PR will be used (unless discussing subject matter that requires more specificity).

- (5) The IRS is not bound by any limitations, restrictions or agreements placed upon the PR by the partnership in the partnership agreement, any side agreements or any other document to which it is not a party.
- (6) The designation of a PR remains in effect until the designation is terminated by a valid revocation, a valid resignation, or a determination by the IRS that the designation is not in effect (**no PR designation in effect**). If there is a change to the PR or DI, any valid actions of the former PR or DI prior to the change will remain valid and in effect.
- (7) A partnership, through an authorized person, may designate or change the PR or DI by submitting Form 8979 to an IRS point of contact (i.e., examiner, Appeals Officer, or Counsel Attorney). An **authorized person** is a person who was a partner at any time during the partnership tax year to which the designation or change relates. For more information on Form 8979, see the Form 8979 instructions at <https://www.irs.gov/forms-pubs/about-form-8979>.

- (8) Form 8979 may also be submitted in conjunction with the partnership's filing of an administrative adjustment request. The change in designation (or appointment) is treated as occurring just prior to the filing of the administrative adjustment request. It is the new PR that signs the AAR.
- (9) Document all actions concerning the identification of the PR in the case file under Section 600 for SB/SE or SAIN 724 for LB&I cases. Examiners may use the Partnership Representative of Record Job Aid to keep track of all the designations. The Partnership Representative of Record Job Aid can be found at https://irs.gov.sharepoint.com/:x/r/sites/ETD-KMT-KB038/_layouts/15/.

4.31.9.7.6.1
(01-24-2024)

Substantial Presence in the United States

- (1) The PR (and DI if the PR is an EPR) must have a substantial presence in the United States. All the following requirements must be met:
 - a. PR must be available to meet in person with the IRS in the United States, at a reasonable time and place, as determined by the IRS in accordance with Treas. Reg. 301.7605-1;
 - b. Have a United States street address and a telephone number with a United States area code; and
 - c. Have a United States taxpayer identification number (TIN).
 - d. An EPR must be in legal existence to have a substantial presence, including if the EPR is the BBA partnership under exam.

Note: Treas. Reg. 301.6223-1(f)(2) states the IRS may, but is not required to, determine that a partnership representative designation is not in effect. The IRS is not obligated to search for or otherwise seek out information related to the circumstances in which the IRS may determine a partnership representative designation is not in effect, and the fact that the IRS is aware of any such circumstances does not obligate the IRS to determine that a partnership representative designation is not in effect.

4.31.9.7.6.2
(01-24-2024)
Form 8979

- (1) Form 8979, Partnership Representative Revocation/Resignation and Designation, is the only means allowed to revoke a PR or DI, to resign as a PR or DI, or to designate a PR where no PR designation is in effect. Form 8979 can only be submitted for a single tax year.
- (2) The following table presents possible actions and who can submit Form 8979:

Action:	Form 8979 completed by:
Revocation of a partnership representative (entity or individual PR): Must include the designation of a successor partnership representative (entity or individual). If a successor entity partnership representative is made, the simultaneous appointment of a designated individual is also required.	Partnership (through an authorized person)

Action:	Form 8979 completed by:
Revocation of a designated individual: Must include an appointment of a successor designated individual.	Partnership (through an authorized person)
Resignation of the partnership representative.	Partnership representative
Resignation of the designated individual.	Designated individual
Designation of an entity partnership representative and appointment of a designated individual.	Partnership (through an authorized person)
Designation of an individual partnership representative.	Partnership (through an authorized person)

Note: An authorized person is a person who was a partner at any time during the partnership tax year to which the revocation or designation relates.

- (3) Partnerships can submit Form 8979 with an administrative adjustment request (AAR) or any time after the issuance of a notice of selection for examination (Letter 2205-D) or a notice of administrative proceeding (NAP) to the partnership.
 - (4) The PR or DI may submit Form 8979 any time after the issuance of a notice of selection for examination (Letter 2205-D) or a notice of administrative proceeding (NAP) to resign. If an EPR is resigning, the DI signs the form on behalf of the EPR. However, a DI can separately resign as well. In either case, the resignation will result in there being no PR with whom the IRS can interact with during an examination. See IRM 4.31.9.7.6.6 in such an instance.
 - (5) Form 8979 has four (4) parts. Part 1 identifies the reason for submitting the Form 8979. Part 2 provides information on the revocation or resignation. Part 3 shows the designated PR and/or newly appointed DI. Part 4 is the signature section.
- (1) Multiple revocations within a relatively short timeframe can have a negative impact on achieving an efficient, and effective, audit.
 - a. If multiple revocations are received within a 90-day period, the examiner may (but is not required to) determine that the last-received revocation (the “current” revocation) results in no PR designation in effect. Do not send out Letter 6053, Notice to Partnership of Partnership Representative Change, responding to the current revocation while contemplating that there is no PR designation in effect; only after a determination has been made that there is no PR designation in effect.
 - b. If based on facts and circumstances there are valid reasons for multiple revocations within the 90-day period, then the current revocation (if valid) may be accepted, and the examiner may confirm the latest PR of record. Send Letters 6053, Letter 6007 and Letter 6008.

4.31.9.7.6.3
(01-24-2024)

**Multiple Revocations by
the Partnership Within
the 90-day Period**

- (2) If a determination of no PR designation in effect is made, provide notice within 90 days of receiving the current revocation to indicate that there is no designation in effect. Send Letter 6053 (paragraph C and line 6) and two Letters 6007. The first Letter 6007 should be sent to the PR in effect prior to receiving the current Form 8979. The second Letter 6007 should be sent to the PR that was designated on the current revocation. For both letters, use paragraph C. After 90 days, a determination can no longer be made that no designation is in effect because of these multiple revocations. Although there is no set time to designate a new PR after the examiner declared there's no designation in effect, select a new PR with reasonable due diligence while balancing the need to continue the examination in an efficient and effective manner. For factors to consider when designating a PR, see below, "Service's Selection of a PR".
- (3) Once the examiner has selected a PR, the partnership cannot revoke the PR without the permission of the IRS. Permission is granted if the partnership submits a Form 8979 and the IRS accepts the submittal as valid.

4.31.9.7.6.4
(01-24-2024)

Form 8979 and Examiner Responsibilities

- (1) When the examiner receives a Form 8979, it must be date stamped. Review the form to determine if the revocation, resignation, or designation is valid. Within 30 days of receipt, issue the appropriate set of letters (as described below) to inform the appropriate parties about the determination. Form 8979 is deemed valid until the IRS says it's invalid.
- (2) Use Form 8979 Filing Chart as a roadmap at [https://irs.gov.sharepoint.com/sites/ETD-KMT-KB038/PSResources/Form_8979FilingChart.pdf](https://irs.gov/sharepoint.com/sites/ETD-KMT-KB038/PSResources/Form_8979FilingChart.pdf). Use Form 15416 , Form 8979 Validation Check Sheet to ensure the form has the following information:
 - a. Correct name of the partnership, EIN, address and tax year ending date. Examiner should determine if the information in the header is acceptable. Generally, the partnership name, EIN and tax year should be accurate to ensure the form is valid. Minor clerical errors do not necessarily disqualify a Form 8979. Clearly document these errors and intention to accept the form so it comes to the attention of the approver when they review the determination.
 - b. Reason for submitting the form; such as: The partnership is revoking the current entity or individual PR; The partnership is revoking the current DI; The PR is resigning; The DI is resigning; or the partnership is designating a PR because there's no PR in effect.
 - c. Correct name of the PR or DI being revoked or resigning, TIN, address, and phone number. Generally, the most recent Form 8979 supersedes all prior Form 8979 submissions, however, the Form 8979 must be properly completed with information about the revoked/resigning PR. If the information about the revoked/resigning PR is materially incorrect, both the revocation and designation are invalid. The PR or DI before the invalid revocation remains as the PR or DI of record.

Note: If TINs of the PR/DI being revoked or resigning are not reported on the Form 8979, it can be accepted if all of the other information is present and that information provides a clear indication that it is the current PR or DI that is being revoked.

- d. Correct name of the successor PR and/or DI designated by the partnership, TIN, address, and phone number. Research IDRS to ensure the name and TIN exist and they match. If the TIN(s) are not provided, contact the PR or DI directly to obtain TIN(s) and document in the case file. Both PR and DI must have substantial presence in the United States.

Note: If TINs of the successor PR/DI are not reported on the Form 8979 contact the PR/DI to obtain the TINs. The PR NAP Letter 5893-A issued by the field examiner and other statutory letters (mailed by other business units after the case leaves the field) are to be mailed to the **last known address** of the PR so obtaining the TINs is required to research IDRS for this information.

- (3) Form 8979 must be signed and dated by the appropriate PR, DI (in the case of resignations) or authorized person (in the case of revocations or designations) along with the person's name and title. See Form 15416 , Form 8979 Validation Check Sheet to assist with validation. Document the determination in the case file.
- (4) If it cannot be determined who is the PR or DI of record see IRM 4.31.9.7.6.6, Providing an Opportunity to the Partnership to Make a PR Designation.
- (5) Prepare and issue notices within 30 days of receiving a Form 8979:
 - a. Letter 6053, Notice to Partnership of Partnership Representative Change,
 - b. Letter 6007, Notice of No Partnership Representative in Effect, and
 - c. Letter 6008, Notice of Partnership Representative Selection.

Note: These letters are not required to be mailed when the Form 8979 is received with an AAR prior to issuance of a NAP.

- (6) Letter 6053 is mailed to the partnership. Letters 6007 and 6008 are mailed to the old PR and the new PR (if applicable), respectively. If the PR is an entity, mail the letter to the PR at the attention of the DI and use the PR address.
- (7) The table in Exhibit 4.31.9-3 will help in choosing the appropriate selectable paragraph and check box (if any) for each of the letters. Additionally, the Partnership Representative Notices Summary Grid job aid at https://irs.gov.sharepoint.com/sites/ETD-KMT-KB038/PSResources/PR_Notices_Summary_Grid.xlsx?Web=1 can assist in determining what letters to mail.

4.31.9.7.6.5
(01-24-2024)
Identification of the Partnership Representative or Designated Individual for Letter 2205-D

- (1) The Letter 2205-D is mailed to the partnership as a Notice of Selection of Examination. See IRM 4.31.9.7.8, Initiate Taxpayer Contact (Letter 2205-D), section below.
- (2) Generally, the PR or DI on Page 3 of the originally filed Form 1065 is the PR or DI of record and should be listed on Letter 2205-D. 2018 Form 1065 instructions permit the TINs for the PR and DI to be listed as all zero; and in 2019 and later years the TIN block was removed. Regarding a 2018 Form 1065, do not determine that there is "no PR designation in effect" due to missing TINs.

Note: Obtain the TINs from the PR or DI directly, if not on Form 1065, prior to issuing the NAP letters. This is required so that the last known address for the PR can be obtained from IDRS for purposes of mailing the PR NAP.

- (3) If the partnership filed an AAR with a Form 8979 (properly revoking the prior PR and/or DI) and properly designated a new PR and/or appointing a new DI, then the initial designation has changed. The PR or DI of record is now the PR or DI from the Form 8979 and should be noted on Letter 2205-D.
- (4) If the partnership filed multiple AARs with Form 8979, generally the IRS will use the PR or DI information from the most recently submitted Form 8979 to complete the Letter 2205-D. It is important that each Form 8979 properly revoke the existing PR or DI of record with the IRS at the time it is submitted. If one Form 8979 in the sequence of submittals does not properly revoke the PR or DI of record at the time of submittal, that Form 8979 (and all subsequent Forms 8979) might be considered invalid. If this occurs, contact the BBA POC.

Note: This rule applies to Forms 8979 submitted with AARs prior to the opening of an examination as well as those received after an examination has begun. Review the historical sequence of all submitted Forms 8979 to ensure each PR or DI of record with the IRS was properly revoked.

- (5) If there is no valid designation on Page 3 of Form 1065 (2018 - 2022 versions) and/or no subsequent designation via a valid Form 8979, the partnership should be given ample opportunity to designate its partnership representative. Therefore, rather than declaring no PR designation is in effect, input in the space for the partnership representative, **Our records do not reflect a partnership representative for the partnership**. Accordingly, the IRS should **not** automatically declare **No PR Designation in Effect** when making initial contact. Indicating that the IRS records do not reflect a partnership representative for the partnership is not an assertive declaration that no PR designation is in effect, and it provides an opportunity for the partnership to make such a designation. See IRM 4.31.9.7.6.6.

4.31.9.7.6.6 (01-24-2024) Providing an Opportunity to the Partnership to Make a PR Designation

- (1) IRC 6223 provides that each BBA partnership is to designate a partnership representative and if there is no partnership representative in effect the Secretary may select any person as the partnership representative.
- (2) It is a best practice for taxpayers to choose a representative who can best serve them. Under the regulations, when the IRS formally declares "No PR in Effect", an official 30-day timeframe begins, and if the partnership has not designated its own PR before the lapse of those 30 days, the IRS is in the position of having to make the designation on behalf of the partnership. For example, with non-filers, partnerships may not respond to any correspondence sent by the IRS. In such a scenario, if the IRS formally declares "No PR in Effect", it essentially puts itself in a position of trying to designate a PR for a partnership when there has been no contact. The following procedures provide ample opportunity for a partnership to designate its partnership representative. Some typical situations when this might occur are listed below:
 - a. An agent is opening a non-filer partnership for exam. All non-filed partnerships are subject to BBA procedures, and since a PR can only be designated on a Form 1065, non-filers have not designated a PR.
 - b. A partnership did not elect out of the BBA and did not designate a PR on its original return.
 - c. The IRS receives an imperfect Form 8979.

- (3) To provide ample opportunity for the partnership to make its partnership designation when one hasn't been made, use the following language on Letter 2205-D: "Our records do not reflect a partnership representative for the partnership". This will avoid the 30-day timeframe from starting and will give the partnership additional time to make its designation. It will also avoid the necessity of the examiner having to make the designation on the partnership's behalf.
- (4) If you receive an imperfect Form 8979 after notifying the partnership that "Our records do not reflect a partnership representative for the partnership", call the person who submitted the form, explain to them why the Form 8979 is imperfect and, encourage them to submit a perfected Form 8979. In such a case, the IRS has not made the declaration that "No PR designation is in effect" and therefore the partnership is afforded more time to correct or make the designation.
 - a. If you receive multiple invalid Forms 8979 from the partnership, issue Letter 6053 with paragraph C, line 3 in accordance with IRM 4.31.9.7.6.7, No PR Designation in Effect. Issuing Letter 6053 will start the 30-day period for the partnership to respond with a valid Form 8979. If no valid Form 8979 is received within the 30-day period, follow the procedures at IRM 4.31.9.7.6.8, Service's Selection of a PR.
- (5) If the partnership is unresponsive or no Form 8979 is ever received despite making multiple requests, contact local Counsel for advice on how to proceed.

4.31.9.7.6.7
(01-24-2024)
No PR Designation in Effect

- (1) The IRS may need to determine and declare that **no PR designation is in effect** after providing ample time for the partnership to make a PR designation. The procedures under IRM 4.31.9.7.6.6 are designed to provide time for the partnership to make its designation. Some circumstances under which the IRS may determine that no PR designation exists include:
 - a. No substantial presence in the United States. See IRM 4.31.9.7.6.1, Substantial Presence in the United States, above.
 - b. The partnership failed to appoint a DI if the PR is an EPR.
 - c. The partnership failed to make a valid designation of a partnership representative.
 - d. There was a valid resignation of PR or DI, but no subsequent designation by the partnership.
 - e. There are multiple revocations within the 90-day period and the IRS determined that there is no designation in effect.
 - f. The PR is no longer in effect for any other reason as determined by other published guidance.
- (2) If, after giving a partnership ample opportunity to designate a PR, a PR designation is no longer in effect or does not exist, prepare and issue the applicable letter to the partnership's last known address.

Exception: The ample opportunity instructions do not apply when the lack of PR designation is due to multiple revocations within the 90-day period and there has been a decision by the examiner and approval by the manager to declare "no PR designation in effect."

- (3) Issue Letter 6053 if you already issued Letter 2205-D and subsequently determined that there is no PR designation in effect. Choose the relevant line item for selectable paragraph C. Ensure the response due date field reflects a date that is 30 days from the date the letter is mailed.

Note: The **no PR designation in effect** determination is effective on the date the examiner mails the notification.

- (4) Issue Letter 6007 if you determine the existing PR designation is no longer in effect. Send the letter to the partnership's and PR's last known address with selectable paragraph C.
- (5) Since the partnership's response due date is always 30 days after the IRS notifies it there is "no PR designation in effect", if the partnership fails to respond, or fails to respond within the 30-day timeframe, the examiner will select a PR. See IRM 4.31.9.7.6.8 , Service's Selection of a PR.
- (6) If a Form 8979 is received timely, date stamp it. Determine the form's validity and process it accordingly. See IRM 4.31.9.7.6.4, Form 8979 and Examiner Responsibilities.

Note: Document activities in the case file.

4.31.9.7.6.8
(10-29-2021)

Service's Selection of a PR

- (1) If the IRS must select a PR, there is no specific prescribed timeframe to do so. However, a new PR must be selected with reasonable due diligence while balancing the need to continue the examination in an efficient and effective manner.
- (2) The IRS can select any person to be the partnership representative (except for an IRS employee, agent, or contractor unless they are a partner in the partnership); however, the person designated by the IRS should have sufficient knowledge of the partnership tax return and business operations to participate in the examination.
- (3) When designation of a PR is needed, consider the following factors:
 - a. The intention of the partnership based on a late or untimely filed Form 8979,
 - b. The views of majority interest partners,
 - c. The partner's or other person's general knowledge of tax matters and administrative matters of the partnership,
 - d. The partner's or other person's access to the books and records of the partnership,
 - e. The profits interest held by the partner,
 - f. Whether there is a partner from the year under examination or a partner at the time the partnership representative selection is made,
 - g. Whether the person meets the substantial presence test.
- (4) To determine the above, seek information and discuss the matter with partners, employees, and other prospective candidates to assess the person's depth of knowledge. Generally, these inquiries are not disclosures or third-party contacts under IRC 6103 and 7602. However, limit any information gathering solely to factors involving an appropriate PR designation. Do not address or inquire about tax issues.

- (5) The group manager must participate in and approve the PR selection. This approval should be noted and substantiated in the case file. Consider if Counsel advice is needed. Once the PR is selected, prepare and issue:
 - a. Letter 6053 with selectable paragraph B to the partnership's last known address. The designation is effective on the date Letter 6053 is mailed.
 - b. Letter 6008 with selectable paragraph B to the new PR.
- (6) If a partnership attempts to revoke an IRS designated PR, See IRM 4.31.9.7.6.4 Form 8979 and Examiner Responsibilities, above.

4.31.9.7.6.9
(01-24-2024)

Irresponsive Partnership

- (1) If the partnership fails to respond to the notice of selection for exam (Letter 2205-D) after 30 calendar days, it was not returned as undeliverable, and the examiner already attempted to contact the partnership 14 days after mailing Letter 2205-D (per IRM 4.31.9.7.8(5)(c)) with no response from the partnership, then you must try to make additional contact with the partnership.
- (2) Continue the examination by issuing NAPs (Letter 5893, Notice of Administrative Proceeding - Partnership, to the partnership and Letter 5893-A, Notice of Administrative Proceeding - Partnership Representative, to the partnership representative of record). If there is no PR designated on the return or if the IRS has declared no PR in effect without a response, follow generic PR NAP procedures.
- (3) You must continue follow-up attempts to contact the irresponsive partnership (including by telephone) in an effort to schedule an initial appointment prior to the issuance of a notice of administrative proceeding (NAP). The procedures for issuing a NAP generally provide that it should be issued no earlier than 30 days from the issuance of Letter 2205-D.
- (4) If follow-up attempts to contact the partnership by telephone are successful, examiners must follow the procedures in IRM 4.10.2.8.2 to conduct the initial conversation. In addition, confirm the initial appointment per the procedures in IRM 4.10.2.8.1.2(3).
- (5) If the partnership representative designation cannot be determined at the time the Letter 2205-D is issued, this should be indicated on Letter 2205-D in accordance with IRM 4.31.9.7.6.5 and IRM 4.31.9.7.6.6.
- (6) If lack of response from the partnership persists, contact local Counsel for assistance in accordance with IRM 4.31.9.7.6.6(4)(b), Providing an Opportunity to the Partnership to Make a PR Designation.

4.31.9.7.7
(01-24-2024)

**Administrative
Adjustment Request
(AAR) and Other
Subsequent Filings**

- (1) The examiner is required to make a mandatory referral for a BBA POC when an AAR or other subsequent filing is part of the exam year filings.
- (2) A partnership may file an AAR under IRC 6227 with respect to any PRI and correct errors on a previously filed partnership return. However, a partnership may not file an AAR solely for the purpose of changing the designation of a PR. Under certain Rev. Proc. guidance, partnerships were permitted to file subsequent returns that are not AARs.
 - a. The filing of an AAR will extend the IRC 6235(a)(1) statute date which is 3 years from the date the AAR was filed.
 - b. A subsequent filing other than an AAR may not extend the IRC 6235(a)(1) statute date.

- (3) Upon assignment of the case, the examiner should check to see if a subsequent filing has been made. To do this, check IDRS prints (TXMODA or BMFOLT) for the presence of a TC 976. This TC may or may not be preceded by a TC 971 with action codes 010 or 013. If a TC 290 exists, it means that the Campus has processed the subsequent filing. If a TC 290 is not present, that is an indication that the Campus has not yet made a disposition with regard to the subsequent filing.
- (4) If a subsequent filing is indicated on IDRS or the examiner encounters subsequent filings during a BBA examination, the examiner should immediately notify the IRS "BBA Point(s) of Contact (BBA POC)". The BBA POC will assist the examiner on how to:
 - a. Determine if the subsequent filing includes all of the information required by the statute and applicable regulations to be accepted as a valid BBA AAR.
 - b. Confirm that the subsequent filing was timely filed.
 - c. Determine if the subsequent filing was made prior to issuance of the NAP when the tax year is under examination.
 - d. Discuss if an update to the statute of limitations (SOL) on making adjustments under IRC 6235(a)(1)(C) is appropriate and if so, how to update that SOL.
 - e. Proceed with the examination.

Note: If the subsequent filing was filed for a tax year beginning prior to January 1, 2018; it is possible that it is an AAR that also provided an early election into BBA. It is important to make a BBA POC referral for assistance. Please see IRM 4.31.9.12.3, Early Elections Made With Administrative Adjustment Requests (AARs).

Note: A partnership with a short period partnership tax year that begins after December 31, 2017 may file a BBA AAR as long as the partnership did not make an election out of the centralized partnership audit regime under IRC 6221(b) on its tax return for the short year filing.

- (5) If the partnership directly provides the examiner a subsequent filing upon exam the examiner should immediately notify the BBA POC. The BBA POC will assist the examiner on how to do the following and determine next steps:
 - a. Confirm whether the subsequent filing was filed with the service center and if so, assist the examiner with requesting a copy from the service center for reconciliation purposes.
 - b. Determine if the subsequent filing includes all the information required by the statute and applicable regulations to be considered a BBA AAR.
 - c. If a BBA AAR, confirm that the BBA AAR was timely filed. Ensure that the BBA AAR was filed before the issuance of the NAP when the tax year is under examination.
 - d. Whether a BBA AAR or another subsequent filing, discuss if an update to the statute of limitations (SOL) on making adjustments under IRC 6235(a)(1)(C) is appropriate and if so, how to update that SOL.
- (6) The table in Exhibit 4.31.9-4 describes the various scenarios for which an AAR may be filed and the applicable audit regime to be applied.

4.31.9.7.7.1
(01-24-2024)

Basic Requirements for AARs

- (1) If the AAR is filed electronically, the partnership uses Form 1065, U.S. Return of Partnership Income, marks the amended return box, and attaches Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR), that marks the BBA AAR box in Part I and completes the rest of the form as appropriate.
- (2) If the AAR is filed on paper, the partnership uses Form 1065X, Amended Return or Administrative Adjustment Request (AAR), marks the BBA AAR box in Part I, completes the appropriate items a-e in Section 2 (and Part II), and completes Part IV (if necessary).
- (3) Only the PR (or DI, if applicable) may sign and file an AAR on behalf of the partnership.
 - A partner may not make a request for an administrative adjustment of a PRI unless the partner is a PR (or DI, if applicable) and is doing so on behalf of the partnership.
- (4) AAR is filed with the IRS service center where the original return was filed. If the partnership files an AAR with the examiner before the issuance of a notice of administrative proceeding, the examiner should:
 - a. Date stamp the AAR and make a copy for the case file.
 - b. Contact the BBA POC.
- (5) A partnership may not file an AAR more than 3 years after the later of: the date the partnership return for such tax year was filed, or the last day for filing such partnership return (without regard to extension).

Note: Regardless of the timeframes mentioned above, a partnership may not file an AAR after a notice of administrative proceeding (NAP Letter) is issued by the IRS.

- (6) A partnership must determine whether the adjustments requested in the AAR result in an imputed underpayment. If so, the partnership must take the adjustments into account and make payment unless the partnership makes a valid election for the adjustments to be taken into account by the reviewed year partners.
- (7) In general, the partnership must pay the imputed underpayment on the date the partnership files the AAR.
- (8) A partnership may apply limited types of modifications to the amount of the imputed underpayment if a notification (Form 8980, Partnership Request for Modification of Imputed Underpayments Under Section 6225(c)) is attached to the AAR and includes the following:
 - a. Notification to the IRS of the presence of any modification,
 - b. A description of the effect that each modification had on the calculation of the imputed underpayment,
 - c. An explanation of the basis for the modification made, and
 - d. Documentation to support the partnership's eligibility for the modification.
 - e. Generally, the requirements in a - d above are met if the Form 8980 attached to the AAR is properly completed and includes any required supporting documents pertaining to the permitted modification type.

Note: Contact the BBA POC if the partnership modified the imputed underpayment. Some modifications permitted in the modification phase in exam are not permitted in the AARs.

- (9) If the partnership makes a valid election to have adjustments resulting in an imputed underpayment be taken into account by reviewed year partners, the partnership is not required to pay the imputed underpayment. However, if such an election is made, all modifications are disregarded and all adjustments requested in the AAR must be taken into account by each appropriate reviewed year partner.
- (10) If the adjustments requested in the AAR result in an IU calculation amount that is zero or less than zero or the adjustments don't result in an IU, then all adjustments must be taken into account by the reviewed year partners.
- (11) If reviewed year partners are required to take into account the adjustments requested in the AAR, the partnership must furnish Form 8986, Partner's Share of Adjustment(s) to Partnership-Related Item(s) to the reviewed year partners and file these forms and Form 8985, Pass-Through Statement-Transmittal/ Partnership Adjustment Tracking Report with the IRS on the date the AAR is filed.
- (12) If a partner of the partnership that filed an AAR is a pass-through entity, the pass-through partner must issue Form 8986 to its reviewed year partners and file these forms and Form 8985 with the IRS by the extended due date of the AAR partnership's adjustment year return.

Note: If the adjustments result in an IU, the pass-through partner may alternatively calculate and pay an IU and provide Forms 8986 to its reviewed year partners for those adjustments that do not result in an IU. If utilizing this option, the pass-through partner is not permitted any modifications to the IU and is obligated to file any Forms 8986 issued to its reviewed year partners and Form 8985 with the IRS.

- (13) Each reviewed year partner must take into account their share of all the adjustments requested in the AAR as shown on Form 8986.
- (14) Each reviewed year partner's share of the adjustment requested in the AAR is determined in the same manner as each adjusted PRI was originally allocated on the partnership return for the reviewed year. If the partnership pays an imputed underpayment with respect to the adjustments requested in the AAR, the reviewed year partner's share of the adjustments requested in the AAR only includes adjustments that did not result in the imputed underpayment.
- (15) If the adjusted PRI was not reported on the partnership's return for the reviewed year, each reviewed year partner's share of the adjustments will be based on how such items would have been allocated per the partnership agreement.
- (16) If an adjustment involves a reallocation of an item, the reviewed year partner's share of the adjustment requested in the AAR is determined in accordance with the AAR.

4.31.9.7.7.2
(01-24-2024)

AAR Exam Scope

- (1) You may determine a subsequent filing is not an AAR, but only in conjunction with a BBA POC. Any subsequent filing requires a mandatory referral to a BBA POC in accordance with IRM 4.31.9.7.2, Mandatory Referral to the BBA Point of Contact (POC).
- (2) You may re-adjust any items that were adjusted on the AAR. Also, the amount of an imputed underpayment determined by the partnership, including any modifications, may be re-determined by the IRS.

Note: Adjustment of the IU due to a correction in the IU computation will likely require the examiner to open for exam and make the corrections to the adjustment year for the AAR (the year in which it was filed). The reason for this is that under IRC 6232, the IU is assessed and collected as if it was a tax for the adjustment year. Therefore, if addressing the IU calculation (as opposed to the reviewed year adjustments that spill into that calculation) address the calculation in the tax year in which the IU resides – i.e. in the adjustment year. Contact the BBA POC for assistance prior to doing so. If addressing the calculation of an IU where push-out is elected, contact the BBA POC for assistance.

- (3) The partnership audit plan should include any PRI the examiner does not agree with, including the following:
 - a. Any substantial issue relating to the adjustments requested in the AAR,
 - b. Discrepancies in the imputed underpayment as determined in the AAR, including modifications, and
 - c. The allocation of the adjustments to the reviewed year partners as reported in the filed statements.

Note: Examiners should contact the BBA POC for assistance.

4.31.9.7.8
(01-24-2024)

**Initiate Taxpayer Contact
(Letter 2205-D)**

- (1) All initial taxpayer contacts must be made by mail. Prepare and mail Letter 2205-D, Initial Contact to Schedule Appointment - Partnership Returns, to all partnerships regardless of the tax year.

Note: Letter 2205-D does not have to be mailed certified.

- (2) Letter 2205-D is used to:
 - a. Provide notice of selection for examination to any partnership, whether subject to the unified rules under TEFRA (Tax Equity and Fiscal Responsibility Act of 1982), the centralized partnership audit regime (Bipartisan Budget Act of 2015), or separate deficiency proceedings;
 - b. Confirm certain information of record; and
 - c. Request that the taxpayer call-back to schedule an initial appointment for the examination of partnership income tax returns.
- (3) Letter 2205-D has selectable paragraphs.
 - a. Select the appropriate paragraph 1 or 2 based on whether SB/SE or LB&I:

Paragraph number	Division
1	SB/SE taxpayers
2	LB&I taxpayers

- b. Select the applicable paragraphs 3 through 6 for the appropriate regime:

Paragraph number	Audit Regime
3	TEFRA Partnerships
4	Non-TEFRA Partnerships
5	BBA Partnerships (tax periods beginning 1/1/2018 or after). See Note below for additional information.
6	Partnerships that elected out of BBA for tax years beginning 1/1/2018 and after

Note: If paragraph 5 is used, ensure that the name and address of the PR is inserted where indicated. If an IPR, insert the IPR's name and address. If an EPR, insert both the EPR's name and address and the DI's name and address. See IRM 4.31.9.7.6, Partnership Representative for details about EPR vs. IPR. See IRM 4.31.9.7.6.5 if IRS records do not reflect a Partnership Representative for the partnership.

- (4) The letter also alerts the partnerships to the time sensitive election for partnerships whose tax periods begin after November 2, 2015 and before January 1, 2018 to elect into the centralized partnership audit regime (BBA). The election must be made within 30 days from the date on Letter 2205-D.
- (5) Mail Letter 2205-D to the partnership's last known address (which is either the address on the return or on IDRS Master File Entity if more current).
 - a. Review INOLES for the last known address for the partnership.
 - b. Include a response due date that is 30 days from the date the letter is mailed.
 - c. The partnership has 30 days to respond to Letter 2205-D, but you may contact the partnership after 14 days of mailing the letter to help ensure the partnership understands all of the information so it can take any allowable action it deems appropriate prior to issuance of the NAP letters, which will be mailed 30 days after the mailing of Letter 2205-D.

Note: Do not send Form 7036, Election under Section 1101(g)(4) of the Bipartisan Budget Act of 2015, with Letter 2205-D. Do not include or attach any IDRs to Letter 2205-D.

- (6) A copy of Letter 2205-D should be filed under Section 600 for SB/SE and under SAIN 724-BBA for LB&I.

Reminder: Letter 3798, Non-Filer Appointment, will be issued first in non-filer cases where return solicitation language is unwarranted. Letter 3798 is not a notice for selection for exam. Once a determination has been made to conduct an examination of the non-filed/late filed return, you will issue Letter 2205-D.

- (7) Letter 2205-D should be re-issued and another 30 days allowed to respond, if one of the following occurs.
- The letter is returned undeliverable. If this happens, you must review INOLES to confirm the last known address. Any and all undeliverable notices of selection for examination are addressed under IRM 4.10.2.8.4, Undeliverable Initial Contact Letters.
 - You issued Letter 2205-L or any other Letter 2205 to the partnership instead of Letter 2205-D. Letter 2205-D must be used for partnership audits.
 - You issued Letter 2205-D with the wrong selectable paragraph or no selectable paragraphs. See IRM 4.31.9.7.8(3), Initiate Taxpayer Contact (Letter 2205-D).
 - You did not properly include the IPR and/or EPR/DI information (Name or Address) correctly on Letter 2205-D.
 - The letter was issued with a response date that was less than 30 days from the date the letter is mailed.

Note: Letter 2205-D can be reissued only if the NAP letters have not yet been issued. If the examiner has already issued the NAP letters, Letter 2205-D cannot be re-issued.

- (8) If the taxpayer fails to respond to the initial contact letter, and it was not returned as undeliverable, follow the procedures in IRM 4.31.9.7.6.9, Irresponsible Partnership.
- (9) If Letter 2205-D was issued, but the NAP letters (Letter 5893 and Letter 5893-A) have **not** been issued, records have **not** been inspected and there is a decision to withdraw from the exam and survey the return:
- Issue Letter 1024, Return Accepted as Filed.
 - Follow the survey after assignment closing procedures in IRM 4.10.2.5.2, Procedures for Surveying Returns After Assignment.

4.31.9.7.9
(01-24-2024)

BBA Partnership Check Sheets

- The BBA partnership check sheets are designed to assist examiners in completing the required BBA procedures as well as the BBA elect out (BEO) Investor Level Statute Control (ILSC) procedures. Managerial involvement and signatures are required on all the mandatory forms.
- It is critical for the IRS to follow BBA / ILSC rules and procedures during examinations, since procedural errors can affect the validity of adjustments, assessments, infringe on taxpayer rights, and result in improper disclosures of tax information.
- The check sheets in paragraph (4) will be used when examining a partnership or a limited liability company filing as a partnership subject to the BBA regime or alternatively an entity that is subject to the ILSC provisions. Additionally, some of the check sheets will be used while considering the applicability of Ch 2/2A tax (SECA and NIIT) and any resulting PCS linkage controls. The check

sheets will serve as documentation to confirm the actions taken or decisions made in following the BBA/ILSC and Ch 2/2A procedures.

- (4) The following check sheets are mandatory and must be completed for each tax period of the BBA entity / ILSC entity (fka non-TEFRA entity) being examined.
- Form 15260, Determination of Pass-Through Audit Regime Check Sheet is mandatory. The completed check sheet will be included in the audit file to document whether the partnership is or is not subject to the centralized partnership audit regime (BBA procedures). The examiner's manager must review this check sheet and work papers. The manager's signature is mandatory on the Determination of Pass-through Audit Regime check sheet.
 - Form 15262, Bipartisan Budget Act (BBA) Partnership Procedures Check Sheet is mandatory once you determine that the partnership is to be examined using the centralized partnership audit regime (BBA procedures). The completed check sheet will be included in the audit file. This check sheet provides the specific procedural elements necessary to conduct a quality BBA field examination. The examiner's manager must review the BBA Partnership Procedures Check Sheet and work papers to ensure all appropriate procedures have been completed. The manager's signature on the BBA Partnership Procedures Check Sheet is mandatory and indicates the appropriate procedures have been reviewed and have been correctly completed.
 - Form 15271, Bipartisan Budget Act (BBA) Partnership Adjustment Statute Extension Check Sheet is used for BBA partnerships in lieu of Form 10949. Also see IRM 4.31.9.8.4 and IRM 4.31.9.8.4. Apply the basic logic contained in the general guidance provided in IRM 25.6.22 and IRM 25.6.23 as indicated throughout Form 15271. This check sheet guides field agents and their managers on securing Form 872-M to extend the statute of limitations on making adjustments per IRC 6235(b) and the procedural requirements involved.
 - Form 15263, Bipartisan Budget Act (BBA) Partnership Chapter 2/2A Relevant Partner Determination is mandatory and the manager's signature signifies that BBA Chapter 2/2A procedures are being adhered to. The BBA Chapter 2/2A Relevant Partner Determination check sheet includes the steps necessary to determine, among other things, whether the respective BBA partner(s) are subject to Chapter 2/2A taxes, the statute for the Chapter 2/2A taxes, and if a Chapter 2/2A linkage package is required. Further guidance on Chapter 2/2A tax and the 2/2A dual procedures is found in this IRM in the specified section on that topic.
 - Form 15264, Bipartisan Budget Act (BBA) Chapter 2/2A Linkage Check Sheet is mandatory. It guides examiners in completing the required information when submitting a BBA Chapter 2/2A linkage package and must be completed with the specified attachments. The manager's signature on the Chapter 2/2A Linkage Check Sheet is mandatory and indicates the linkage package has been reviewed, is accurate and complete.
 - Form 15416, Form 8979 Validation Check Sheet (for Revocations, Designations, and Redesignations), is mandatory when you receive a Form 8979 for revocations, designations, or redesignations and helps determine whether the Form 8979 is valid. This form assists the

examiner where the audited partnership has been identified as subject to the BBA regime and the IRS point of contact (i.e. appeals officer, or counsel attorney) has received a Form 8979 from the partnership to revoke a partnership representative or designated individual or to designate a partnership representative/designated individual where there is no designation in effect. The IRS point of contact may also receive Form 8979 to resign. This form is not applicable and should not be used for TEFRA partnerships, ILSC partnerships or BBA elect out (BEO) entities that are audited under ILSC procedures.

- Form 15261, Investor Level Statute Control (ILSC) Pass-through Procedures Check Sheet is mandatory and requires managerial involvement for an entity that has validly elected out of BBA, *BBA Elect Out- (BEO)*, and for which the BBA audit regime does not otherwise apply. The manager's signature on the ILSC Pass Sheet is mandatory and indicates the ILSC procedures have been reviewed and have been correctly completed.

- (5) SB/SE examiners will file these check sheets and other BBA work papers under a separate line item in Section 600 on the Form 4318, Examination Workpaper Index. LB&I examiners will file the BBA check sheets and work papers under SAIN number 724.

4.31.9.7.10
(01-24-2024)

Form 2848, Power of Attorney (POA)

- (1) Form 2848, Power of Attorney and Declaration of Representative, is used to authorize an individual to represent a partnership representative (PR) who is acting on behalf of the partnership under the Centralized Partnership Audit Regime. Refer to IRM 4.11.55, for Power of Attorney rights and responsibilities.

Note: A power of attorney (including a Form 2848) may not be used to designate a partnership representative.

- (2) The Individual Partnership Representative (IPR) or Designated Individual (DI) (for an Entity Partnership Representative (EPR)) of record must sign the Form 2848.
- (3) If the PR is changed (revoked, resigns, etc.) a new POA Form 2848 will be required. The new Form 2848 will have to be signed and dated by the newly appointed PR.

Note: If the partnership revokes **only** the DI and does **not** revoke the EPR, a new Form 2848 is not required because there has been no-change to the EPR. If the DI resigns, a new Form 2848 must be secured. Upon DI resignation, there will be no PR designated for the partnership and the partnership will have to designate the PR.

- (4) There should be a separate Form 2848 for each year as the PR could be different and a POA is appointed by a specific PR for a specific tax return year.
- (5) An individual authorized on Form 2848 must be eligible to practice before the IRS. Under IRM 4.11.55, you should verify the credentials and document the verification in the case file. To verify, you may use the following resources.
 - a. The Directory of Federal Tax Return Preparers with Credentials and Select Qualifications, which can be found at <https://irs.treasury.gov/rpo/rpo.jsf>.

Note: Attorney and CPA credentials are self-reported to the IRS and the IRS verifies attorney and CPA credentials before including them in the directory, but a credential may become invalid after verification. You should rely on the source of the credential (e.g. state board of accountancy or state bar) and not on this directory for the most current status. Additionally, the IRS does not endorse any preparer or credential over another.

- b. To check the license status of a power of attorney, you can perform an internet search for CPA license holders, state bar members, etc. Current license or bar membership information is available at CPA verify at <https://cpaverify.org> and Attorney Licensing Verification at <https://www.justice.gov/eoir/attorney-licensing-verification>. Not all states provide online information, therefore, a phone call to the appropriate state agency may be required.
 - c. A list of active enrolled agents is available at Active Enrolled Agents Listing at <https://www.irs.gov/tax-professionals/enrolled-agents/active-enrolled-agents-and-the-freedom-of-information-act>
 - d. The Office of Professional Responsibility provides search features on its website to indicate whether a practitioner has been suspended or disbarred from practice before the IRS or enjoined from representing taxpayers at <https://www.irs.gov/tax-professionals/search-for-disciplined-tax-professionals>.
- (6) For matters unrelated to the centralized partnership audit regime, a separate Form 2848 must be signed by a partner that has authority to do so under state law. Please refer to IRM 4.31.9.7.10.2, Form 2848, Part I for Chapter 2, 2A, 3 and 4 Income Items Outside of the BBA Regime, below. For dissolved partnerships, see 26 CFR 601.503(c)(6).

Note: The partnership can designate the BBA PR as one of the partnership's representatives for any non-Chapter 1 proceeding if the PR can act before the IRS under the Form 2848 instructions. This will allow for efficient communication with one point of contact for the entire examination.

4.31.9.7.10.1
(10-29-2021)
**Form 2848, For Items
Within the Scope of the
BBA Regime**

- (1) Part I, Line 1, of Form 2848, Taxpayer Information should be completed to reflect the partnership representative name, the partnership name and TIN of the partnership:

For Individual Partnership Representative:

John Tiger as partnership representative for
ABC Partnership
1111 Maple Street
Anywhere, USA 00000-0000

1 Taxpayer information. Taxpayer must sign and date this form on page 2, line 7.		
Taxpayer name and address John Tiger as Partnership Representative for ABC Partnership 1111 Maple St, Anywhere, USA 00000-0000	Taxpayer identification number(s)	
	TIN of BBA Partnership	
	Daytime telephone number	Plan number (if applicable)

Figure 4.31.9-1

For Entity Partnership Representative and Designated Individual:

DEF, LLC as partnership representative for
ABC Partnership
1111 Maple Street
Anywhere, USA 00000-0000

1 Taxpayer information. Taxpayer must sign and date this form on page 2, line 7.		
Taxpayer name and address DEF, LLC as Partnership Representative for ABC Partnership 1111 Maple St, Anywhere, USA 00000-0000	Taxpayer identification number(s)	
	TIN of BBA Partnership	
	Daytime telephone number	Plan number (if applicable)

Figure 4.31.9-2

(2) Part 1, Line 3, of Form 2848, Acts Authorized

- Line #3, Column 1 – “Centralized Partnership Audit Regime (BBA)”
- Line #3, Column 2 – “Form 1065”
- Line #3, Column 3 – The return year for which the POA is being appointed:
 - An unfiled year should never be listed because a partnership representative could not have been designated yet.
 - See Form 2848 instructions for fiscal and short years.

3 Acts authorized (you are required to complete this line 3). With the exception of the acts described in line 5b, I authorize my representative(s) to receive and inspect my confidential tax information and to perform acts that I can perform with respect to the tax matters described below. For example, my representative(s) shall have the authority to sign any agreements, consents, or similar documents (see instructions for line 5a for authorizing a representative to sign a return).

Description of Matter (Income, Employment, Payroll, Excise, Estate, Gift, Whistleblower, Practitioner Discipline, PLR, FOIA, Civil Penalty, Sec. 4980H Shared Responsibility Payment, etc.) (see instructions)	Tax Form Number (1040, 941, 720, etc.) (if applicable)	Year(s) or Period(s) (if applicable) (see instructions)
Centralized Partnership Audit Regime (BBA)	Form 1065	2018
		NOTE: See instructions for fiscal
		and short years.

Figure 4.31.9-3

(3) Part 1, Line 5, of Form 2848, Additional acts authorized

- a. Though not required, under Part 1, Line 5a of Form 2848, it is a best practice to list each act the PR authorizes the POA to perform. These would be acts other than the normal authorization to work with the examiner and exchange confidential information.

5a Additional acts authorized. In addition to the acts listed on line 3 above, I authorize my representative(s) to perform the following acts (see instructions for line 5a for more information): ☐ Access my IRS records via an Intermediate Service Provider; ☐ Authorize disclosure to third parties; ☐ Substitute or add representative(s); ☐ Sign a return;

☒ Other acts authorized: **Not required, it is a best practice to list specific acts authorized by the PR.**

Figure 4.31.9-4

- b. Pay attention to Part 1, Line 5b to identify any restrictions to the POA's authority. If there are to be any restrictions on the representative's authority, those restrictions should be clearly stated in Part 1, Line 5b of Form 2848.

b Specific acts not authorized. My representative(s) is (are) not authorized to endorse or otherwise negotiate any check (including directing or accepting payment by any means, electronic or otherwise, into an account owned or controlled by the representative(s) or any firm or other entity with whom the representative(s) is (are) associated) issued by the government in respect of a federal tax liability.

List any other specific deletions to the acts otherwise authorized in this power of attorney (see instructions for line 5b):

Care should be taken to identify any restrictions to the POA's authority to act for the PR.

Figure 4.31.9-5

(4) Part 1, line 7, of Form 2848, Signature. The partnership representative signs. If the partnership representative is an IPR, the form is signed by IPR. If the partnership representative is an entity, the form is signed by the DI:

Signed by Individual Partnership Representative:

- “Print name” line – print “*John Tiger*”, the name of IPR who is signing.
- “Title” line – “*Partnership Representative*”
- “Print name of taxpayer” line - “*John Tiger as partnership representative for ABC Partnership*”

7

Signature of taxpayer. If a tax matter concerns a year in which a joint return was filed, each spouse must file a separate power of attorney even if they are appointing the same representative(s). If signed by a corporate officer, partner, guardian, tax matters partner, partnership representative (or designated individual, if applicable), executor, receiver, administrator, or trustee on behalf of the taxpayer, I certify that I have the legal authority to execute this form on behalf of the taxpayer.

► IF NOT COMPLETED, SIGNED, AND DATED, THE IRS WILL RETURN THIS POWER OF ATTORNEY TO THE TAXPAYER.

		Partnership Representative	
Signature	Date		Title (if applicable)
John Tiger		John Tiger as Partnership Representative for ABC Partnership	
Print name		Print name of taxpayer from line 1 if other than individual	

Figure 4.31.9-6

Signed Designated Individual for Entity Partnership Representative

- “Print name” line – print “*John Lion*”, the name of DI who is signing.
- “Title” line – “*Designated Individual of DEF, LLC*”
- “Print name of taxpayer” line - “*DEF, LLC as partnership representative for ABC Partnership*”

7

Signature of taxpayer. If a tax matter concerns a year in which a joint return was filed, each spouse must file a separate power of attorney even if they are appointing the same representative(s). If signed by a corporate officer, partner, guardian, tax matters partner, partnership representative (or designated individual, if applicable), executor, receiver, administrator, or trustee on behalf of the taxpayer, I certify that I have the legal authority to execute this form on behalf of the taxpayer.

► IF NOT COMPLETED, SIGNED, AND DATED, THE IRS WILL RETURN THIS POWER OF ATTORNEY TO THE TAXPAYER.

		Designated Individual of DEF, LLC	
Signature	Date		Title (if applicable)
John Lion		DEF, LLC as Partnership Representative for ABC Partnership	
Print name		Print name of taxpayer from line 1 if other than individual	

Figure 4.31.9-7

- 4.31.9.7.10.2
(01-24-2024)
Form 2848, for Chapter 2, 2A, 3 and 4 Items Outside the Scope of the BBA Regime
- (1) A Form 2848 for Chapter 2, 2A, 3 and 4 items outside the scope of the BBA regime might be required:

a. If a Chapter 2 (SECA) issue is pursued on a direct or indirect partner and there is a related adjustment to Sch K/K-1 L14, Form 2848 will not be required as Sch K/K-1 L14 is a PRI, thus, the agent can discuss with the PR adjustments to NESE without a non-BBA Form 2848.

- b. If a Chapter 2 (SECA) issue is pursued on a direct or indirect partner and there is no related adjustment to Sch K/K-1 L14, a Non-BBA Form 2848 will be required. A Non-BBA Form 2848 will always be required for Chapter 2A (NIIT) issues.

Note: One example is Schedule K/K-1 Line 20 Code Y, any discussion about these disclosures on the Form 1065. Another example is the Analysis of Net Income section on the top of page 5, any discussion about the partnership's classification of the partners for purposes of NIIT.

- c. If Form 1065 is not under audit and the agent is auditing only Form 1042, a non-BBA Form 2848 will be required. Please refer to Form 2848 Instructions and IRM 4.10.21, U.S. Withholding Agent Examinations – Form 1042.

- (2) Part 1 of Form 2848, Line 1 would include the name, address, and TIN of the partnership.

1 Taxpayer information. Taxpayer must sign and date this form on page 2, line 7.		
Taxpayer name and address ABC Partnership 1111 Maple St, Anywhere, USA 00000-0000	Taxpayer identification number(s)	
	TIN of BBA Partnership	
	Daytime telephone number	Plan number (if applicable)

Figure 4.31.9-8

- (3) Part 1 of Form 2848, Line 3 should show that the POA is being executed for matters dealing with income including pass-through items and foreign withholding. It should also list all applicable tax forms and tax years.

- Line #3, Column 1 – Under Description of Matter enter, “Income including pass-through items for Non-BBA Matters, Foreign Withholding Tax”.
- Line #3, Column 2 – Enter appropriate forms under Tax Forms. For example, Form 1065, Form 8804 and/or Form 1042.
- Line #3, Column 3 – The return year(s) or period(s) for which the POA is being appointed.

to represent the taxpayer before the Internal Revenue Service and perform the following acts:

- 3 Acts authorized (you are required to complete this line 3).** With the exception of the acts described in line 5b, I authorize my representative(s) to receive and inspect my confidential tax information and to perform acts that I can perform with respect to the tax matters described below. For example, my representative(s) shall have the authority to sign any agreements, consents, or similar documents (see instructions for line 5a for authorizing a representative to sign a return).

Description of Matter (Income, Employment, Payroll, Excise, Estate, Gift, Whistleblower, Practitioner Discipline, PLR, FOIA, Civil Penalty, Sec. 4980H Shared Responsibility Payment, etc.) (see instructions)	Tax Form Number (1040, 941, 720, etc.) (if applicable)	Year(s) or Period(s) (if applicable) (see instructions)
Income including pass-through items for Non-BBA Matters	Form 1065	2020
Foreign Withholding Tax	1042, 8804	NOTE: See instructions for fiscal and short years.

Figure 4.31.9-9

- (4) For a discussion of who can sign Part 1 of Form 2848, Line 7 see IRM 4.31.5.12.1.2, Entity POA, since this Form 2848 is being executed for Chapter 2, 2A, 3 and 4.

Form 2848, Line 7:

- “Print name” line – print “Mary Fox”, the name of partner who is signing.
- “Title” line – “General partner for partnership or member-manager for LLC or manager for manager-managed LLC”
- “Print name of taxpayer” line - “ABC partnership”

7 Signature of taxpayer. If a tax matter concerns a year in which a joint return was filed, each spouse must file a separate power of attorney even if they are appointing the same representative(s). If signed by a corporate officer, partner, guardian, tax matters partner, partnership representative (or designated individual, if applicable), executor, receiver, administrator, or trustee on behalf of the taxpayer, I certify that I have the legal authority to execute this form on behalf of the taxpayer.		
► IF NOT COMPLETED, SIGNED, AND DATED, THE IRS WILL RETURN THIS POWER OF ATTORNEY TO THE TAXPAYER.		
		General partner for partnership or member-manager for LLC or manager for manager-managed LLC
----- Signature	----- Date	----- Title (if applicable)
Mary Fox	ABC Partnership	
----- Print name	----- Print name of taxpayer from line 1 if other than individual	

Figure 4.31.9-10

- 4.31.9.8
(10-29-2021)
Executing the Examination
- (1) During this phase of the examination, the examiner will execute the examination plan. The examiner will consider the statute of limitations on making adjustments, gather facts and develop the potential issues, and regularly communicate with the PR. The examiner will record all activities in the activity record.

- 4.31.9.8.1
(01-24-2024)
Notice of Administrative Proceeding (NAP)
- (1) The IRS must mail the partnership and the PR a NAP when initiating an examination of the partnership for a tax year, including an examination following an AAR filed by the partnership. Issue the NAP no earlier than 30 days from the issuance of Letter 2205-D and no later than the earlier of the opening conference date or the date books and records are first inspected.
- (2) Prepare and mail the NAP letter via certified mail. If there is a foreign address, then use registered mail. The letter date should match the mailing date.
- a. Send Letter 5893, Notice of Administrative Proceeding - Partnership, via certified mail to the partnership’s last known address.
- b. Send Letter 5893-A, Notice of Administrative Proceeding - Partnership Representative, to the PR’s last known address. If the PR is an EPR, send via certified mail to the EPR with the attention to the DI and use the EPR’s last known address. If the IRS has declared there is no PR designation in effect when issuing the NAP letters, send a generic NAP letter, via certified mail, addressed to “PARTNERSHIP REPRESENTATIVE” at the last known address of the partnership. Do not mail Letter 5893-A to the DI’s address. See below for an example of a generic NAP:
- Note:** It is a best practice to print and save the INOLES and save the certified mail receipt (the receipt for mailing, not the green signature card) for both NAP letters and file them under Section 600 for SB/SE and SAIN 724 for LB&I.

Centralized Partnership Audit Regime (BBA) Field Examination Procedures 4.31.9

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Department of the Treasury
Internal Revenue Service

[Department name]

[Address line 1]

[Address line 2]

[Address line 3]

Partnership Representative

[Name of Partnership]

[PARTNERSHIP ADDRESS] on return or Entity
Module at Master File through IDRS (if more current)]

[City, ST Zip]

Date:

Partnership name:

Partnership ID number: (last 4 digits):

Tax year ended:

Contact person:

Employee ID number:

Contact hours:

Contact telephone number:

Contact fax number:

Partnership Representative on file:

Partnership Representative

Certified mail number: [xxxx]

Notice of Administrative Proceeding (NAP) – Partnership Representative

Dear **Partnership Representative :**

We initiated an administrative proceeding (audit) of the partnership's federal tax return, at the partnership level for the taxable year shown above, under the centralized partnership audit regime enacted in the Bipartisan Budget Act of 2015. This letter is your Notice of Administrative Proceeding, as required under Internal

Figure 4.31.9-11

- c. The IRS return address information should be added to the upper left side of the NAP.
- d. If the partnership or PR has terminated its existence, and a current mailing address can't be found, contact a BBA Point of Contact for assistance.
- e. Include the PR name in the "Partnership Representative on file" box. If the PR is an entity, you must include the names of both EPR and DI in the "Partnership Representative on file" box.

Note: The Power of Attorney's name never gets included in the "Partnership Representative on file" box on Letter 5893 and Letter 5893-A.

- (3) If both NAP letters were mailed to the respective last known addresses, but either was returned as undeliverable, contact the Partnership Representative or POA and request an alternative address for the purposes of mailing copies of notices. If both letters were returned, request an alternative address for both the partnership and the PR. Ask the Partnership Representative or POA to make the alternative address request in writing so that it can be documented for the case file. Inform the PR or POA that statutory notices will still be mailed to the last known address per IRS records; however, copies will be mailed to an address of convenience if documented in the way described here.

Therefore, upon receiving the written alternative address request, you can send copies of the NAP letters to such address.

- (4) A partnership cannot file an AAR and its partners cannot amend their returns to file inconsistently from the partnership after the NAP letters have been mailed with respect to the tax year.
- (5) A separate set of NAP letters are sent for each year under examination since each year stands on its own. Do not delay issuing the NAP. Letter 5893 and 5893-A need to be sent in separate envelopes.
- (6) The case file should be documented to show that the partnership and PR NAP letters were issued in accordance with IRC 6223. Letter 5893 and Letter 5893-A should be filed within SAIN 724 (LB&I) or Section 600 (SB/SE).

Note: If the PR requests delaying the mailing of NAP letters, document in the case file.

4.31.9.8.1.1
(10-29-2021)
**NAP Date on
Examination Returns
Control System (ERCS)**

- (1) The NAP date represents the start of a BBA examination. The date the NAP is issued needs to be loaded onto ERCS as soon as the NAP is issued, but no later than 5 business days after issuance. Once input on ERCS, the date will also be reflected on AIMS and IMS.
- (2) Prepare Form 5348, AIMS/ERCS Update (Examination Update). Required fields include examiner's name (as the requestor), employee group code (EGC) and date, which are located on top of the form.
- (3) Submit completed Form 5348 to the group manager for approval.
- (4) Submit the completed and approved Form 5348 to the group secretary or other designated person for input on ERCS. Input of the NAP mailing date will trigger:
 - a. A TC 971/AC 811 with "NAP-DT: YYYYMMDD" display. This is to flag the BMF account that a BBA examination has begun in the event an AAR is filed with the campus beyond the NAP date.
 - b. The AIMS generation of an Audit Control Number (ACN) is unique to the specific partnership and tax year being examined. Care should be taken to ensure this NAP date is being input to the correct TIN/Year because once generated, the ACN cannot be changed or deleted. Once the ACN is generated, TC 971 with AC 815 and "ACN: YYMMNNNNNN" display will post to BMF.

Note: It may take at least 2 weeks to update AIMS and TC 971 to process.

4.31.9.8.1.2
(01-24-2024)
Withdrawal of the NAP

- (1) The IRS may, without consent of the partnership, withdraw a NAP within 60 days from the issuance of the NAP if:
 - a. It was determined an AAR had been filed before the issuance of the NAP and no examination is warranted. Please refer to item 4 below.
 - b. In a non-filer case, the partnership filed a delinquent return after the NAP is issued but no substitute for return has been processed and the delinquent return is not worthy of examination. In this situation, NAP withdrawal letters should be issued and IRM 4.12.1, Nonfiled Returns

- and IRM 4.4.9, AIMS Procedures and Processing Instructions - Delinquent and Substitute for Return Processing should be followed.
- c. The examiner and manager have a reasonable cause for withdrawing the NAP. This could include instances where the case is not worthy of examination; time prohibits starting the examination; insufficient resources to audit the partnership or other extraordinary circumstances. Please refer to item 4 or 5 below, whichever is applicable.
 - d. When the NAP was issued in error, and the case is to be worked under a different audit regime. Refer to item 6 below.
- (2) Withdrawing the NAP is treated as if it had never been mailed. If the IRS withdraws a NAP with respect to a partnership tax year, the prohibition on filing an AAR after the mailing of a NAP no longer applies with respect to such tax year.
- (3) Manager must approve the withdrawal of the NAP.
- (4) If the NAP letters (Letter 5893 and Letter 5893-A were issued but **the records have not been inspected** and there is a decision to withdraw from the exam and survey the return:
- a. Prepare and issue Letter 6047, Notice of Administrative Proceeding (NAP) Withdrawal - Partnership, and Letter 6047-A, Notice of Administrative Proceeding (NAP) Withdrawal - Partnership Representative.
- Note:** Update ERCS/AIMS via Form 5348 to remove the NAP issuance date. To delete the NAP date, a "D" should be entered on the "NAP-DT" line of Form 5348. Take no action with respect to the audit control number. The audit control number cannot be removed.
- b. Follow the survey after assignment closing procedures in IRM 4.10.2.5.2.
- Exception:** Issuance of the NAP withdrawal letters 6047/6047-A replaced the IRM 4.10.2.5.2 requirement to issue Letter 1024 when taxpayer contact has been made and the case is being surveyed after assignment. There is no need to issue Letter 1024 for NAP withdrawals.
- (5) If the NAP letters (Letter 5893 and Letter 5893-A) were issued but **the records have been inspected**, the NAP letters cannot be withdrawn. Please follow the no-change case closing procedures in IRM. If there are adjustments that do not result in an imputed underpayment, the NAP letters cannot be withdrawn. Proceed with the Summary Report Package to show the adjustments. See IRM 4.31.9.10.1, Summary Report Package.
- (6) If the case is to be worked under a different audit regime after withdrawal of the NAP letters, the examiner will maintain control of the case file and continue with the examination based on such audit regime. Prepare and issue Letter 6047, Notice of Administrative Proceeding (NAP) Withdrawal - Partnership, and Letter 6047-A, Notice of Administrative Proceeding (NAP) Withdrawal - Partnership Representative. Update ERCS/AIMS via Form 5348 as follows:
- a. Remove the NAP issuance date. To delete the NAP Date, a "D" should be entered on the "NAP-DT" line of Form 5348.
 - b. For tax years beginning on or after 2018, in the "PBBA" section of the form, locate the "ELECT-OUT-OF-BBA-CD" and request to change the

value to “1” to indicate the return is **not** subject to the BBA regime. If the elect out code is already “1”, no action is necessary.

- c. For tax years beginning after November 2, 2015 and before January 1, 2018, in the “PBBA” section of the form, locate the “EARLY-ELECT-INTO-BBA-CD” and request to change the value to “2” to indicate the return is **not** subject to the BBA regime. Early elect into BBA Code should only be changed if it is a “1”. If it is “blank”, or “0”, or “2”, no action is necessary.
- d. Take no action with respect to the audit control number. The audit control number cannot be removed.

4.31.9.8.2
(10-29-2021)

Consistency Principle

- (1) In general, under IRC 6222 a BBA partner’s return must be consistent with the partnership return in all respects, including:

- a. Items reported on the partnership return filed with the IRS (including amendments or supplements thereto),
- b. Any AAR filed by the partnership under IRC 6227 and the regulations thereunder, and
- c. Any push out statement, schedule or list (including amendments or supplements thereto) filed by the partnership with the IRS pursuant to section 6226 and the regulations thereunder.

Note: The BBA consistency principles do not apply to any Ch 2/2A tax issues and therefore SECA tax and NIIT cannot be assessed under the math error procedures as described under IRC 6222.

- (2) Also, a partner is bound by any action taken by the partnership representative and any final decision in a proceeding with respect to the partnership under the BBA regime.

Example: A partnership subject to the BBA regime elects to push out the adjustments to its reviewed year partners. Each partner must take into account the adjustments consistently with how the adjustments are reflected on the push out statement issued by the partnership. Otherwise, it’s considered a failure to treat a PRI in a manner which is consistent with the partnership return.

- (3) If the treatment of an item on the partner’s return is consistent with how the item was treated on a schedule (e.g., Schedule K-1) or other information furnished to the partner by the partnership but inconsistent with the treatment of the item on the partnership return that is filed with the IRS, the partner’s reporting is considered inconsistent with the partnership return.
 - Upon receipt of notice of such inconsistency, a partner may file an election under IRC 6222(c)(2)(B). A partner will be treated as being consistent if the partner makes an election under IRC 6222(c)(2)(B).

- (4) A partner’s treatment of a PRI attributable to a partnership that did not file a return is always treated as being inconsistent.

Example: A foreign partnership is required to file a return under IRC 6031 but failed to file one for calendar year 2018. A domestic partner claimed losses arising from the foreign partnership in calendar year 2018. The domestic partner’s reporting of the loss is inconsistent with the partnership return.

- (5) For a pass-through partner that is a partnership (PTPP), the consistency principle applies whether the PTPP is subject to the centralized partnership audit regime or has made an election out pursuant to IRC 6221(b). For a BEO PTPP, the examination math error procedures would apply to the BEO PTPP individual partner level inconsistencies.
- (6) A carve out provision in the regulations does exist whereby a BBA PTPP or a BEO PTPP can resolve an inconsistency prior to math error assessment by filing an AAR or amended return, respectively. For details see IRM 4.31.9.8.2.3, Notify the Partner of an Assessment on Account of Mathematical Error (paragraph 3).

4.31.9.8.2.1
(10-29-2021)

Partner Fails to Report a PRI Consistently

- (1) When a partner fails to report an item on its return consistent with the partnership, whether intentional or not, there are two treatment streams depending on whether the partner has provided notice of the inconsistently reported PRI to the IRS.
- (2) As a procedural matter when an examiner makes a math error or clerical adjustment to a partner's return based upon IRC 6222, this generally will not afford the partner any appeal rights or rights to a tax protest but instead these math adjustments are considered as automatic.
 - a. Generally, if the partner files inconsistently and does not provide notice, math error will apply, and the IRS may assess any resulting tax to make the partner consistent. Deficiency procedures will not apply to such assessment.
 - b. If the partner files inconsistently but provides notice of the inconsistency (via Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request), math error correction will not apply, however there is an exception to this general rule noted below.

Exception: The notice provision only applies to items reported on the partnership return filed with the IRS (including amendments or supplements thereto) and PRI reported on an AAR filed by the partnership under IRC 6227 and the regulations thereunder. The notice provision expressly does not include any push out statements from an audit or from the final determinations of a tax court.

4.31.9.8.2.2
(10-29-2021)

Math Error Correction

- (1) The IRS may adjust the inconsistently reported item on the partner's return to make it consistent and assess the underpayment of tax that results from that adjustment to correct the mathematical or clerical error when:
 - a. A partner filed inconsistently with the partnership return and did not provide notice to the IRS of such inconsistent treatment by filing Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR), with the service.
 - b. A partner filed inconsistently with items reported from an AAR push out statement received by the partner under IRC 6227 and the regulations thereunder and did not provide notice to the IRS of such inconsistent treatment by filing Form 8082 with the service.
 - c. A partner filed inconsistently with any audit push out statement, schedule or list (including amendments or supplements thereto) filed by the part-

nership with the IRS pursuant to IRC 6226 and the regulations thereunder regardless if notice was provided.

Note: A distinction exists in that a BBA partner may file a notice of inconsistent treatment (Form 8082) for a push out statement from an AAR to avoid a math error assessment. This differs from a push out statement from an audit result or FPA for which the math error procedures will always apply when the partner is inconsistent with the exam results.

- (2) As stated in IRC 6222(b), the procedures under IRC 6213(b)(2) for requesting abatement of an assessment made on the basis of math error do not apply.
- (3) The underpayment of tax is the amount by which the correct tax, as determined by making the partner's return consistent with the partnership return, exceeds the tax shown on the partner's return. Except as provided in (a), this does not include any taxes under Chapters other than Chapter 1.
 - a. For any partnership-partner that is subject to the BBA regime, the underpayment of tax is determined in accordance with Treas. Reg. 301.6225-1 (an imputed underpayment) and may be assessed at the partnership-partner level.

Note: The math error correction is not considered an FPA under IRC 6231(a)(3) and a petition for readjustment under IRC 6234 is not applicable.

- b. For any PTPs that are BEO partnerships, the math error correction must be assessed to the individual reviewed year partners (or indirect partners) and shareholders, respectively.

Note: For details, see IRM 4.31.9.8.2.3, Notify the Partner of an Assessment on Account of Mathematical Error (paragraph 3).

- c. Math Error Correction is a mandatory contact with the BBA POC to help compute the underpayment of tax under either Chapter 1 income tax or under the rules for calculating an imputed underpayment.

4.31.9.8.2.3 (10-29-2021)

Notify the Partner of an Assessment on Account of Mathematical Error

- (1) If the examiner has made a determination to make an assessment on account of a math error, they must contact the BBA POC to help determine the most effective and efficient way to maximize taxpayer compliance based on facts and circumstances.
- (2) The examiner will prepare Letter 6202, Notice of Partner's Inconsistency, which identifies the adjustment(s) with respect to inconsistent treatment and the underpayment of tax on account of math or clerical error, including any penalty and interest as provided by law.
 - a. Letter 6202, Notice of Inconsistency, is mailed to the partner's last known address.
 - b. If the partner, within 60 days of being notified, corrects the inconsistency or qualifies and makes a valid election to be treated as having provided notice under IRC 6222(c)(2)(B), then a math error correction will not apply. Note if the partner's treatment is inconsistent with a push out statement from an audit this election is not available.

- (3) Only a partnership-partner may correct the inconsistency by filing an AAR under IRC 6227 (AAR filing rule applies to a PTPP subject to the BBA) OR by filing an amended partnership return (amended return filing applies to a PTP not subject to the BBA) prior to assessment.
 - a. If correction (via filing of AAR or amended return) for the inconsistency is made within 60 days from the issuance of Letter 6062, the partnership-partner has complied with the requirements.
 - b. If no correction is made or can be made within the 60-day period, an assessment due to math error will be made. Contact with the BBA POC is required in these circumstances.
- (4) If the inconsistency is due to the partner filing consistently with a statement, schedule or other form prescribed by the IRS and furnished to the partner by the partnership (e.g., Schedule K-1) but differs from what the partnership actually filed with the IRS, then the partner has 60 days from the issuance of Letter 6202 to file a written election under IRC 6222(c)(2)(B) with the examiner. The written election must demonstrate that the treatment of such item on the partner's return is consistent with the treatment of that item on the statement, schedule, or other form prescribed by the IRS as furnished by the partnership. The written election must have the following contents:
 - a. Clearly identify as an election under IRC 6222(c)(2)(B).
 - b. Signed by the partner making the election.
 - c. Accompanied by a copy of the statement, schedule, or other form furnished to the partner by the partnership and a copy of the IRS notice that notified the partner of the inconsistency.
 - d. Include any other information required in forms, instructions, or other guidance prescribed by the IRS.
- (5) The examiner should understand how the treatment of such item on the statement, schedule, or other form furnished by the partnership is consistent with the treatment of the item on the partner's return, including with respect to the characterization, timing, and amount of such item. If a valid election is filed timely, the election will be treated as having provided notification of the inconsistent treatment and the assessment based on math error will not apply (instead deficiency proceedings will apply). If a partner fails to timely file a valid election within 60 days, contact the BBA POC to help with the assessment based on math error.
- (6) If the examiner disagrees with the identified inconsistent treatment, they may adjust the identified, inconsistently reported item in a proceeding with respect to the partner as follows:
 - a. To make the item consistent with the treatment of that item on the partnership return, or
 - b. To determine the correct treatment of such item, notwithstanding the treatment of that item on the partnership return.

4.31.9.8.2.4
(10-29-2021)

**A Partner Files
Inconsistently with the
Partnership Return and
Provides Notice of the
Inconsistent Treatment**

- (1) When a partner reports a PRI inconsistent with the treatment of such item on the partnership return and provides notice to the IRS (via Form 8082), assessment based on math error does not apply. Otherwise, the adjustment and corresponding assessment are considered as based on math error.
- (2) The partner is protected only to the extent of the items identified as inconsistent treatment. Assessments to the unidentified, inconsistent PRI on the partner's return are treated as being based on math error.

Example: If the partner files Form 8082 that shows only 2 PRIs that are treated inconsistently, yet the partner return filing has 3 items that are inconsistent, then the inconsistently reported PRI that was not included on the notice given to the service is subject to math error proceedings.

- (3) If the IRS disagrees with the identified inconsistent treatment, the IRS may adjust the identified, inconsistently reported item in a deficiency proceeding with respect to the partner as follows:
 - a. To make the item consistent with the treatment of that item on the partnership return, or
 - b. To determine the correct treatment of such item, notwithstanding the treatment of that item on the partnership return.
- (4) Any final decision with respect to an inconsistent position in a proceeding to which a partnership is not a party is not binding on the partnership.

4.31.9.8.3
(10-29-2021)

**Informal Claims (LB&I
Taxpayers)**

- (1) As discussed above, after a NAP is issued, an AAR cannot be filed. However, for LB&I taxpayers, the partnership may submit informal claims within 30 days from the opening conference which is consistent with the LB&I Examination Process (LEP), see IRM 4.46.3.7.1.1, The 30-day Window Expectation. An informal claim is a request to change any PRI that may result in a negative adjustment.

Note: LB&I examiners must address the informal claim procedures with the partnership consistent with the LEP.

- (2) Informal claims timely submitted by a BBA partnership must meet the standards of Treas Reg 301.6402-2, which provides that a valid claim must:
 - a. Set forth in detail each ground upon which credit or refund is claimed;
 - b. Present facts sufficient to apprise the IRS of the exact basis for the claim; and
 - c. Contain a written declaration that it is made under penalties of perjury.
- (3) A BBA partnership must submit or mail the informal claim to the person whose name appears on Letter 2205-D within 30 days from the initial conference.
- (4) If the informal claim complies with the above requirements the informal claim issue(s) must be included in the audit plan. Develop the issue(s) and prepare Form 886-A accordingly.
 - a. For each adjustment allowed in full or in part, make a negative adjustment in the amount that's allowed on Form 886-A. The adjustment will reflect on the applicable grouping and subgrouping per purposes of Forms 14791 and 14792.

- b. For each adjustment disallowed in full, notate the adjustment as being disallowed in full and show a zero amount on Form 886-A. The adjustment will reflect in the "Other Information" section of Forms 14791 and 14792.

Example: PR provides a claim with two adjustments; decrease gross receipts by \$100 and increase supplies by \$200. Examiner partially agrees that gross receipts should be decreased by \$50 but that's it. Adjustments would be shown as follows:

Description	Amount
SCH K, line 1, Supplies	\$0
SCH K, line 1, Gross Receipts	-\$50 (negative amount)

Form 886-A should provide detailed information about the adjustments, including but not limited to, what was reported on the return, the claim the PR is requesting, analysis of and why the adjustment is disallowed or allowed, etc.

- (5) Do not accept any informal claim after the 30-day window has lapsed unless certain exceptions are met as provided under the LEP. LB&I examiners refer to the LEP and Pub 5125, LB&I Examination Process, for details.

4.31.9.8.4 (10-29-2021) Statute of Limitations (SOL) on Making Adjustments

- (1) Statute control is usually the number one priority in all programs. Refer to IRM 25.6, Statute of Limitations Handbook.
- (2) Under the centralized partnership audit regime, the statute is controlled at the partnership level. Ensure that cases transferred from the team/group to Technical Services will be received with the following periods of time remaining on the statute; otherwise, the examiner must follow IRM 4.31.9.11.5, BBA Imminent Statute Procedures:

Types of Cases	Time Remaining on Statute When Received by Technical Services
No-change (no adjustment)	6 months
With adjustments (no Appeals)	12 months
With adjustments (to Appeals)	18 months

- (3) Utilize Form 15271, Bipartisan Budget Act (BBA) Partnership Adjustment Statute Extension Check Sheet, for BBA statute extensions.

Reminder: Partner statutes for assessment of Ch 2/2A SECA/NIIT taxes are not controlled by BBA IRC 6235(a) statutes.

- (4) If a case has been referred to Criminal Investigation (CI) or is under joint investigation with CI, written agreement from CI must be obtained before a request is made to extend the statute. See IRM 25.6.22.2.1(6), Assessment Statute Extension.

4.31.9.8.4.1
(10-29-2021)**Overview of IRC 6235(a)**

- (1) The statute of limitations under IRC 6235 is applicable to the time allowed to make partnership adjustments instead of time to assess. The general rule is that no partnership adjustment for any partnership tax year may be made after the later of three specified dates:
 - a. 6235(a)(1) date,
 - b. 6235(a)(2) date, or
 - c. 6235(a)(3) date.
- (2) The notice of proposed partnership adjustment must be issued prior to the expiration of the 6235(a)(1) date.
- (3) The examiner is responsible for the 6235(a)(1) date, which is the later of:
 - a. 3 years after the date the return was due;
 - b. 3 years after the date the return was filed; or
 - c. 3 years after an Administrative Adjustment Request (AAR) is filed.

Note: Generally, the 6235(a)(1) date (see “SECTION6235A1-PPA-DEADLINE-DT” field) will match with the ASSED field on AIMS.
- (4) If an AAR (or any subsequent return) was filed, the examiner will need to make a mandatory referral to the BBA POC. Only a subsequent filing that is a valid AAR will affect the 6235(a)(1) date.
- (5) The IRC 6235(a)(1) date can be extended by executing Form 872-M.
- (6) Under IRC 6235(c), the general 3-year period is expanded in situations where no return is filed, fraud, and other specified reasons as shown in the table below:

Special rules for:	Period of limitations
IRC 6235(c)(1): False return or fraudulent partnership tax return with the intent to evade tax.	Adjustments can be made at any time
IRC 6235(c)(2): Substantial omission of income in excess of 25 percent of the amount of gross income per 6501(e)(1)(A) [or omission from gross income of amounts properly includible under IRC 951(a) per 6501(e)(1)(C).]	6 years
IRC 6235(c)(3): Failure to file a partnership return. Note: Under IRC 6235(c)(4), a return executed by the Secretary under IRC 6020(b) on behalf of the partnership shall not be treated as a return of the partnership.	Adjustments can be made at any time
IRC 6235(c)(5): Reportable foreign transactions – failed to report information described in IRC 6501(c)(8).	Date that is determined under IRC 6501(c)(8)

Special rules for:	Period of limitations
IRC 6235(c)(6): Listed Transactions – failure to include any information with respect to a listed transaction as described in IRC 6501(c)(10).	Date that is determined under IRC 6501(c)(10)

4.31.9.8.4.2
(10-29-2021)

When to Extend the IRC 6235(a)(1) Statute

- (1) The examiner should request an extension if the IRC 6235(a)(1) statute will expire within 14 months presuming the case is not a no-change. If the partnership refuses to extend the IRC 6235(a)(1) statute, the examiner needs to begin the process of closing the examination.
- (2) The manager must approve the solicitation of the extension and this approval should be documented in the activity record.
- (3) Follow IRM 25.6.22 for general guidelines for soliciting extensions.

4.31.9.8.4.3
(01-24-2024)
Form 872-M

- (1) Form 872-M, Consent to Extend the Time to Make Partnership Adjustments, is used to extend the period of limitations (SOL) on making adjustment for any of the following:
 - a. IRC 6235(a)(1) date
 - b. IRC 6235(a)(2) date
 - c. IRC 6235(a)(3) date

At the field exam level, the IRC 6235(a)(1) must be selected.

- (2) The examiner may contact the BBA POC for guidance on preparation and issuance of Form 872-M. If the partnership includes any additional restrictive language on the form, consult with local counsel before the IRS countersigns the extension.
- (3) The PR or DI (for the EPR) must sign the form before the expiration of the IRC 6235(a)(1) date. The team/group manager must countersign the form prior to the expiration of the IRC 6235(a)(1) date.
- (4) Prepare two copies of the most current version of the Form 872-M. See IRM 25.6.22.5.2(4).

Note: For situations with unfamiliar circumstances and/or complex tax situations, contact the case manager and consider possible Counsel involvement. If the partnership includes any additional restrictive language on the form, the examiner must consult with local counsel before the IRS countersigns the extension.

- (5) Include examiner's identification (i.e., office symbols & employee initials) in the "in reply refer to" box of Form 872-M.
- (6) Verify and enter the correct taxpayer identification number on Form 872-M. See IRM 25.6.22.5.9.

(7) The partnership name should match the name on the filed return. If there was a name change, consult with Counsel. If there is a mismatch between the partnership name as shown on the return or the transcript or the partnership agreement, consult with Counsel.

(8) Verify and enter the current address on the Form 872-M. See IRM 25.6.22.5.5.

Note: The current address should be determined based on the best information available. The use of the address shown on the return will not render the consent invalid.

(9) Verify and enter the tax period to be extended. State tax period in full - e.g. December 31, 2020. See IRM 25.6.22.5.6.

Note: Secure one Form 872-M for EACH separate tax year. This is important as each year may have a different partnership representative (PR) designated to sign the Form 872-M associated with that specific tax year. For appropriate signature please refer to item 12 below.

(10) Verify and enter the statute expiration date. State date in full - e.g. March 15, 2025. See IRM 25.6.22.5.7.

Note: On the Form 872-M, make use of the calendar drop down menus and information buttons to ensure the proper formatting of the date.

(11) Verify and enter the applicable Internal Revenue Code Section to be extended using the drop down menu on the Form 872-M. Acceptable entries are 6235(a)(1), 6235(a)(2) and 6235(a)(3). See a, b, and c below.

- a. The IRC 6235(a)(1) date is generally extended by the field examiner before a notice of proposed partnership adjustment (NOPPA) has been issued. The field examiner solicits an extension under this code section/paragraph to allow timely issuance of the NOPPA by Technical Services or Appeals before the expiration of the 6235(a)(1) date. In some cases, Technical Services or Appeals may solicit an extension under IRC 6235(a)(1).
- b. The IRC 6235(a)(2) date can only be extended after a NOPPA has been issued and a modification request has been submitted. Generally, BBA Operations solicits (not field examiners) an extension under this code section/paragraph when additional time is required to consider the modification request, to transfer the case to Appeals or to issue the notice of final partnership adjustment (FPA).
- c. The IRC 6235(a)(3) date can only be extended after a NOPPA has been issued. Generally, Technical Services or BBA Operations solicits an extension under this code section/paragraph when additional time is required to issue the notice of FPA.

(12) The partnership representative (PR) signs the Form 872-M. If the partnership representative is an individual partnership representative (IPR), the form is signed by IPR. If the partnership representative is an entity partnership representative (EPR), the appointed designated individual (DI) must sign Form 872-M.

Note: The Power of Attorney (POA) should not sign the extension. The current Form 872-M does not have a line for a POA to sign.

a. Form 872-M signed by Individual Partnership Representative

- Print “Name of Partnership Representative” line – print “*John Tiger*”, the name of IPR who is signing.
- Print “Name and title of the person” line – “*John Tiger, Partnership Representative*”

Signing This Consent Will Not Deprive the Partnership of Any Appeal Rights to Which It Would Otherwise Be Entitled		
Under penalties of perjury, I declare that I am the partnership representative/designated individual.		
Name of Partnership Representative	Name of Designated Individual (if applicable)	
John Tiger		
Sign here (If being signed by an individual partnership representative, the individual partnership representative should sign. If being signed on behalf of an entity partnership representative, the designated individual should sign)		Date signed
Name and title of the person (either “partnership representative” or “designated individual” as applicable) signing this form		
John Tiger, Partnership Representative		
I am aware that I have the right to refuse to sign this consent or to limit the extension to mutually agreed-upon issues and/or period of time.		

Figure 4.31.9-12

b. Form 872-M signed by Designated Individual for Entity Partnership Representative

- Print “Name of Partnership Representative” line – print “DEF, LLC”, the name of EPR.
- Print “Name of Designated Individual” line – print “*John Lion*”, the name of the DI who is signing.
- Print “Name and title of the person” line – print “*John Lion, Designated Individual of DEF, LLC*”, the name of DI and the title of DI as Designated Individual of EPR.

Signing This Consent Will Not Deprive the Partnership of Any Appeal Rights to Which It Would Otherwise Be Entitled		
Under penalties of perjury, I declare that I am the partnership representative/designated individual.		
Name of Partnership Representative	Name of Designated Individual (if applicable)	
DEF, LLC	John Lion	
Sign here (If being signed by an individual partnership representative, the individual partnership representative should sign. If being signed on behalf of an entity partnership representative, the designated individual should sign)		Date signed
Name and title of the person (either “partnership representative” or “designated individual” as applicable) signing this form		
John Lion, Designated Individual of DEF, LLC		
I am aware that I have the right to refuse to sign this consent or to limit the extension to mutually agreed-upon issues and/or period of time.		

Figure 4.31.9-13

- (13) Generate, complete and date the most current Letter 907-M, Request to Extend Limitation Period to Make Partnership Adjustments.
- (14) Mail or present two unsigned original Forms 872-M along with Letter 907-M to the PR. Both Letter 907-M and Form 872-M include a notification of rights. When soliciting a Form 872-M extension, provide the PR/POA with an explanation of the partnerships' rights and options, why the extension is being requested, and any other relevant information to allow the PR to make an informed decision. Document this communication in the case file - see IRM 25.6.22.4.2(4).

Note: Do not include Publication 1035, Extending the Tax Assessment Period, when soliciting statute extensions for BBA partnerships. This publication does not address IRC 6235 adjustment statutes.

- (15) If there is a POA, issue Letter 937 and provide courtesy copies of both Letter 907-M and Form 872-M.

Note: The POA should not sign the extension. The Form 872-M does not have a line for the POA to sign.

- (16) Retain a copy of letter(s) and Form 872-M in case file, update activity record for all actions taken.
- (17) If the Form 872-M is not timely returned, issue Letter 928-M to the PR.

4.31.9.8.4.3.1
(01-24-2024)

**Form 872-M, Examiner
Actions Upon Receipt of
Signed Form 872-M**

- (1) Ensure Form 872-M is properly date stamped by the receiving office. See IRM 25.6.22.5.12(1)a.
- (2) Ensure Form 872-M is properly signed by the partnership representative (PR) with original handwritten (not digital) signature - See IRM 25.6.22.5.12(1)b and IRM 25.6.22.5.2(4). Raise concerns of any obvious discrepancies with signatures to manager. Forms 872-M received via fax are acceptable only if it contains a handwritten signature (not digital) and all of the conditions listed below are met - See IRM 25.6.22.5.1, Fax Signatures:

- Contact with the PR/POA is made by phone or in-person,
- The history/activity record for the partnership documents the person, date and method of contact; and
- The history/activity record notes that the PR intends to send the Form 872-M by fax.

Note: If the Form 872-M is signed by anyone other than the PR (such as the power of attorney), seek Counsel's approval before countersigning. If signed by a DI, ensure the entity PR is still in existence at the time of signing.

- (3) Ensure the signed Form 872-M does not contain any alterations, deletions or impose any restrictions – See IRM 25.6.22.5.12(1)b. A Form 872-M which was signed by a PR must not be unilaterally altered by the IRS.
- (4) If the PR requests a restricted consent and the IRS agrees, follow IRM 25.6.22.8(which includes securing Counsel approval).

Note: Restricted consents should be avoided, if possible, until all potential issues have been identified – See IRM 25.6.22.8.2(2).

- (5) If Form 872-M is received but cannot be executed, contact the PR/POA to explain the problem. Document this discussion in the activity record. Mail or present to the PR two unsigned original Forms 872-M (updated with corrections if necessary) along with Letter 1817-M. Begin a new check sheet but also retain this one in the case file for documentation of actions taken to this point.
- (6) Prepare Form 5348 for managerial approval. The new expiration date must be entered for the specific section being extended; the IRC 6235(a)(1) date, the IRC 6235(a)(2) date, or the IRC 6235(a)(3) date.
 - a. To update the IRC 6235(a)(1) statute date, prepare form 5348 as follows:

- Page 1 of Form 5348, in the “Comments” Box write:

Comments

Please update IRC6235A1- PPA-DEADLINE-DT date to XX/XX/XXXX. See page 2 of this Form.

Form **5348** (Rev. 10-2020) Catalog Number 23865J publish.no.irs.gov Department of the Treasury - Internal Revenue Service

Figure 4.31.9-14

- Page 2 of Form 5348, in the PBBA section:

Page **2**

PBBA (only valid for MFT 06 and 35)

Definition	ERCS Input Partnership Bipartisan Budget Act Data Screen	AIMS Input
BBA-CHAPTER-2-2A-CD		AMAXU – Item 327
CUM-ADDL-MOD-DAYS-CNT		AMAXU – Item 321
CURRENT-ADDL-MOD-DAYS-CNT		AMAXU – Item 320
EARLY-ELECT-INTO-BBA-CD	#1	AMAXU – Item 300
ELECT-OUT-OF-BBA-CD	#2	AMAXU – Item 317
FPA-DT	#10	AMAXU – Item 308
FPA-WAIVER-DT		AMAXU – Item 324
IRC6235A1- PPA-DEADLINE-DT	#15	AMAXU – Item 318

Figure 4.31.9-15

- b. Form 5348 requires manager approval before processing.
 - c. Updates to IRC6235A1- PPA-DEADLINE-DT will automatically update the ASSED field.
 - d. Do **not** update the ASSED field.
- (7) Prepare or update Form 895 for manager’s approval. See IRM 25.6.23.5.1.4 and IRM 25.6.23.5.2.

4.31.9.8.4.3.2
(01-24-2024)

**Form 872-M, Group
Manager Actions**

- (8) Submit Form 15271, Bipartisan Budget Act (BBA) Partnership Adjustment Statute Extension Check Sheet with consent package (i.e., Form 872-M, Form 5348, Form 895, IDRS research and tax return) to manager. If applicable, include Form 8979 and any workpapers used to track changes to the PR or other items bearing on validity of consent.

- (1) Ensure the consent is valid (See IRM 25.6.22.5.13), then counter-sign and date Form 872-M

Note: If Form 872-M is signed by an acting manager, attach a copy of the acting manager designation to the consent - See IRM 25.6.22.5.11(4) & (5).

- (2) Verify accuracy of Forms 5348 and 895, and then initial and date them. See IRM 25.6.22.5.13(1)i.
- (3) Ensure the data field for the applicable section being extended is updated on ERCS.

Note: Do not update the statute (ASED) field. The new expiration date must be entered on Form 5348 for the specific section being extended: the IRC 6235(a)(1) date, the IRC 6235(a)(2) date, or the IRC 6235(a)(3) date.

- (4) Verify accuracy of applicable section/paragraph update on ERCS, and then approve the update on ERCS.
- (5) Place a signed copy of Form 895 in the Form 895 log file. See IRM 25.6.23.5.3(1)e and IRM 25.6.23.5.2(1)h.
- (6) Manager completes applicable section of Form 15271, Bipartisan Budget Act (BBA) Partnership Adjustment Statute Extension Check Sheet, with consent package and returns it to the examiner.

4.31.9.8.4.3.3
(10-29-2021)

**Form 872-M, Final
Examiner Actions**

- (1) Verify the manager's signature and date on Form 872-M. See IRM 25.6.22.5.12(1)c.
- (2) Prepare and mail most current Letter 929-M, Transmittal to Partnership Representative of Copy of Signed Form 872-M Consent, with the duplicate original of the executed Form 872-M (or copy of that form if a duplicate original is not available). Update activity record regarding actions taken – IRM 25.6.22.5.12(1)e and IRM 25.6.22.5.12(1)f.
- (3) If there is a POA, issue Letter 937 with a copy of Letter 929-M and a copy of the executed Form 872-M. Update activity record regarding actions taken – IRM 25.6.22.5.12(1)f.
- (4) Attach executed Form 872-M to the back of the front page of the tax return, along with prior Forms 872-M – IRM 25.6.22.5.12(1)d and IRM 25.6.22.5.12(1)e.
- (5) Retain Form 15271, Bipartisan Budget Act (BBA) Partnership Adjustment Statute Extension Check Sheet along with copies of letter(s) in the case file and document the case activity record that this action has been accomplished – IRM 25.6.22.5.12(1)f.

4.31.9.9 (10-29-2021) Resolving the Examination

- (6) If using paper file procedures, determine if the case file can be removed from the red folder (if applicable). The case file should remain in (or be placed in) a red folder if the extended statute will expire within 180 days. – IRM 25.6.23.2(1).
- (7) SB/SE field groups using RGS should update the statute date in RGS with the extended 6235(a)(1) date.

- (1) During this phase of the examination, the goal is to reach a mutual agreement on the tax treatment of each issue examined at the earliest appropriate point in the examination in a quality manner.
- (2) A case may result with:
 - a. A no-change (no adjustments to any PRI items),
 - b. Adjustments to any PRI items that may or may not result in an imputed underpayment, or
 - c. A Form 906 agreement (refer to IRM 8.13.1).

Note: A Form 906 agreement may be entered into at the field level. An executed Form 906 agreement is the only way an examiner may secure a formal agreement at the field level. Any other agreements (such as, Form 14792 or Form 15027) may be secured after the case is transferred from the field.

- (3) A partnership may request to go to Appeals and protest an adjustment on a substantive issue, any penalty associated with such adjustment, and the imputed underpayment amount.

4.31.9.9.1 (01-24-2024) No-Change Exam

- (1) If the examination results in a no-change, discuss the examination results with the PR. Notate the discussion in the activity record.
- (2) If the PR agrees with the no-change or if the PR is unresponsive, Technical Services will prepare and CCP will issue the no-change letters to the partnership (Letter 6099, BBA No Change - Partnership) and PR (Letter 6099-A, BBA No Change - Partnership Representative). The examiner will not prepare a summary report package or NOPPA package for an agreed no-change. Go to IRM 4.31.9.11, Case Disposition Procedures for next steps.

Note: There should be at least 6 months remaining on the IRC 6235(a)(1) date when received in Technical Services. Otherwise, contact the BBA POC for imminent statute procedures.

- (3) If an LB&I case, and if the PR doesn't agree with the no-change determination because the PR presented an informal claim, prepare a summary report and a 30-day letter package - IRM 4.31.9.8.3 - Informal Claims (LB&I Taxpayers). Issue a 30-day letter if there is sufficient time on the IRC 6235(a)(1) date.

Example: The partnership provided an informal claim where unagreed issues were present and the claim was disallowed. There are no other adjustments. Although the disallowed claim doesn't impact the filed return (no-change to the filed return), reflect the informal claim adjustments in the summary report package. A no-change letter will not apply in this scenario.

4.31.9.9.2
(10-29-2021)**Partnership Adjustments
and Imputed
Underpayment (IU)**

- (4) LB&I will not require a formal claim if an issue has been identified for examination, unless IRS published guidance specifically requires formal claims to be filed for an issue (e.g. Notice 2008-39 for research credit claims).
- (1) A partnership does not compute and pay an income tax upon filing Form 1065 but instead passes through any profits and losses to its partners. However, when a partnership is examined under the BBA regime, any partnership adjustment resulting in an imputed underpayment and the applicability of any penalty, addition to tax, or additional amount (plus interest as provided by law) that relate to such an adjustment are determined, assessed and collected at the partnership level.
 - (2) Partnership adjustments are communicated to the partnership in accordance with the existing report writing procedures for SB/SE and LB&I. In general, Form 886-A, *Explanation of Items*, is used to convey each adjustment. In addition to preparing a Form 886-A for each substantive issue, prepare a Form 886-A for each applicable penalty, and for the imputed underpayment calculation.
 - (3) An imputed underpayment may reflect an amount that is larger than the cumulative amount of tax the partners would have paid as a result of the partnership adjustments. This is not an attempt to maximize tax revenue. The imputed underpayment is calculated under IRC 6225 which has its own specific computation. The partners' individual tax circumstances are not taken into account when computing the imputed underpayment under IRC 6225. The imputed underpayment is a partnership-level tax that is unrelated to the partners' tax.
 - (4) There are two types of imputed underpayments: a general imputed underpayment and a specific imputed underpayment. Each type of imputed underpayment is based solely on partnership adjustments with respect to a single tax year, and is separately calculated.
 - a. General imputed underpayment: Normally, only a general imputed underpayment will be calculated. There can only be one general imputed underpayment in any administrative proceeding which is determined at the field level. The general imputed underpayment is calculated based on all partnership adjustments (other than adjustments that do not result in an imputed underpayment, and any adjustments taken into account in a specific imputed underpayment calculation).
 - b. Specific imputed underpayment: Generally, at the field level, there is no specific imputed underpayment. However, per IRS discretion, it may be determined that partnership adjustments for the same partnership tax year result in more than one imputed underpayment (i.e., a specific imputed underpayment). One or more specific imputed underpayments may be determined to be appropriate at the field level (or could be requested by the taxpayer during the exam) based on the facts and circumstances and the nature of the partnership adjustments. For example, adjustments to a PRI or items that were allocated to one partner or a group of partners that had the same or similar characteristics, or that participated in the same or similar transaction, may be determined to be appropriate for a specific imputed underpayment. A specific imputed underpayment, if requested by the taxpayer, will generally be done in modification after the NOPPA has been issued. However, a specific

imputed underpayment being considered at the field level due to a taxpayer request, is a mandatory BBA POC referral.

4.31.9.9.2.1
(01-24-2024)

Imputed underpayment (IU)

- (1) The formula for computing the imputed underpayment (IU) is as follows:

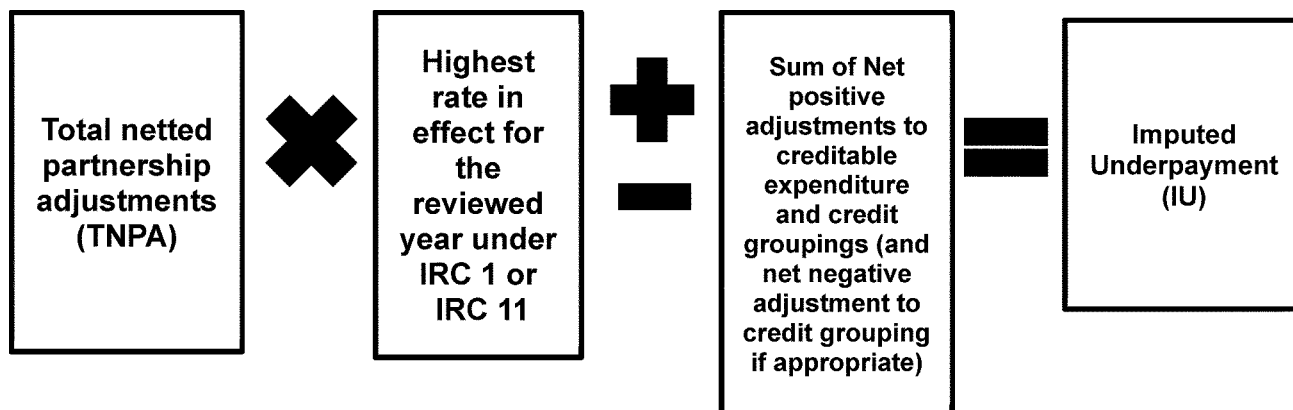


Figure 4.31.9-16

- (2) The process of taking the proposed audit adjustments and inputting those adjustments into the above formula requires an understanding of the unique BBA concepts of grouping, subgrouping and netting.
- Grouping: Grouping involves placing each proposed audit adjustment into one of four groupings: reallocation, credit, creditable expenditure and residual. Each of these groupings will be explained in more detail below.
 - Subgrouping: After an adjustment is placed into a grouping, the adjustment's subgrouping must be determined. Subgrouping is the process of further defining that adjustment into a subgrouping, generally in accordance with how that adjustment would be required to be taken into account separately under IRC 702(a) or any other provision of the Code, regulations, forms, instructions, or other guidance prescribed by the IRS applicable to the adjusted PRI. This is necessary to keep adjustments that are similar in nature together while keeping adjustments that are different apart. These subgroups generally follow the line items on Schedule K/K-1 or other separate and distinct line items on Form 1065 and schedules.
- Note:** A negative adjustment is any adjustment that is a decrease in an item of gain or income, an increase in item of loss or deduction, or an increase in an item of credit or creditable expenditure, a decrease in an item of tax, penalty, addition to tax, or additional amount for which the partnership is liable under Chapter 1, or a decrease to an imputed underpayment calculated by the partnership for the taxable year. A positive adjustment is any adjustment that is not a negative adjustment.
- Netting: Generally, netting is the process of summing all adjustments together within each grouping or subgrouping, as appropriate. The specific rules and limitations of netting will be discussed later.

- (3) Once all adjustments have been grouped, subgrouped and netted, the total netted partnership adjustment (TNPA) can be determined and entered into the above formula. The TNPA is the sum of all net positive adjustments in the reallocation grouping and the residual grouping. If, after netting, either the reallocation or residual grouping summed total is less than or equal to zero, it is not taken into account in calculating the TNPA.
- a. A net positive adjustment means an amount that is greater than zero which results from netting adjustments within a grouping or subgrouping. A net positive adjustment also includes a positive adjustment that was not netted with any other adjustment.
 - b. A net negative adjustment means any amount which results from netting adjustments within a grouping or subgrouping that is not a net positive adjustment. A net negative adjustment also includes a negative adjustment that was not netted with any other adjustment.
- (4) Multiply the TNPA by the highest rate of Federal income tax in effect for the reviewed year under IRC 1 or 11 and increase or decrease the product by:
- a. The net positive adjustments from the creditable expenditures. A net decrease to creditable expenditures is treated as a net positive adjustment to credits and increases the product of the TNPA times the highest tax rate in effect. A net increase to creditable expenditures is treated as a net negative adjustment that is excluded from the calculation of the TNPA and is an adjustment that does not result in an IU.
 - b. The net positive adjustments from the credit grouping. A net decrease to credits is treated as a net positive adjustment to credits. A net positive adjustment in the credit grouping includes a net decrease in an item of credit. A net positive adjustment in the credit grouping increases the product of the TNPA times the highest tax rate in effect for the reviewed year.
 - c. The net negative adjustment from the credit grouping may be included in the calculation of the IU at the discretion of the IRS, only if the IRS determines that it is appropriate to allow the net negative credit adjustments to be taken into account in calculating the IU. If the IRS determines that a net negative credit adjustment should be taken into account in calculating the IU, then the net negative adjustment decreases the product of the TNPA times the highest tax rate in effect for the reviewed year.
- Note:** The Examiner should contact the BBA POC when considering taking into account the net negative adjustment to credits to reduce the product of the TNPA times the highest tax rate in effect.
- d. A net negative adjustment to tax, penalty, addition to tax, or additional amount for which the partnership is liable under Chapter 1, or an adjustment to any imputed underpayment calculated by the partnership for the taxable year are not adjustments that do not result (ATDNR) in an imputed underpayment. The net negative adjustment to tax, penalty, addition to tax, or additional amount for which the partnership is liable under Chapter 1, or an adjustment to any imputed underpayment calculated by the partnership for the taxable year reduce the product of the TNPA times the highest tax rate.
- (5) For purposes of determining the IU at the field level;

- a. Only the net positive adjustment in each grouping will be used to compute the IU, unless the exam team and BBA POC determine that it is appropriate to allow a net negative adjustment in the credit grouping to be included in the IU computation.
- b. A net negative adjustment does not result in an IU; thus, such adjustment must be taken into account by the partnership in the adjustment year. That is, the adjustment is included on the partnership's tax return for the year in which such adjustment becomes final.
- c. The adjustment year is the tax year in which: the notice of final partnership adjustment (FPA) is mailed or when a waiver of the FPA is executed by the IRS, OR if a petition under IRC 6234 is filed, the date when the court's decision becomes final.

4.31.9.9.2.2
(10-29-2021)
First Step in Computing the Imputed Underpayment (IU)

- (1) Computing the IU requires up to 7 steps. The first step in computing an IU involves the placing of each proposed adjustment into one of four groupings: reallocation, credit, creditable expenditure and residual groupings. Each of the four groupings is explained in the following subsections:

4.31.9.9.2.2.1
(10-29-2021)
Reallocation Grouping

- (1) Reallocation grouping - In general, any adjustment that allocates or reallocates a PRI to and from a particular partner or partners is a reallocation adjustment, except for a reallocation adjustment of a credit or to a creditable expenditure. Adjustments involving a reallocation of a credit are placed in the credit grouping. Adjustments involving a reallocation of a creditable expenditure are placed in the creditable expenditure grouping. Each reallocation adjustment generally results in at least two separate adjustments, each of which become a separate subgrouping. See step 2 which discusses the concept of subgrouping.
 - a. One leg of the reallocation adjustment reverses the effect of the improper allocation of a PRI and will result in a negative adjustment. This adjustment must be taken into account by the partnership in the adjustment year and cannot generally be netted against other adjustments. See step 3 which discusses the concept of netting.
 - b. The other leg of the adjustment makes the proper allocation of the PRI and will result in a positive adjustment.

4.31.9.9.2.2.2
(01-24-2024)
Credit Grouping

- (1) Any adjustment to a PRI that is reported or could be reported by a partnership as a credit on the partnership's return, including a reallocation adjustment to such PRI, is placed in the credit grouping. Generally, a decrease in credits is treated as a positive adjustment, and an increase in credits is treated as a negative adjustment.
- (2) A reallocation adjustment relating to the credit grouping is placed into two separate subgroupings and will not be netted together nor will they be netted with other credit adjustments (except for other credit reallocation adjustments allocable to that partner or group of partners).
 - a. A decrease in credits allocable to one partner or group of partners is treated as a positive adjustment generally in its own subgrouping.

- b. An increase in credits allocable to another partner or group of partners is treated as a negative adjustment generally in its own subgrouping and does not result in an IU and must be taken into account by the partnership in the adjustment year.

- (3) Adjustment to any tax, penalty, addition to tax, or additional amount for the taxable year for which the partnership is liable under Chapter 1 are placed in the credit grouping.
- (4) Each adjustment to an imputed underpayment calculated by the partnership is placed in the credit grouping.

4.31.9.9.2.2.3 (10-29-2021)

Creditable Expenditure Grouping

- (1) Any adjustment to a PRI where any person could take the item that is adjusted (or item as adjusted if the item was not originally reported by the partnership) as a credit (i.e., creditable foreign tax expenditure or qualified research expense), including a reallocation adjustment to a creditable expenditure, is placed in the creditable expenditure grouping.
- (2) Generally, a decrease in creditable expenditures is treated as a positive adjustment to credits, and an increase in creditable expenditures is treated as a negative adjustment. A reallocation adjustment relating to creditable expenditure grouping is placed into two separate subgroupings and will not be netted together.
 - a. A decrease in creditable expenditures allocable to one partner or group of partners is treated as a positive adjustment to credits.
 - b. An increase in creditable expenditures allocable to another partner or group of partners is treated as a negative adjustment and does not result in an IU and must be taken into account by the partnership in the adjustment year.

Example: If the adjustment is a reduction of qualified research expenses, the adjustment is to a creditable expenditure grouping because any person allocated the qualified research expenses by the partnership could claim a credit with respect to their allocable portion of such expenses under IRC 41, rather than a deduction under IRC 174.

4.31.9.9.2.2.4 (10-29-2021)

Residual Grouping

- (1) Any adjustment to a PRI that doesn't belong in the reallocation, credit, or creditable expenditure grouping is placed in the residual grouping. Also includes any adjustment to a PRI that derives from an item that would not have been required to be allocated by the partnership to a reviewed year partner under IRC 704(b), such as an adjustment to a liability amount on the balance sheet.

4.31.9.9.2.2.5 (10-29-2021)

Recharacterization Adjustments and Zero Adjustments

- (1) Any adjustment that changes the character of a PRI is a recharacterization adjustment. A recharacterization adjustment will generally result in at least two separate adjustments in the appropriate grouping (reallocation, credit, creditable expenditure, or residual).
 - a. One adjustment reverses the improper characterization of the PRI that will result in a negative adjustment.
 - b. The other adjustment makes the proper characterization of the PRI and will result in a positive adjustment.

- c. The adjustments that result from a recharacterization are generally placed into two separate subgroupings.
- (2) An adjustment can be treated as a zero adjustment (solely for purposes of computing the IU), if the effect of such partnership adjustment is already reflected and taken into account in one or more other partnership adjustments.

Example: During an examination of ABC, LP it was established that Partners A, B, and C were allocated an equal share of a \$900 capital gain realized from a sale of real property that had been previously contributed by Partner A. Examination determined that the entire gain of \$900 should have been allocated exclusively to Partner A under the rules of IRC 704(c). Therefore an adjustment is proposed to reallocate \$600 of gain from Partners B and C to Partner A. This issue results in two adjustments: A positive adjustment of \$600 to allocate gain to Partner A; and a negative adjustment of (\$600) to reverse the allocation of gain to Partners B & C. In addition to the reallocation issue, it was established that the total gain of \$900 was treated entirely as capital gain. Examination determined that \$450 of the \$900 gain was attributable to prior depreciation claimed, and represents unrecaptured IRC 1250 gain. Therefore, a recharacterization of \$450 is proposed to recharacterize \$450 of capital gain to unrecaptured IRC 1250 gain. The recharacterization issue results in two adjustments: A positive adjustment of \$450 to unrecaptured IRC 1250 gain; and a negative adjustment of (\$450) to reverse a portion of the capital gain. However, solely for purposes of computing the IU, the positive recharacterization adjustment of \$450 and the negative recharacterization adjustment of (\$450) are both treated as zero adjustments because both adjustments are already reflected in whole by the two reallocation adjustments pertaining to the capital gain. Treating both recharacterization adjustments as zero adjustments ensures that the adjustments are not counted twice since the tax effect of such adjustments is already reflected by the reallocation adjustments being made

4.31.9.9.2.3 (01-24-2024) Second Step in Computing the IU

- (1) The second step in computing an IU is to determine if any proposed adjustment, within one of the four groupings, needs to be subgrouped. While per the regulations, subgrouping is only necessary when any proposed adjustment within a grouping is a negative adjustment, a subgrouping must be determined for each positive and negative adjustment. The subgrouping determination is a requirement for the operation of the IUA Calculator which is used by the Tax Computation Specialists for the exam report preparation. In addition, determining the subgrouping for all adjustments (positive, negative, and zero) is considered a best practice because there may be subsequent disputes regarding subgroupings at the field level and/or requests to change the subgrouping during modification phase (after the field exam). Each of the proposed adjustments will need to be subgrouped according to the following rules.
- (2) Each adjustment is subgrouped according to how the adjustment would be required to be taken into account separately under IRC 702(a) or any other provision of the Code, regulations, forms, instructions, or other guidance prescribed by the IRS applicable to the adjusted PRI. For purposes of creating subgroupings, if any adjustment could be subject to any preference, limitation,

or restriction under the Code (or not allowed, in whole or in part, against ordinary income) if taken into account by any person, the adjustment is placed in a separate subgrouping from all other adjustments within the grouping.

- a. Generally, each separate line item of Schedule K/K-1 or return schedule (i.e., Schedule L, etc.), represents a separate and distinct subgrouping. The format for Schedule K/K-1 generally follows the requirement of IRC 702(a) that each partner is required to take into account separately his/her distributive share of each class or item of partnership income, gain, loss, deduction or credit. Thus, adjustments to ordinary income must be placed in a different subgroup as capital gain income or interest income since each of those items is required to be separately stated under IRC 702(a).
- b. Separate line items on Schedule K/K-1 (or other schedules on Form 1065) may include multiple components making up the total shown. If any line item on Schedule K/K-1 or other schedules consists of multiple items and the components are required to be taken into account separately under the Code, regulations, forms, instructions, or other guidance prescribed by the IRS, then such line item must be further subgrouped.

Example: If there is more than one type of income to be included on Schedule K/K-1, line 11, Other Income/(loss), the partnership is required to attach a statement to Form 1065 that separately identifies each type and amount of income for each distinct category and each of those would constitute a separate subgroup.

As another example, if the Schedule K/K-1, line 1 ordinary income/(loss) entry includes income/loss from more than one trade or business activity, the partnership must identify on an attached statement to Schedule K/ K-1 the amount from each separate activity. Accordingly, the income/(loss) from each separate activity from Schedule K/K-1, line 1 would constitute a separate subgroup.

- c. The ordinary income/(loss) amount reflected on line 1 of Schedule K/K-1, is sourced from Form 1065, page 1 and is a net amount consisting of various Form 1065, page 1 line items of income and expenses. Although those separate page 1 line items are distinct items of income and expense, if they are appropriately netted and included on line 1, Schedule K/K-1, the net amount will be considered a single subgroup, unless such amount is required to be separately delineated, such as when the partnership has more than one trade or business as previously noted.
- d. If there are negative adjustments along with positive adjustments in the same line item of Schedule K/K-1, consider whether they may be properly netted at the partnership level and whether they are required to be taken into account separately by any partner because it may be subject to a limitation or preference under the Code before placing them in the same subgroup.
- e. A negative adjustment that is not otherwise required to be placed in its own subgrouping must be placed in the same subgrouping as another adjustment if the negative adjustment and the other adjustment would have been properly netted at the partnership level and such netted amount would have been required to be allocated to the partners of the partnership as a single item for purposes of IRC 702(a) or other provision of the Code and regulations.

- (3) A partnership may request to subgroup adjustments in a manner other than the manner described above. Such request is generally done in modification under Treas. Reg. 301.6225-2 after the issuance of the NOPPA. Examination has the discretion to review and grant such request based on the facts and circumstances, but the examiner must contact the BBA POC before agreeing to any such request.

Note: Any request must be supported by the facts and circumstances, such as partner-level information that a negative adjustment is not subject to a presumed preference, limitation, or restriction under the Code, or in fact allowed in full against ordinary income.

4.31.9.9.2.4
(10-29-2021)

Third Step in Computing the IU

- (1) The third step in computing the imputed underpayment is to appropriately net all the proposed adjustments within each of the groupings and subgroupings. Netting means summing all adjustments together within each grouping or subgrouping, as appropriate.

Note: Positive adjustments and negative adjustments may only be netted against each other if they are in the same grouping or subgrouping. An adjustment in one grouping or subgrouping may not be netted against an adjustment in any other grouping or subgrouping. Adjustments from one tax year may not be netted against adjustments from another tax year.

- (2) If any grouping only includes positive adjustments (i.e., there are no subgroupings for that grouping), all adjustments in that grouping are added together to come up with a sum of all net positive adjustments.
- (3) All adjustments within a subgrouping are netted to determine whether there is a net positive adjustment or net negative adjustment for that subgrouping.
 - a. A net positive adjustment means an amount that is greater than zero which results from netting adjustments within a grouping or subgrouping. A net positive adjustment is also a positive adjustment that was not netted with any other adjustment. A net positive adjustment includes a net decrease in an item of credit.
 - b. A net negative adjustment means any amount which results from netting adjustments within a grouping or subgrouping that is not a net positive adjustment. A net negative adjustment is also a negative adjustment that was not netted with any other adjustment.

4.31.9.9.2.5
(10-29-2021)

Fourth Step in Computing the IU

- (1) The fourth step is to compute the TNPA. The TNPA is the sum of all net positive adjustments in the reallocation grouping and the residual grouping.
- (2) Each net positive adjustment with respect to a particular grouping or subgrouping in the residual or reallocation groupings that results after netting the adjustments is included in the calculation of the TNPA.
- (3) Each net negative adjustment with respect to a residual or reallocation grouping or subgrouping that results after netting the adjustments is excluded from the calculation of the TNPA because those adjustments do not result in an imputed underpayment.

4.31.9.9.2.6
(10-29-2021)

Fifth Step in Computing the IU

- (1) The fifth step is to determine the highest rate in effect for the reviewed year under IRC 1 or IRC 11.

4.31.9.9.2.7
(10-29-2021)

Sixth Step in Computing the IU

- (1) The sixth step is to determine the sum of net positive adjustments to creditable expenditure and credit groupings that will increase or decrease the product of the TNPA times the highest rate in effect.
- (2) On a case-by-case basis with facts and circumstances supporting such determination along with BBA POC involvement, a net negative adjustment in the credit grouping may be allowed to decrease product of the TNPA times the highest rate in effect; however, the default treatment of a net negative adjustment in the credit grouping is that it is an adjustment that does not result in an imputed underpayment and is therefore excluded from the calculation of the TNPA.
- (3) A net decrease to creditable expenditures is treated as a net positive adjustment to credits and increases the product of the TNPA times the highest tax rate in effect. A net increase to creditable expenditures is treated as a net negative adjustment that is excluded from the calculation of the TNPA and is an adjustment that does not result in an imputed underpayment.
- (4) For the credit grouping, a net positive adjustment will increase the product of the TNPA times the highest tax rate in effect. A net negative adjustment, including net negative adjustments resulting from a credit reallocation adjustment, will be treated as an adjustment that does not result in an imputed underpayment, unless the examination team determines that it is appropriate to allow the net negative adjustment to credit to reduce the product of the TNPA times the highest tax rate in effect. The examiner must contact the BBA POC if they are taking into account the net negative adjustment to credit to reduce the product of the TNPA times the highest tax rate in effect.

Note: Contact the BBA POC before taking into account a net negative adjustment to credit to reduce the product of the TNPA times the highest tax rate in effect.

4.31.9.9.2.8
(10-29-2021)

Seventh Step in Computing the IU

- (1) The seventh and final step is to compute the IU based on the results of steps 4 through 6 and insert those results into the IU formula identified above.

Example: The AB Partnership's 2019 return is under examination. Form 1065, page 1 consists of gross receipts of \$1,000 and COGS of \$250 for a net ordinary business income of \$750 from a single activity. The \$750 of net ordinary business income was included on Schedule K, line 1. The revenue agent proposes to increase gross receipts by \$100 and increase COGS by \$30. The \$100 increase in gross receipts represents a positive adjustment while the increase in COGS represents a negative adjustment. Both of these adjustments are placed in the residual grouping since neither is properly classified as an adjustment within the reallocation, credit or creditable expenditure groupings. Since one of the adjustments is negative, subgrouping is required. The agent verified that AB Partnership netted the gross receipts and COGS as a single partnership-related item on Schedule K, line 1, and therefore, the negative adjustment for COGS will be subgrouped with the positive gross receipts adjustment. After netting these adjustments, the result is a

net positive adjustment of \$70 in the Schedule K, line 1 subgroup as well as a net positive adjustment in the residual grouping. The \$70 will be included in the total netted partnership adjustment for purposes of computing the imputed underpayment.

Example: The facts are the same as the previous example, except the partnership's operations included two distinct activities ("Activity A" and "Activity B"). The net income from each activity were separately stated on a statement attached to Form 1065. The audit adjustment to gross receipts of \$100 (increase) was identified as being related to Activity "A" while the adjustment to COGS of \$30 (increase) was identified as being related to Activity "B." Again, both the positive adjustment to gross receipts of \$100 and the negative adjustment of \$30 to COGS are placed in the residual grouping. Since the separate net income from each activity are required to be separately stated on line 1 of Schedules K/K-1 (via an attached schedule), those amounts were not treated as a single partnership-related item for purposes of IRC 702(a) and were not allocated as a single item on the filed tax return as was proper. Therefore, each adjustment must be placed into a separate subgroup within the residual grouping. The two subgroups (within the residual grouping) could be identified as "Schedule K, line 1, Activity A" and "Schedule K, line 1, Activity B" or similar. Under the netting rules, netting adjustments across subgroups is not permitted and the positive \$100 adjustment and the negative \$30 adjustment may not be netted. Thus, the residual grouping contains a net positive adjustment of \$100 (netting rules only allow positive adjustments to be added together in each grouping to arrive at a net positive adjustment). This amount will be included in the total net partnership adjustment for purposes of computing the imputed underpayment. The net negative adjustment of \$30 is an adjustment that does not result in an imputed underpayment and must be included on the partnership's tax return for the year in which such adjustment becomes final.

4.31.9.9.2.9
(01-24-2024)

Partnership Treatment and Allocation of Adjustments that do not Result in an Imputed Underpayment

(1) Adjustments that do not result in an imputed underpayment are:

- a. Partnership adjustments that result in net negative adjustments after grouping, subgrouping and netting is a net negative adjustment; and
- b. When the calculation of the imputed underpayment results in zero or less than zero.

Note: Credit grouping adjustments that are net negative resulting from adjustments to a tax, penalty, addition to tax, or additional amount for which the partnership is liable under Chapter 1, or resulting from an adjustment to any imputed underpayment calculated by the partnership for the taxable year, are not considered adjustments that do not result in an imputed underpayment. If the imputed underpayment calculation results in an amount that is zero or less than zero due to the inclusion of a net negative adjustment to tax, penalty, addition to tax, or additional amount for which the partnership is liable under Chapter 1, or due to the inclusion of an adjustment to any imputed underpayment calculated by the partnership for the taxable year, then special recalculation rules apply. Contact your BBA POC for guidance on the imputed underpayment calculation.

- (2) Treatment of adjustments that do not result in an imputed underpayment. Generally, any partnership adjustment (from a BBA audit) that does not result in an imputed underpayment is taken into account by the partnership in the adjustment year.
 - a. Modification - Partnerships can modify adjustments that do not result in an imputed underpayment only with respect to modification of amended return, alternative procedure to filing amended returns, number and composition, closing agreements or as appropriate other modifications.
 - b. Partnerships that have both an IU and a net negative adjustment can choose to push out all adjustments under IRC 6226 (see “other options” below). However, partnerships that only have a net negative adjustment must take the adjustments into account in the adjustment year return.
 - c. Partnerships that file an AAR must push out all net negative adjustments following procedures under IRC 6226 and 6227.
- (3) The treatment of the partnership adjustments (other than reallocation adjustments) by the partnership in the adjustment year return is dependent upon whether the partnership adjustment item is a non-separately stated item, or whether the partnership adjustment item is a separately stated item of income or loss as defined under IRC 702.
 - a. The partnership adjustment can increase or decrease non-separately stated income or loss.

Example: Partnership reports ordinary business income of \$100 and ordinary business deductions of \$70. In a BBA administrative proceeding with respect to the partnership’s 2019 tax year, the IRS determines that ordinary business income was \$105 (\$5 adjustment) and ordinary business deductions was <\$80> (<\$10> adjustment). Both adjustments are classified in the residual grouping and in the Ordinary business income/loss subgrouping. The IRS determines that netting is appropriate, therefore the <\$10> adjustment can be netted with the \$5 adjustment for a net negative adjustment in the amount of <\$5> in the residual grouping. Such netting results in a net negative adjustment in the amount of <\$5>, an adjustment that does not result in an imputed underpayment. Since the adjustment does not result in an imputed underpayment, the underlying partnership adjustments are reported and taken into account by the partnership in the adjustment year return. The partnership adjustments are determined to be non-separately stated items of income/loss. The adjustments are taken into account and reported by the partnership on Form 1065 and related Schedule K Line 1 as non-separately items of ordinary business income/(loss).

- b. The partnership adjustment is taken as a reduction in such separately stated item or as an increase in such separately stated item depending on whether the adjustment is a reduction or an increase to the separately stated item. In the case of adjustments to credits, the adjustments are taken into account as separately stated items.

Example: Partnership reports contributions of \$100, long term capital loss of \$25 and a low-income housing credit of \$20. In a BBA administrative proceeding with respect to the partnership’s 2019 tax year, IRS determines that contributions made were \$200 (<\$100> adjustment), long term capital loss was <\$50> (<\$25> adjustment) and the low-income housing credit was \$30 (<\$10> adjustment). All of the partnership adjustments, except the

credit adjustment, are classified in the residual grouping, each adjustment is classified in a separate subgrouping since netting of the partnership adjustments is not appropriate. The credit adjustment is classified in the credit grouping. Each one of the partnership adjustments are adjustments that do not result in an imputed underpayment. The underlying contribution adjustment of <\$100>, long term capital loss adjustment of <\$25> and the additional low-income housing credit of \$10 is reported and taken into account by the partnership in the adjustment year as separately stated items since each of these adjustments are separately stated under IRC 702(a). Therefore, contributions, long term capital loss and credit on Form 1065, Schedule K for the partnership's adjustment year are increased to reflect these adjustments which are adjustments not resulting in an imputed underpayment.

- c. Negative adjustments that are placed in separate subgroupings in the reallocation grouping are disregarded for purposes of calculating the imputed underpayment because they are adjustments that do not result in an imputed underpayment. Such adjustments are taken into account by the partnership in the adjustment year as a separately stated item or a non-separately stated item as required by IRC 702.
- d. If the partnership elects push out, as per Treas. Reg. 301.6226-1 all reallocation related negative adjustments will follow the push out election for the IU associated with the positive reallocation adjustments. For example, if the partnership chooses to pay the IU associated with the positive reallocation adjustments, any related negative adjustments will be reported on the adjustment year return. But if the partnership chooses to push out the positive adjustments the related negative adjustments must also be pushed out to the reviewed year partners.
- e. Reallocation partnership adjustments that are reported on the adjustment year return should be allocated to the adjustment year partners who were also reviewed year partners with respect to the amount that was reallocated.
- f. Adjustments resulting in no imputed underpayment due to the application of credits. If the calculation of the imputed underpayment results in zero or less than zero, after the application of credits, all partnership adjustments are taken into account in the adjustment year of the partnership. The adjustments are reported as non-separately stated items or as separately stated items, depending upon the nature of the adjustments and IRC 702.

Example: Example: Partnership reports ordinary business income of \$1500, advertising expenses of \$400, ordinary business expenses of \$900, long term capital loss of \$250 and a low-income housing credit of \$10 and a research credit of \$100. In a BBA administrative proceeding with respect to the partnership's 2019 tax year, IRS determines that ordinary business income was \$1700 (\$200 adjustment), ordinary business expenses were \$800 (\$100 adjustment), long-term capital loss was \$200 (\$50 adjustment), low-income housing credit was \$60 (<\$50> adjustment) and the research credit was \$190 (<90>). All of the partnership adjustments, except the credit adjustment, are classified in the residual grouping. The credit

adjustments are classified in the credit grouping. The IRS has also determined that the net negative credit adjustments should be taken into account in computing the imputed underpayment. The adjustments in the residual grouping are summed for a total netted partnership adjustment of \$350. The netted partnership adjustment is multiplied by 40 percent (highest tax rate in effect) which results in \$140 imputed underpayment before credits and creditable expenditures. The credits in the credit grouping are netted for a total of <\$140> resulting in an imputed underpayment of \$0. Since the imputed underpayment resulted in \$0, the partnership adjustments do not result in an imputed underpayment. All of the adjustments will be taken into account by the partnership in the adjustment year.

- (4) Adjustments to items that are not items of income, gain, loss, deduction, or credit. The partnership will take such adjustments into account by adjusting the item on its adjustment year return but only to the extent the item would appear on the adjustment year return without regard to the adjustment. If the item is already reflected on the partnership's adjustment year return as an item that is not an item of income, gain, loss, deduction, or credit, or in any year between the reviewed year and the adjustment year, a partnership should not create a new item in the amount of the adjustment on the partnership's adjustment year return.

- (5) Determining the Adjustment year of the partnership:

- a. If the PR signs Form 14792, *Partnership Examination Changes, Imputed Underpayment Computation and Partnership Level Determinations as to Penalties, Additions to Tax and Additional Amounts*, the adjustment year return is determined when the IRS countersigns the agreement.

Example: Partnership files a return for the year 2019 (calendar year) and a BBA administrative proceeding is conducted for that year. The examination is concluded in June 2021. The PR signs Form 14792 in July 2021 and the IRS countersigns Form 14792 in August 2021. The adjustment year is 2021.

- b. If the PR does not sign Form 14792, a notice of Final Partnership Adjustment (FPA) will be mailed to the partnership and PR. The mailing of the FPA determines the adjustment year return (assuming that the PR does not petition the tax court).

Example: Partnership files a return for the 2019 (calendar year) and a BBA administrative proceeding is conducted for that year. The examination is concluded in December 2021. The PR does not sign Form 14792. The Service prepares and mails the FPA to the partnership and PR in November 2022. The adjustment year return is 2022.

- c. Petition Court: Partnership adjustments finally determined pursuant to a decision in a proceeding under IRC 6234, the adjustment year is the year in which the decision is final.

- (6) Other options for reporting or taking into account adjustments not resulting in an imputed underpayment (Push Out, Modification, AARs)

- a. Push Out: (26 CFR 301.6226-1 Election for an alternative to the payment of the imputed underpayment). If an imputed underpayment (IU) is present and a partnership makes an election to push out the adjustments related to an IU, it must also push out any net negative adjustments. However, if there is no IU, then push-out cannot be elected and all adjustments, including net negative adjustments, must be reported by the partnership in the adjustment year return.

Regarding the adjustments included in push-out statements:

Description	Action
Reviewed year partners that are not pass-through partners (PTPs)	Use Form 8986 (push-out statement) received from the partnership to calculate the additional tax increase or decrease from the adjustments and report it on Form 8978 (which should be attached to the partner's return that includes the date statements were issued by the top tier partnership).
Reviewed year partners that are PTPs	Account for their adjustments received on a Form 8986 (push-out statement) by calculating and paying and IU OR further pushing out the adjustments. Any net negative adjustments should be reported on the return that includes the date of payment. If a PTP chooses to push out the adjustments related to the IU, they must also push out the net negative adjustments. A PTP that receives a push-out statement related to an AAR filing must always push out the net negative adjustments.

Note: If a PTP receives positive adjustments from a push out statement and does not pay an imputed underpayment or push out to its owners by the extended due date of the adjustment year return, the IRS can calculate and assess an imputed underpayment that includes the PTP's share of the adjustments.

- b. Modification: The partnership can request, under 26 CFR 301.6225-2(e), to modify the adjustments not resulting in an imputed underpayment. If such adjustments are approved to be modified, they will not be reported by the partnership in the adjustment year.
- c. Filing of an AAR: Adjustments from an AAR that result in an IU calculation amount that is zero or less than zero or the adjustments do not result in an IU must be pushed out by the partnership under the rules similar to IRC 6226. Those adjustments will be reported by the reviewed year partners for the tax year that includes the date they are furnished Form 8986 (reporting year). An AAR partnership may not place adjustments

that do not result in an IU or adjustments that result in an IU amount that is zero or less than zero on its adjustment year return.

Note: Pass-through partners (PTPs) that receive a statement from an AAR filing have the same options as PTPs that receive a statement from an audited partnership, except, adjustments that do not result in an IU should always be pushed out to the affected year partners which are the partners of the pass-through entity in the review year.

4.31.9.9.3
(10-29-2021)
**Making Adjustments:
Form 886-A**

- (1) The BBA requires some additional language to be added to substantive adjustment explanations as well as an explanation of how the imputed underpayment was computed. Specific language should be added to the Form 886-As issued for substantive issues and a Form 886-A dedicated to the computation of the IU should also be added.

4.31.9.9.3.1
(10-29-2021)
**Form 886-A for
substantive issues**

- (1) For each adjustment to a PRI, consider and document the following:
 - a. The description and corresponding line item on Schedule K and/or any other schedule included with Form 1065;
 - b. The proper grouping (reallocation, credit, creditable expenditure, or residual). See IRM 4.31.9.9.2.2, First Step in Computing the Imputed Underpayment (IU);
 - c. The proper subgrouping. See IRM 4.31.9.9.2.3, Second Step in Computing the Imputed Underpayment (IU);
 - d. The treatment of the adjustment (positive, negative, or zero amount).
- (2) After finalizing and issuing all Forms 886-A, proceed with computing the preliminary imputed underpayment. Reach out to the Tax Computation Specialist (TCS).
 - a. For SB/SE, this is time to make first contact with TCS. Submit the TCS request through the SRS.
- (3) Examiners must also consider if other adjustments to partnership-related items are required, such as adjustments to IRC 199A. See the BBA IRC 199A Adjustments Map for report writing guidance on adjustments to IRC 199A at , <https://irs.gov/sharepoint.com/:x:/r/sites/ETD-KMT-KB038/>.

4.31.9.9.3.2
(01-24-2024)
**Form 886-A for Imputed
Underpayment Amount
(IUA)**

- (1) Once all Form 886-As have been issued for each substantive issue, and each penalty being proposed, prepare one more Form 886-A to show the preliminary general IU calculation, showing all the partnership adjustments, and penalties (if any). The preliminary IU calculation must show the following components:
 - a. Total Netted Partnership Adjustment (TNPA).
 - b. Highest rate in effect under section 1 or 11.
 - c. Sum of net positive adjustment from creditable expenditure grouping.
 - d. Sum of net positive adjustment from credit grouping.
 - e. Sum of net negative adjustment from credit grouping (if appropriate).
- (2) Use the IUA Workbook to compute the preliminary IU. Complete the IUA Workbook in accordance with the workbook instructions, inputting all the proposed adjustment amounts from all substantive issues and penalties (if ap-

plicable). The IUA Workbook can be found at [https://irs.gov.sharepoint.com/sites/ETD-KMT-KB038/PSResources/IUA_CalculationJobAid.xlsx?Web=1](https://irs.gov/sharepoint.com/sites/ETD-KMT-KB038/PSResources/IUA_CalculationJobAid.xlsx?Web=1).

- Upon receipt of an IU computation from the TCS, verify and reconcile any differences between the IU based on the IUA Workbook with the IU determined by the TCS.
- (3) Attach the IUA spreadsheets from the Workbook to show the preliminary IU calculation, summary of all the partnership adjustments and penalties (if any). Alternatively, include the information listed above within the body of Form 886-A.
 - (4) Similar to any substantive issue, examiners and the PR will have discussions concerning the preliminary IU prior to formally issuing the Form 886-A. During those communications, the PR may propose that adjustments be subgrouped and/or netted in a manner different from the procedures set forth above. If so, examiners must contact the BBA POC for further guidance.

Note: PR must provide a written request detailing the appropriate facts and circumstances to support such request.

- (5) Issue Form 886-A for the preliminary imputed underpayment. If the PR is not in agreement with the preliminary IU calculation and provides a written response detailing additional facts and applicable law for the examiner to consider using a different method of subgrouping or netting, contact the BBA POC for further guidance. Otherwise, inform the PR that the IU can be appealed once the 30-day letter package is issued. In addition, modification can be requested after the NOPPA package has been issued by Technical Services or Appeals.

Reminder: Form 886-A should be updated to document all facts, including any request to change the preliminary IU and/or discussions after the issuance of Form 886-A and conclusion.

4.31.9.9.3.3
(01-24-2024)

Form 886-A: Interest and Penalties

- (1) Under the centralized partnership audit regime, the partnership is liable for any interest and penalties associated with any imputed underpayment (unless they elect the alternative to payment of imputed underpayment under IRC 6226).
- (2) Under BBA, the partnership is liable for any penalties associated with any partnership adjustment with respect to the reviewed year. Penalties and interest are determined at the partnership level. Refer to IRM 20.1.5.19, Bipartisan Budget Act of 2015 -Penalties with Respect to Partnership Adjustments. The imposition of the accuracy related penalty and the fraud penalty will require special coordination. Therefore, special rules will apply when the following penalties are imposed and computed for the partnerships reviewed year:
 - IRC 6662, Imposition of Accuracy-Related Penalty on Underpayments
 - IRC 6663, Imposition of Fraud Penalty
 - IRC 6662A, Imposition of Accuracy-Related Penalty on Understatements with Respect to Reportable Transactions
- (3) Compute the applicable penalties and consider reasonable cause and good faith defenses only with respect to the partnership:

- a. For purposes of computing the penalty, the partnership is treated as an individual subject to tax under Chapter 1 of subtitle A of the Code.
 - b. A partner-level defense may not be raised at the partnership level.
- (4) Computing the penalties may require coordination with the Office of Service-wide Penalties (OSP) and/or Penalties Practice Network.
 - a. Refer to the penalties knowledge base homepage and IRM 20.1.5.19, Bipartisan Budget Act of 2015 - Penalties with Respect to Partnership Adjustments, for penalty considerations and computations. See the penalties knowledge base homepage at <https://irs.gov/sharepoint.com/sites/ETD-KMT-KB015>.
 - b. Managers (immediate supervisors; for LB&I examinations, the immediate supervisor or a designated higher-level official) must review and approve in writing whether any penalties should be imposed as part of the examination. See IRC 6751(b); IRM 20.1.1.2.3.
 - c. A Form 886-A must be prepared for each penalty proposed.
 - d. The calculation for each penalty must be included as part of the Summary Report Package and as part of the NOPPA Report Package.
- (5) If the partnership fails to pay an imputed underpayment by the date prescribed for payment, the partnership is liable under IRC 6651(a)(2) for any penalty, addition to tax or additional amount. The penalty also applies to pass-through entities which elect to pay the IU (under Treas. Reg. 301.6226) and a partnership filing an AAR.
- (6) The penalty under IRC 6698(a) is on the failure to file a PTP return or a partnership adjustment tracking report. The Failure to File (FTF) penalty under IRC 6698(a) provides for a penalty if any partnership is required to file a return under IRC 6031, or a partnership adjustment tracking report under IRC 6226(b)(4)(A), and fails to timely file such return or report, or files a return or an adjustment tracking report Form 8985 which fails to show all of the information required.
 - a. The IRC 6698(a) penalty is not on an adjustment to a PRI. Therefore, the IRC 6698(a) penalty is determined outside of BBA and would not be on the NOPPA, which contains adjustments to PRIs and any penalties on those adjustments.
 - b. The penalty shall be assessed against the partnership and deficiency procedures do not apply with respect to the assessment or collection of the penalty under IRC 6698(a), IRC 6698(c) & (d). The FTF penalty under IRC 6698 is not a penalty asserted under BBA and is not shown on Forms 14791/14792. Therefore, the failure to file penalty should be imposed where a partnership return has not been filed and an SFR package is prepared by Exam, or when Exam receives a delinquent return for processing.

Example: The 2019 partnership return is under examination. However, the 2018 partnership return was not filed. The examiner is charged with preparing a substitute for return (SFR) package for the 2018 partnership return. The 2018 return was due 03/15/2019, and there was no automatic extension on the IDRS transcript. The examiner prepares the SFR package on 8/15/2020. The partnership return is 17 months late. Therefore, the examiner should assess the FTF penalty under IRC 6698 in the amount of \$2,400 determined by taking \$200 (at time of

drafting) per month (or fraction thereof) x 12 months (but not to exceed 12 months). See IRM 20.1.2.4.4, Procedures for Assessment or Abatement of the penalty.

- (7) Revenue Agents have two options for the computation of interest to be included on Form 14791:
 - a. Compute their own interest using IDRS command code (CC) COMPA and COMPD or,
 - b. Request an interest calculation from the Centralized Case Processing (CCP) campus.

4.31.9.9.3.3.1
(09-22-2022)

Computing Interest Using Command Codes (CC) COMPA and COMPD

- (1) See IRM 2.3.29.5, Command Code COMPA and COMPD

Field	Field Title	Length	Description
1	Definer	1 character - v	D (Debit Interest)
2	Master File Tax (MFT) Code	2 characters - nn	N/A for BBA Form 14791 Interest Calculations
3	Tax Period	6 characters - yyyymm	N/A for BBA Form 14791 Interest Calculations
4	From Date	8 characters - mmddyyyy	Identifies the date to compute interest or penalty from
5	To Date	8 characters - mmddyyyy	Identifies the date to compute interest or penalty to
6	Amount	14 characters - nnn.nnn.nnn.nn	Amount - two decimal positions (cents) are required

Note: The BBA IU and penalties may be combined as a single input for the purpose of computing estimated interest.

Example: COMPA input for an audit of a 2018 BBA Partnership with an IU of \$37,000 and an accuracy related penalty of \$7,400 (combined BBA IU and penalty = \$44,400) with BBA Form 14791 to be issued on January 1, 2021:

Field	Field Title	Length	Description
1	Definer	1 character - v	D
2	Master File Tax (MFT) Code	2 characters - nn	N/A
3	Tax Period	6 characters - yyyymm	N/A
4	From Date	8 characters - mmddyyyy	03162019
5	To Date	8 characters - mmddyyyy	03152022
6	Amount	14 characters - nnn.nnn.nnn.nn	44,400.00

Note: The COMPA report returns total interest of \$5,593.38. The COMPD report returns the computation of interest as follows:

Document Name: bsc\$idsr

COMPAD

03162019 03152022 44,400.00		
6%	20190316 TO 20190331	
	00000015 @0.002468593	\$109.61
6%	20190331 TO 20190630	
	00000091 @0.015070101	\$670.76
5%	20190630 TO 20190930	
	00000092 @0.012681615	\$572.96
5%	20190930 TO 20191231	
	00000092 @0.012681615	\$580.23
5%	20191231 TO 20200331	
	00000091 @0.012508429	\$579.56
5%	20200331 TO 20200630	
	00000091 @0.012508429	\$586.81
3%	20200630 TO 20200930	
	00000092 @0.007569177	\$359.54
3%	20200930 TO 20201231	
	00000092 @0.007569177	\$362.26
3%	20201231 TO 20210331	
	00000090 @0.007424381	\$358.02
3%	20210331 TO 20210630	
	00000091 @0.007507183	\$364.70
3%	20210630 TO 20210930	
	00000092 @0.007589992	\$371.49
3%	20210930 TO 20211231	
	00000092 @0.007589992	\$374.31
3%	20211231 TO 20220315	
	00000074 @0.006100474	\$303.13
TOTAL INTEREST		\$5,593.38
Employee #0123456789		PAGE 001

Date: X/XX/XXXX Time: X:XX:XX AM

Figure 4.31.9-17

4.31.9.9.3.3.2
(01-24-2024)

Requesting an Interest Calculation from the Centralized Case Processing (CCP) Campus

(1) Contact the Centralized Case Processing (CCP) campus and request an interest computation after the TCS prepares Form 14791. In general:

- For LB&I, send the request to *CCP Ogden e-mail box.
- For SB/SE, send the request to the Memphis campus.
- CCP will respond within 2 weeks.
- IRS Employees may find contacts at the Interest Computations for Payoffs page at [https://irs.gov.sharepoint.com/sites/ETD-KMT-KB051/SitePages/SBSECampusExamProcedures/ExamCentralized/CaseProcessing\(CCP\)/InterestComputationforPayoff.aspx](https://irs.gov.sharepoint.com/sites/ETD-KMT-KB051/SitePages/SBSECampusExamProcedures/ExamCentralized/CaseProcessing(CCP)/InterestComputationforPayoff.aspx).

(2) Work with CCP and provide the following data:

- a. A copy of the Form 14791,
- b. Starting date, which is the due date of the reviewed year return (without extension),
- c. Ending date (e.g., the date of issuance of the summary report package plus 75 days),
- d. Penalties (see IRM 4.31.9.9.3.3(2) and (3)), and
- e. Imputed underpayment amount

Note: For Form 14792, Appeals or Technical Services will request the interest computation.

4.31.9.9.4
(01-24-2024)

**Communicate
Adjustments to Tax
Computation Specialist
(TCS)**

(1) Provide the TCS the following information for all proposed adjustments in sequential numbers with the following information:

- a. Description of the adjustment.
- b. Amount of the adjustment (positive, negative, or zero amount). For any zero amount adjustment, provide an explanation as to why the adjustment is zero/duplicative. This information will be input into the IUA Calculator by the TCS, and will display in a footnote in the "Other Information" section of the exam reports.

Example: Notes for \$0 Adjustment: *This adjustment is an increase to Section 199A Qualified Business Income in the amount of \$400,000, and is already reflected in the imputed underpayment as an adjustment to Net Rental Real Estate Income (Loss).*

- c. Grouping (reallocation, residual, creditable expenditure, or credit). For any reallocation adjustment, include the name and TIN of the impacted partner and whether the allocation is "to" or "from" such partner.
- d. Subgrouping (schedule K/K-1 line item or other Form 1065 schedule line item).

Note: If you use the IUA Workbook to compute the preliminary imputed underpayment then forward the completed workbook to the TCS, in lieu of the above listing. The IUA Workbook can be found at [https://irs.gov.sharepoint.com/sites/ETD-KMT-KB038/PSResources/IUA_CalculationJobAid.xlsx?Web=1so](https://irs.gov/sharepoint.com/sites/ETD-KMT-KB038/PSResources/IUA_CalculationJobAid.xlsx?Web=1so).

4.31.9.10
(01-24-2024)

Report Writing

(1) A Tax Computation Specialist (TCS) will prepare Forms 14791 and 14792. A TCS is requested through the SRS.

- a. For LB&I, follow existing procedures and request the TCS at the beginning of the examination.
- b. For SB/SE, the SRS request should be made after all Forms 886-A or lead sheets (for substantive issues) have been finalized and issued to the PR.

Note: If there are relevant partner Ch 2/2A issues, refer to for those specific reporting writing procedures. See IRM 4.31.9.6.6, Non-PRI Report Writing.

4.31.9.10.1
(01-24-2024)
**Summary Report
Package**

- (1) If the PR clearly indicates a desire to go to Appeals, in the interest of time, you may skip issuance of the summary report package and issue only the 30-day letter package. Document this decision in the activity record.
- (2) After all Forms 886-A are finalized and issued, proceed with the summary report package, which includes:
 - a. Letter 5895, Preliminary Partnership Examination Changes and Imputed Underpayment,
 - b. Form 14791, Preliminary Partnership Examination Changes, Imputed Underpayment Computation and Partnership Level Determinations as to Penalties, Additions to Tax and Additional Amounts, and
 - c. Form 886-A, Explanation of Adjustments, for each substantive issue, each penalty (if applicable), and the imputed underpayment amount.
- (3) Request and work with the TCS to prepare Form 14791.
 - a. TCS will provide Form 14791 within 2 weeks from the date of the request.
 - b. After Form 14791 is received from the TCS, review the form to verify the presentation of all adjustments (positive, negative, and zero adjustments) and the resulting IU computation.

Note: Each adjustment must be shown in the body of the exam report.

- c. In addition to the presentation of all adjustments in the body of the report ensure that all adjustments not resulting in an IU are reflected in the “other information” section auto-populated footnote. The following is an example of the IUA Calculator auto-populated note regarding adjustments not resulting in an IU:

Example: The following adjustments were considered in the calculation of the imputed underpayment but were determined to be adjustments that do not result in an imputed underpayment. These adjustments should be taken into account by the partnership in the adjustment year in accordance with IRC 6225(a)(2) and Treas. Reg. 301.6225-3, unless they are included in a request for modification and ultimately approved by the IRS under modification, or unless the partnership makes an election under IRC 6226 with respect to that imputed underpayment:
Grouping: Residual
Subgrouping: Sch K - Guaranteed Payments;
Guaranteed payments \$(20,000)

- d. Ensure that any zero/duplicative adjustments are also properly presented in the “Other Information” section auto-populated footnote, inclusive of any explanation to be provided to the TCS for input. (See “Communicate Adjustments to the TCS” above). The following is an example of the IUA Calculator auto-populated note:

Example: The following adjustments are considered zero adjustments because such adjustments are already reflected in one or more other partnership adjustments. Therefore, solely for purposes of calculating the imputed underpayment, such adjustments are treated as zero pursuant to Treas. Reg. 301.6225-1(b)(4):
Grouping: Residual

Subgrouping: Sch K - Qualified Business Income (QBI)
 Deduction - IRC 199A QBI (code Z); Schedule K, Line 20c
 This adjustment is an increase to IRC 199A Qualified Business Income in the amount of \$100,000, and is already reflected in the imputed underpayment as an adjustment to Ordinary Business Income (Loss).

- (4) Contact the appropriate CCP campus and request interest computation. See Interest and Penalties section above. Update Form 14791 and incorporate the following:
 - a. The date the interest is computed to "MMDDYYYY", and
 - b. The interest amount on line 20.
 - c. See IRM 4.31.9.9.3.3.1 regarding using IDRS command code COMPA to obtain a similar computation of interest.
- (5) Prepare Letter 5895 and remember to include the audit control number (ACN) in the header. The ACN is system generated and can be found on AIMS, BMF and IMS.
- (6) Issue the summary report package to the PR no later than 14 months prior to the 6235(a)(1) date. A summary report (or a 30-day letter) should be issued on every case unless there is a case specific reason why it cannot be issued. If it is an imminent statute, the field agent can issue a summary report with Letter 5895, utilizing selectable paragraph B and give the partnership a minimum of 2 days to request a conference.
 - a. The package does not need to be sent by certified mail.
 - b. The PR may request a conference to discuss audit results no later than two weeks from the issuance of Letter 5895.
 - c. A separate summary report package is required for each year under examination since each year stands on its own unless it's a no-change.
 - d. Use judgement in issuing the summary report when the PR has made it clear it would like to pursue Appeals. See IRM 4.31.9.10.1(1), Summary Report Package.

4.31.9.10.2
 (10-29-2021)
30-day Letter Package

- (1) A partnership may protest and want to go to Appeals for any unagreed partnership adjustment, including the substantive issues, imputed underpayment amount and penalty.
- (2) If the partnership requests to go to Appeals, there must be at least 18 months remaining on the 6235(a)(1) date when the case is transferred to Technical Services. An extension via Form 872-M should be requested if necessary.
- (3) If there's at least 20 months left on the statute, prepare and issue the 30-day letter package to the PR. The package does not need to be sent by certified mail.
- (4) The 30-day letter package includes the following:
 - a. Letter 5891, 30-Day Letter,
 - b. Form 14791, Preliminary Partnership Examination Changes, Imputed Underpayment Computation and Partnership Level Determinations as to Penalties, Additions to Tax and Additional Amounts, and
 - c. Form 886-A, Explanation of Adjustments, for substantive issues, penalties (if applicable), and the imputed underpayment.

- (5) After the issuance of the 30-day letter package, update the case status to 13.
- (6) Follow existing procedures for responding to the 30-day letter package, including the protest letter.

Note: The 30-day letter package must also include the NOPPA package when transferring to Technical Services.

4.31.9.10.3
(10-29-2021)
**Notice of Proposed
Partnership Adjustment
(NOPPA) Package**

- (1) The NOPPA package is required in any administrative proceeding (examination) under the BBA regime, including an administrative proceeding with respect to an administrative adjustment request (AAR) filed by a partnership under IRC 6227. A separate NOPPA package is prepared for each partnership tax year unless it's a no-change.
- (2) Prepare the NOPPA package no later than:
 - a. 13 months from the 6235(a)(1) date if the case is not going to Appeals, or
 - b. 19 months from the 6235(a)(1) date if unagreed and going to Appeals.
- (3) The NOPPA package includes the following:
 - a. Form 14792, Partnership Examination Changes, Imputed Underpayment Computation and Partnership Level Determinations as to Penalties, Additions to Tax and Additional Amounts,
 - b. Letter 5892, Notice of Proposed Partnership Adjustments- Partnership
 - c. Letter 5892-A, Notice of Partnership Adjustments-Partnership Representative, and
 - d. Form 886-A, Explanation of Adjustments for both substantive issues and imputed underpayment amount.
- (4) Contact and work with the TCS to prepare Form 14792.
 - a. TCS will provide the report within 2 weeks from the date of the request.
 - b. No need to request interest amount since Technical Services or Appeals will be issuing the NOPPA package.
- (5) Prepare Letters 5892 and 5892-A without the following:
 - a. The IRS person point of contact (name, ID, contact info);
 - b. Date of issuance;
 - c. 270-day submission period expiration date; and
 - d. Response due date.

Note: The field manager does not sign the Letters 5892 and 5892-A because they will be issued by Technical Services.

- (6) The examiner does not issue the NOPPA package. Technical Services or Appeals will issue the NOPPA package to the partnership and PR.
- (7) The manager must review and approve the NOPPA package. This managerial review and approval should be documented in the case file activity record.
- (8) Include the NOPPA package and 30-day letter package (if applicable) in the case file.

4.31.9.11
(01-24-2024)
**Case Disposition
Procedures**

- (1) Process and transfer the case to Technical Services. Refer to IRM 4.10.9.9 for case file assembly information.
- (2) Technical Services will always perform a cursory review of the case file, prepare and issue relevant letters (i.e., no-change letter), issue the NOPPA package (if applicable), and forward the case to either Centralized Case Processing (CCP), Appeals or BBA Operations as appropriate.
- (3) Ensure the case has the following periods of time remaining on the 6235(a)(1) statute when received by Technical Services.

Types of Cases	Days Remaining on the 6235(a)(1) Statute When Received by Technical Services
No-change (no adjustment)	6 months
With adjustment (no Appeals)	12 months
With adjustments (to Appeals)	18 months

- (4) For cases with less time on the statute than reflected in the chart above, see IRM 4.31.9.11.5, BBA Imminent Statute Procedures

4.31.9.11.1
(10-29-2021)
No-Change Case

- (1) The examiner should transfer the case file to Technical Services within 30 days from the approval of the no-change determination.

Reminder: The return should have at least 6 months remaining on the 6235(a)(1) date when received by Technical Services.

- (2) If applicable, the examiner must prepare and submit a closing package with the following documents for a Net Investment Income Tax (NIIT) or Self-Employment Contribution Act (SECA) case to resolve the PCS linkage for the partners:
 - No-change Form 4605-A (Ch 2/2A issues only)
 - Copy of POA for Chapter 2A issues (if applicable)
- (3) Follow existing procedures to completing Form 5344, Examination Closing Record. See Exhibit 4.31.9-5 (No-change column) for line items required to be completed.
- (4) Complete Form 3198, Special Handling Notice for Examination Case Processing, and follow existing procedures except as otherwise provided below:
 - a. In the “Forward to Technical Services” section of the form, check the “BBA P/S No Change” box. If applicable, also indicate that Ch 2/2A linkage must be addressed.
 - b. In the bottom section of page 1 of the form, separately check the box “Forward to Technical Services - Update to Status 21”. The adjustment amount should be left blank and the disposal code should be 02.

4.31.9.11.2
(01-24-2024)
No-Change Case (With Adjustments)

- (1) A no-change BBA case with adjustments is a case where no partnership adjustments (adjustments to PRIs) are being made, but partner returns are adjusted due to:
 - Non-Chapter 1 adjustments made outside the scope of BBA, such as NIIT adjustments made at the partner level, or
 - When no changes are made to the partnership's ordinary income or loss or separately stated items reflected on the return of Schedule K-1 and a partner's return is adjusted as a result of the flow-through examination. This would include: adjustments to basis, at-risk, or passive activity rules; taxable distributions or taxable loan repayments; or adjustments made to include the amount(s) reported on the investor's Schedule K-1.
 - A no-change BBA case with adjustments would not apply when adjustments to Schedule K/K-1, Line 14, Net Earnings from Self-Employment (NESE) are being made as adjustments to NESE have been deemed a partnership adjustment.
 - If the examiner has AIMS control over both the BBA partnership and partners, reference the examples in IRM 4.31.9.6.5, Processing ILSC Pass-Through Adjustments, for procedures depending on whether the partners agree or disagree with their individual non-BBA adjustments.
- (2) The examiner must prepare and submit a closing package to TS with the following documents for a Chapter 2A NIIT case to resolve the linkage for the linked partners:
 - Form 4605-A (Chapter 2A issues only)
 - Form 886-S (if Chapter 2A partner level adjustments are to be made)
 - Copies of relevant workpapers that support the Chapter 2A issues (if applicable)
 - Copy of POA for Chapter 2A issues (if applicable)
- (3) The examiner should transfer the case file to Technical Services within 30 days from the approval of the no-change determination.
 - The return should have at least 6 months remaining on the 6235(a)(1) date when received by Technical Services.
 - Follow existing procedures to completing Form 5344, Examination Closing Record. See also Exhibit 4.31.9-5 (No-change with adjustments column) for line items required to be completed.
- (4) Complete Form 3198, Special Handling Notice for Examination Case Processing, and follow existing procedures except as otherwise provided below:
 - a. In the "Forward to Technical Services" section of the form, check the "BBA P/S No Change" box. If applicable, also indicate that Ch 2/2A linkage needs to be addressed.
 - b. In the bottom section of page 1 of the form: separately check the box "Forward to Technical Services - Update to Status 21". The adjustment amount should be left blank and the disposal code should be 01.
- (5) Campaigns, projects, initiatives or other workstream assignments may provide direction to use DC 01 in other scenarios consistent with expanded definitions in Document 6036.

4.31.9.11.3
(01-24-2024)

**Case With Adjustments
(No Appeals)**

- (1) After the NOPPA package is prepared, transfer the case file to Technical Services within 30 days.

Reminder: The return should also have at least 12 months remaining on the 6235(a)(1) date when received by Technical Services. If the examiner has AIMS control over both the BBA Partnership and Partners, reference the examples in IRM 4.31.9.6.5, Processing ILSC Pass-Through Adjustments, for procedures depending on whether the partners agree or disagree with their individual non-BBA adjustments

- (2) Technical Services will review the case. If no corrections are warranted, Technical Services will mail the NOPPA package to the partnership and PR; otherwise, the case will be returned back to the examiner and manager for corrections.
- (3) If applicable, the examiner must prepare and submit a closing package with the following documents for a SECA/NIIT case to resolve the linkage for the linked partners:
- Form 4605-A (for Ch 2/2A issues)
 - Form 886-S (for Ch 2/2A issues)
 - Copies of relevant workpapers that support the Ch 2/2A issue
 - Copy of the POA for Ch 2/2A issues (if applicable)
- (4) Follow existing procedures to completing Form 5344, Examination Closing Record. See Exhibit 4.31.9-5 (Adjustments no Appeals column) for line items required to be completed.
- (5) Complete Form 3198, Special Handling Notice for Examination Case Processing, and follow existing procedures except as otherwise provided below:
- a. In the “Forward to Technical Services” section of Form 3198 check the “BBA P/S w/Adjustment (No Appeal)”. If applicable, also indicate that Ch 2/2A linkage must be addressed.
 - b. In the bottom section of page 1 of the form: separately check the box “Forward to Technical Services – Update to Status 21”. Include the adjustment amount (same as item 34 on Form 5344). The disposal code should be 08.

4.31.9.11.4
(10-29-2021)

**Case With Adjustments
(to Appeals)**

- (1) After the NOPPA package is prepared, transfer the case file to Technical Services within 30 days.

Reminder: The return should have at least 18 months remaining on the 6235(a)(1) date when received by Technical Services. If the examiner has AIMS control over both the BBA Partnership and Partners, reference the examples in IRM 4.31.9.6.5, Processing ILSC Pass-Through Adjustments, for procedures depending on whether the partners agree or disagree with their individual non-BBA adjustments.

- (2) Technical Services will review the case, the protest, and the examiner’s rebuttal (such as Letter 5072 or other transmittal method used.) If no corrections are warranted, Technical Services will forward the case to Appeals; otherwise, the case will be returned back to the examiner and manager for corrections. Appeals will mail the NOPPA package to the partnership and PR once the Appeals process has been completed.

- (3) If applicable, the examiner must prepare and submit a closing package with the following documents for a SECA/NIIT case to resolve the linkage package:
 - Form 4605-A (for Ch 2/2A issues)
 - Form 886-S (for Ch 2/2A issues)
 - Copies of relevant workpapers that support the Ch 2/2A issue
 - Copy of POA for Ch 2/2A issues if applicable
- (4) Follow existing procedures to completing Form 5344, Examination Closing Record. See Exhibit 4.31.9-5(Adjustments to Appeals column) for line items required to be completed.
- (5) Complete form 3198, Special Handling Notice for Examination Case Processing and follow existing procedures except as otherwise provided below:
 - a. In the “Forward to Technical Services” section of Form 3198 check the box “Unagreed BBA P/S to Appeals”. If applicable, also indicate that Ch 2/2A linkage needs to be addressed.
 - b. In the bottom section of page 1 of the form: separately check the box “Forward to Technical Services – Update to Status 21”. Include the adjustment amount (same as item 34 on Form 5344). The disposal code should be 08.

4.31.9.11.5
(01-24-2024)
BBA Imminent Statute Procedures

- (1) A BBA partnership case no-change (no adjustment) with less than 6 months remaining on the IRC 6235(a)(1) statute of limitations at the time the case is received by Technical Services is considered imminent. The imminent statute procedures must be followed:
 - a. Discussion between the Field Examiner and Field Exam Group Manager concerning the circumstances surrounding the imminent statute.
 - b. Document the discussion in the case activity record.
 - c. If there are less than 6 months remaining on the IRC 6235(a)(1) statute of limitations, the Field Exam Group Manager should contact the appropriate Technical Services Pass-through Coordinator (TSPC) Group Manager. The group manager will let them know that the case is ready to be transferred to Technical Services. Look at the Technical Services Pass-Through Coordinators List at <https://irs.gov/sharepoint.com/sites/ETD-KMT-KB051/Lists/Technical%20Service%20Partnership%20Coordinator/AllItems.aspx?> on Knowledge Management to locate the correct TSPC Group Manager. The TSPC Group Manager will provide the Field Exam Group Manager with instructions on how to proceed. The TSPC Group Manager will request the field group to either physically ship or e-mail the case file to the TSPC to review. The field group will keep ERCS/AIMS control over the case until the TSPC is ready to prepare the no-change Letters 6099 and 6099-A and move the case to CCP.
 - d. When the TSPC authorizes transfer of the case and case controls to Technical Services, then the field group will be instructed to physically ship the case if they previously submitted electronic records only (see item c above). The Field Exam Group Manager is to follow-up with the TSPC’s Group Manager to ensure receipt of the case.

- (2) A BBA partnership case with adjustments (no Appeals) with less than 12 months remaining on the IRC 6235(a)(1) statute of limitations at the time the case is received by Technical Services is considered imminent. The imminent statute procedures must be followed:
- Discussion between the Field Examiner and Field Exam Group Manager concerning the circumstances surrounding the imminent statute.
 - Document the discussion in the case activity record.
 - If there are less than 12 months remaining on the IRC 6235(a)(1) statute of limitations, the Field Exam Group Manager should contact the appropriate Technical Services Pass-through Coordinator (TSPC) Group Manager. The group manager will let them know that the case is ready to be transferred to Technical Services. Look at the Technical Services Pass-Through Coordinators List at <https://irs.gov.sharepoint.com/sites/ETD-KMT-KB051/Lists/Technical%20Service%20Partnership%20Coordinator/AllItems.aspx?onKnowledgeManagementto%20locate%20the%20correct%20TSPC%20Group%20Manager>. The TSPC Group Manager will provide the Field Exam Group Manager with instructions on how to proceed. The TSPC Group Manager will request the field group to either physically ship or e-mail the case file to the TSPC to review. The field group will keep ERCS/AIMS control over the case until the NOPPA is prepared by the field group, submitted to the TSPC for review and the NOPPA package is issued by Technical Services.
 - When the TSPC authorizes transfer of the case and case controls to Technical Services, then the field group will be instructed to physically ship the case if they previously submitted electronic records only (see item c above). The Field Exam Group Manager is to follow-up with the TSPC's Group Manager to ensure receipt of the case.
- (3) A BBA partnership case with adjustments (to Appeals) with less than 18 months remaining on the IRC 6235(a)(1) statute of limitations at the time the case is received by Technical Services is considered imminent. The imminent statute procedures must be followed:
- Discussion between the field examiner and field exam group manager concerning the circumstances surrounding the imminent statute.
 - Document the discussion in the case activity record.
 - If there are less than 18 months remaining on the IRC 6235(a) statute of limitations, the field group needs to inform the partnership that the case cannot go to Appeals unless a Form 872-M is secured and executed with at least 18 months remaining on the IRC 6235(a)(1) statute of limitations.
- Caution:** If a Form 872-M cannot be secured, the case cannot go to Appeals. In this event, the field group will need to revise the appropriate forms (Form 3198, etc.) and close the case to Technical Services for issuance of a NOPPA. If there are more than 12 months remaining on the IRC 6235(a)(1) statute of limitations, follow normal closing procedures. If less than 12 months remain on the IRC 6235(a)(1) statute of limitations, adhere to imminent statute procedures.

- (2) Section 1101(g)(4) of the BBA provides that partnerships may “early elect in” to have the BBA apply to partnerships with returns filed for tax periods beginning after November 2, 2015 and before January 1, 2018. Per 26 CFR 301.9100-22, generally this election may only be made within 30 days of the date the IRS first notifies a partnership in writing that its return has been selected for examination.
- (3) Either the Tax Matters Partner (TMP) or an individual authorized to sign the partnership return for the tax year under examination is authorized to make this election for any partnership return filed for tax periods beginning after November 2, 2015 and before January 1, 2018. A Power of Attorney, in general, does not have the authority to make this election. The fact that an individual dates and signs the election statement under penalty of perjury shall be prima facie evidence that the individual is authorized to make the election on behalf of the partnership. See Treas. Reg. 301.9100-22(b)(2)(ii).
- (4) This election may be made within 30 days of the date the IRS first notifies the partnership in writing that the partnership has been selected for examination. This election can be made for any timely filed, late filed or non-filed partnership return as long as the election is made within 30 days from the date of written notification of the selection for examination. The date that the return is actually filed or a substitute for return is prepared does not matter for purposes of this election. The election must be provided to the individual identified in such notice as the IRS contact for the examination. Treas. Reg. 301.9100-22(a) states that partnerships may not request an extension of time for making this election.
- (5) After January 1, 2018, this election may also be made when filing an Administrative Adjustment Request (AAR) under IRC 6227 as amended by the BBA for tax periods beginning after November 2, 2015 and before January 1, 2018. See IRM 4.31.9.12.3 for details.
- (6) This election may not be made if, prior to making such election:
 - An AAR has been filed (or deemed to have been filed) on behalf of a TEFRA partnership under IRC 6227(c) (prior to amendment by the BBA), or
 - An amended return of a non-TEFRA partnership has been filed (or deemed to have been filed) under IRC 6227.

For the rules regarding when an AAR or amended return is deemed to have been filed, see Treas. Reg. 301.9100-22(c)(4).
- (7) To make the election, the partnership can use Form 7036, Election Under Section 1101(g)(4) of the Bipartisan Budget Act of 2015. If Form 7036 is not used, the partnership may prepare its own statement:
 - The election must be in writing and include a statement that the partnership is electing to have the BBA apply to the partnership return for the tax year identified in IRS Letter 2205-D.
 - “Election under Section 1101(g)(4)” must be at the top of the statement.
 - The statement must be dated and signed by the TMP or an individual that has the authority to sign the partnership return for the tax year under examination.

The Form 7036 or statement must be provided to the examiner conducting the audit within 30 days from the date of Letter 2205-D. If the election is mailed, the date of the postmark should be used to determine if timely filed.

- (8) Once made, this election may only be revoked with the consent of the Internal Revenue Service. See Treas. Reg. 301.9100-22(a). Examiners should immediately contact a BBA point of contact if they subsequently receive a request to revoke the election.

4.31.9.12.1
(07-10-2020)

**Information to be
Included in the Election
Statement**

- (1) Pursuant to Treas. Reg. 301.9100-22(b)(2)(ii), the election statement must include:
- The partnership's name, taxpayer identification number and tax year to which the election statement applies.
 - The name, address, daytime telephone number and taxpayer identification number of the partnership representative under IRC 6223 (as amended by the BBA) for the tax year to which the election statement applies.
 - A representation that the partnership is not insolvent and does not reasonably anticipate becoming insolvent before resolution of any adjustment for the partnership tax year for which the election is being made.
 - A representation that the partnership is not currently and does not reasonably anticipate becoming subject to a bankruptcy petition (voluntary or involuntary) under Title 11 of the United States Code.
 - A representation that the partnership has sufficient assets, and reasonably anticipates having sufficient assets, to pay a potential imputed underpayment that may be determined during the partnership examination.
 - The name, taxpayer identification number, address and telephone number of the individual who signs the election statement.
 - A representation signed under penalties of perjury that the individual signing the election statement is duly authorized to make the election and that, to the best of their knowledge and belief, the election statement is true, correct and complete.

4.31.9.12.2
(07-10-2020)

Examiner Procedures

- (1) Examiners should do the following if they receive an election:
- Immediately notify the IRS "BBA point(s) of contact (BBA POC)" designated to monitor elections and/or provide subject matter expertise regarding the BBA.
 - Verify that no AAR or amended return was filed (or deemed to have been filed) by the partnership for the partnership tax year for which an election is being made.
 - If Form 7036 is used by the taxpayer to make the election, ensure all required elements are properly completed.
 - If Form 7036 is not used, ensure the election statement complies with the requirements of Treas. Reg. 301.9100-22 as previously discussed.
 - If additional information is needed, and time permitting, the taxpayer should be notified as soon as possible. All required information must be received within 30 days of the date of the IRS notice of selection for examination for the election to be valid. There is no extension to this 30-day period.

- Determine whether the election statement is valid; this determination requires management concurrence. If so, provide a copy of the valid election statement to the BBA POC.
 - If the election is invalid, contact the BBA POC for next steps and follow the existing TEFRA or non-TEFRA (ILSC) procedures accordingly.
- (2) IRS must wait at least 30 days after a valid election is received before issuing a notice of administrative proceeding (NAP) in case the partnership wants to file an AAR under IRC 6227 as amended by the BBA. During this 30-day period, the examiner should conduct a cursory check to ensure that the partnership representative identified on Form 7036 or other election statement meets the requirements of Treas. Reg. 301.9100-22(b)(2)(ii)(D). This cursory check will include basic research to ensure the name, taxpayer identification number, address, and daytime telephone number of the partnership representative are correct.
- (3) If the election into the BBA is valid, the examiner should do the following relative to case file documentation and ERCS/AIMS updates:
- Complete a second Form 15260, Determination of Pass-through Audit Regime, and retain the original determination (pre-election) Form 15260 and other check sheets in the administrative file.
 - Notate activity record that election was received, reviewed, etc., and that a copy was provided to the BBA POC.
 - Ensure ERCS/AIMS is updated to set the TEFRA indication to “N” for non-TEFRA
 - If the field is currently unused, set the Aging Reason Code (ARC) to “100.”
 - Ensure the value of the “EARLY-ELECT-INTO-BBA-CD” is “1” to indicate the return is subject to the BBA regime. Notate the change in the “PBBA” section of Form 5348.
 - Set the “IRC 6235A1-PPA-DEADLINE-DT” (format as “MMDDYYYY”), which is the later of: 3 years after the date the return was due; 3 years after the date the return was filed; or 3 years after an AAR is filed.
- Note:** Generally, the IRC 6235(a)(1) date will match the statute date (ASED) field on AIMS. (Contact the BBA POC if there are any questions about IRC 6235(a)(1) or if there is an AAR)
- After the issuance of the NAP, update AIMS/ERCS to include the NAP Date (format as “MMDDYYYY”).
 - Associate election with related items in the flow-through administrative file or workpapers. LB&I examiners will use SAIN 724 and UIL 6221B SB/SE examiners will use Section 600.
 - Refer to IRM 4.31.9.1.7, Related Resources, for links to additional BBA procedures.

4.31.9.12.3
(07-10-2020)
**Early Elections Made
with Administrative
Adjustment Requests
(AARs)**

- (1) This subsection describes procedures for examiners and managers when an AAR is filed under the BBA (BBA AAR) with respect to partnership tax years beginning after November 2, 2015 and before January 1, 2018 where the partnership elects to be subject to the BBA for such tax year. Form 15260, Determination of Pass-through Audit Regime, and Form 15262, BBA Audit Procedures Checklist, have been updated to accommodate Early Elections into the BBA.

- (2) Treas. Reg. 301.9100-22 provides that a partnership may file a BBA AAR for an eligible tax year to have the BBA apply to that tax year. A partnership may not file a BBA AAR solely for the purpose of changing the designation of the partnership representative as described in IRC 6223 as amended by the BBA.
- (3) Only partnerships may file a BBA AAR. A partner may file a BBA AAR on behalf of the partnership if they are acting in the capacity of a PR or the partner is the TMP filing an AAR for an eligible tax year together with an election into the BBA. See Treas. Reg. 301.9100-22(b)(2)(ii).
- (4) Generally, under IRC 6227(c) as amended by BBA, a partnership may file a BBA AAR within 3 years after the later of (1) the date of filing the partnership return, or (2) the due date of the return without regard to extensions. A partnership that receives a notification of selection for examination (Letter 2205-D) for partnership tax years beginning after November 2, 2015 and before January 1, 2018 may elect to apply the BBA to the partnership return filed for that tax year within 30 days from the date of Letter 2205-D. Once a valid election is made, the partnership has 30 more days to file a BBA AAR.
- (5) In no event, may a partnership file a BBA AAR after a Notice of Administrative Proceeding (Letters 5893 and 5893-A) has been mailed by the IRS for that partnership tax year.
- (6) A BBA AAR should be filed with the IRS service center where the original return was filed. In the case of a BBA AAR filed for a tax year after being selected for examination (but before the NAP has been issued), the partnership should also provide a copy of the BBA AAR to the examiner.
- (7) If the AAR is filed electronically, the partnership uses Form 1065, U.S. Return of Partnership Income (marking the amended return box), and Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR) (marking the BBA AAR box in Part 1 and completing the appropriate items a-e). The partnership also includes a statement, "Election under Section 1101(g)(4)", with the required information. The 2019 instructions to Form 8082 provide details on requirements.
- (8) If the AAR is filed on paper, the partnership uses Form 1065X, Amended Return or Administrative Adjustment Request (AAR), marks the BBA AAR box in Part I, completes the appropriate items a-e in Section 2, and completes Part IV (if necessary). The phrase "Election under Section 1101(g)(4)," should be written across the top of the Form 1065X and a statement attached with the required information. The 2019 instructions to Form 1065X provide details on requirements.
- (9) For information regarding eligibility to elect into the BBA and for how to make an election, see 26 CFR 301.9100-22.
- (10) If an examiner is assigned a BBA AAR for examination that was filed with the service center on or after 1/1/2018, they should immediately notify the BBA POC. The BBA POC will assist the examiner on how to:
 - Confirm that the BBA AAR is valid and includes all of the information required by the statute and applicable regulations.
 - Ensure that the BBA AAR was filed before the issuance of the NAP.
 - Discuss if an update to the statute of limitations (SOL) on making adjustments under IRC 6235(a)(1)(C) is appropriate and if so, how to update that SOL.

- Proceed with the examination.
- (11) If an examiner receives a BBA AAR directly from the taxpayer they are auditing, they should immediately notify the BBA POC. The BBA POC will assist the examiner on how to do the following and determine next steps:
- Confirm whether the BBA AAR was filed with the service center and if so, assist the examiner with requesting a copy from the service center for reconciliation purposes. If the taxpayer files the original BBA AAR directly with the examiner, the examiner should date stamp the AAR, make a copy for the case file and forward the AAR to the service center where the original return was filed
 - Confirm that the BBA AAR is valid and includes all the information required by the statute and applicable regulations.
 - Confirm that the BBA AAR is timely filed. Ensure that the BBA AAR was filed before the issuance of the NAP when the tax year is under examination.
 - Discuss if an update to the statute of limitations (SOL) on making adjustments under IRC 6235(a)(1)(C) is appropriate and if so, how to update that SOL.

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Exhibit 4.31.9-1 (01-24-2024)

Example 1 - \$1,000,000 Adjustment to Sch K, line 1 Ordinary Income and \$1,000,000 Adjustment to Sch K, line 14 NESE - IRC 6501(c)(12) applies

Facts:

- The IRS is auditing ABC, LLC, a partnership subject to the BBA, for 20X1.
- ABC, LLC is in the trade or business of manufacturing widgets.
- ABC, LLC reported \$2,000,000 of net income on its originally filed return.
- ABC, LLC has 4 members.

ABC LLC's Form 1065, Schedule K and K-1s report the following:

Line	Description	Schedule K	Ptnr 1 - GP	Ptnr 2 - GP	Ptnr 3 - GP	Ptnr 4 - GP
1	Ordinary business income (loss)	\$2,000,000	\$500,000	\$500,000	\$500,000	\$500,000
14	Net earnings from self-employment	\$2,000,000	\$500,000	\$500,000	\$500,000	\$500,000
20c	Code Z 199A QBI	\$2,000,000	\$500,000	\$500,000	\$500,000	\$500,000

Audit Results

The IRS proposes the following adjustments:

- Adjustment to Line 1 \$1,000,000
- Adjustment to Line 14 \$1,000,000
- Adjustment to Line 20c Code Z \$1,000,000

BBA Audit Reports - Form 14791/14792:

The BBA Partnership adjustment(s) included in the IU calculation:

- Adjustment to Line 1 \$1,000,000
- Adjustment to Line 14 \$0, duplicative - IRS discretion
- Adjustment to Line 20c Code Z \$0, duplicative - IRS discretion

All adjustments are included in the residual grouping and individually sub-grouped by Sch K reporting line.

Note: The BBA Imputed Underpayment is \$370,000 (the sole adjustment included in the IU multiplied by the highest rate in effect under IRC 1 or 11.)

The BBA Form 14791/14792 would include the following footnotes about the two adjustments treated as zero for purposes of computing the IU:

Other information: The following adjustments are considered zero amount adjustments because such adjustments are already reflected in one or more other partnership adjustments. Therefore, solely for purposes of calculating the imputed underpayment, such adjustments are treated as zero pursuant to Treas. Reg. 301.6225-1(b)(4):

Grouping: Residual

Exhibit 4.31.9-1 (Cont. 1) (01-24-2024)

Example 1 - \$1,000,000 Adjustment to Sch K, line 1 Ordinary Income and \$1,000,000 Adjustment to Sch K, line 14 NESE - IRC 6501(c)(12) applies

- Subgrouping: Sch K - Net Earnings from Self Employment;
- Sch K/K1 Line 14c NESE \$1,000,000

Grouping: Residual

- Subgrouping: Sch K - Qualified Business Income (QBI) Deduction - Section 199A QBI (code Z);
- Sch K/K1 Line 20c Code Z 199A Qualified Business Income \$1,000,000

BBA Ch 2/2A Procedures:

Deficiency adjustment(s) made	Partnership F4605-A	Ptnr 1 - GP F886-S	Ptnr 2 - GP F886-S	Ptnr 3 - GP F886-S	Ptnr 4 - GP F886-S
Sch K/K-1 Line 1, Ordinary business income (loss)	\$1,000,000	\$250,000	\$250,000	\$250,000	\$250,000
Sch K/K-1 Line 14, NESE	\$1,000,000	\$250,000	\$250,000	\$250,000	\$250,000
Sch K/K-1, Line 20c Code Z, 199A QBI Amount	\$1,000,000	\$250,000	\$250,000	\$250,000	\$250,000

Explanation (write in other information section of the 4605-A):

- In a correlative audit of this partnership under the BBA Regime, the above partnership adjustments were made.
- IRC 6241(9) states that partnership adjustments determined under Subchapter C of Chapter 63 of the IRC shall be taken into account for purposes of determining any such tax under Chapter 2 and/or 2A of the IRC to the extent such adjustment is relevant to such determination.

Form 886-A - SECA Tax:

- **Fact:** the partnership originally reported all 4 partners' distributive share of the partnership's trade or business as NESE on Sch K/K-1, line 14.
- **Law:** IRC 6241(9) states that any partnership adjustment made in a BBA audit shall be taken into account for purposes of determining any such tax under Chapters 2 or 2A to the extent that such adjustment is relevant to such determination.
- **Determination:** The IRS is computing NESE in the same manner that the partnership did, and is adjusting Sch K/K-1 by the same amount as the adjustment made in the BBA proceeding to Sch K L1 for the 4 partners to which the partnership did

Field BBA Ch 2/2A Procedures:

- Simultaneously issue BBA Summary Report and Form 4605-A, Examination Changes. Both summary reports can be issued to a PR since adjustment to line 14 is an adjustment to a PRI.
- Issue Form 4605-A to the partnership when issuing the summary report package.
- There is no cover letter for the partnership Form 4605-A; notate on Letter 5895 at the bottom, Form 4605-A is included as an enclosure.

BBA Ch 2/2A Team BBA Ch 2/2A Procedures (General Information for Field Exam Reference):

- Issue partner Forms 4549 and cover letter (Letter 525-D 30-day letter or campus equivalent).

Exhibit 4.31.9-1 (Cont. 2) (01-24-2024)

Example 1 - \$1,000,000 Adjustment to Sch K, line 1 Ordinary Income and \$1,000,000 Adjustment to Sch K, line 14 NESE - IRC 6501(c)(12) applies

- The BBA Ch 2/2A Team will assess SECA tax to each partner based on their adjustment to Sch K/K-1, line 14.

Exhibit 4.31.9-2 (01-24-2024)**Example 2 - \$1,000,000 Adjustment to Sch K Portfolio Income Items - IRC 6501(c)(12) applies****Facts:**

- The IRS is auditing ABC, LLC, a partnership subject to the BBA, for 20X1.
- ABC, LLC is an investment partnership.
- ABC, LLC reported \$1,000,000 of interest, dividends and capital gains on its originally filed return.
- ABC, LLC reported dividend equivalents and investment income.
- ABC, LLC has 4 members.

ABC LLC's Form 1065, Schedule K and K-1s report the following:

Line	Description	Schedule K	Ptnr 1 - GP	Ptnr 2 - GP	Ptnr 3 - LP	Ptnr 4 - LP
5	Interest Income	\$200,000	\$50,000	\$50,000	\$50,000	\$50,000
6	Dividends and dividend equivalents	\$400,000	\$100,000	\$100,000	\$100,000	\$100,000
6b	Qualified dividends	\$400,000	\$100,000	\$100,000	\$100,000	\$100,000
9a	Net LTCG	\$400,000	\$100,000	\$100,000	\$100,000	\$100,000
20a	Investment Income	\$600,000	\$150,000	\$150,000	\$150,000	\$150,000

BBA Audit Results:

BBA Partnership adjustment(s) made:

- Adjustment to Line 6 \$300,000
- Adjustment to Line 6b \$300,000
- Adjustment to Line 9a \$700,000
- Adjustment to Line 20a \$300,000

BBA Audit Reports - Form 14791/14792:

The BBA Partnership adjustment(s) included in the IU calculation:

- Adjustment to Line 6 \$300,000
- Adjustment to Line 6b \$0, duplicative - IRS discretion
- Adjustment to Line 9a \$700,000
- Adjustment to Line 20a \$0, duplicative - IRS discretion

All adjustments are included in the residual grouping and individually sub-grouped by Sch K reporting line.

Note: The BBA Imputed Underpayment is \$370,000 (the sum of the two adjustments included in the IU multiplied by the highest rate in effect under IRS 1 or 11.)

The BBA Form 14791/14792 would include the following footnotes about the two adjustments treated as zero for purposes of computing the IU:

Other information: The following adjustments are considered zero amount adjustments because such adjustments are already reflected in one or more other partnership adjustments. Therefore, solely for purposes of calculating the imputed underpayment, such adjustments are treated as zero pursuant to Treas. Reg. 301.6225-1(b)(4):

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Exhibit 4.31.9-2 (Cont. 1) (01-24-2024)

Example 2 - \$1,000,000 Adjustment to Sch K Portfolio Income Items - IRC 6501(c)(12) applies

Grouping: Residual

- Subgrouping: Sch K - Qualified dividends;
- Sch K/K1 Line 6bc Qualified dividends \$300,000

Grouping: Residual

- Subgrouping: Sch K - Investment income;
- Sch K/K1 Line 20a Investment income \$300,000

BBA Ch 2/2A Procedures:

Deficiency adjustment(s) made	Partnership F4605-A	Ptnr 1 - GP F886-S	Ptnr 2 - GP F886-S	Ptnr 3 - LP F886-S	Ptnr 4 - LP F886-S
Sch K/K-1 Line 6, Dividends and dividend equivalents	\$300,000	\$75,000	\$75,000	\$75,000	\$75,000
Sch K/K-1 Line 6b, Qualified dividends	\$300,000	\$75,000	\$75,000	\$75,000	\$75,000
Sch K/K-1, Line 9a, Net LTCG	\$700,000	\$175,000	\$175,000	\$175,000	\$175,000
Sch K/K-1, Line 20a, Investment income	\$300,000	\$75,000	\$75,000	\$75,000	\$75,000

Explanation (write in other information section of the 4605-A):

- In a correlative audit of this partnership under the BBA Regime, the above partnership adjustments were made.
- IRC 6241(9) states that partnership adjustments determined under Subchapter C of Chapter 63 of the IRC shall be taken into account for purposes of determining any such tax under Chapter 2 and/or 2A of the IRC to the extent such adjustment is relevant to such determination.

Form 886-A - NIIT:

- **Fact:** the partnership is an investment partnership.
- **Law:** IRC 6241(9) states that any partnership adjustment made in a BBA audit shall be taken into account for purposes of determining any such tax under Chapters 2 or 2A to the extent that such adjustment is relevant to such determination.
- **Determination:** All partners are subject to NIIT (IRC 1411) on interest, dividends and portfolio capital gains. All Sch K/K-1 reported amounts would be subject to NIIT in the hands of all partners, general or limited.

Field BBA Ch 2/2A Procedures:

- Simultaneously issue BBA Summary Report and Form 4605-A, Examination Changes. Both summary reports can be issued to a PR since adjustment to lines 6, 9 and 20a are adjustments to PRIs.
- Issue Form 4605-A to the partnership when issuing the summary report package.

Exhibit 4.31.9-2 (Cont. 2) (01-24-2024)**Example 2 - \$1,000,000 Adjustment to Sch K Portfolio Income Items - IRC 6501(c)(12) applies**

- There is no cover letter for the partnership Form 4605-A; notate on Letter 5895 at the bottom, Form 4605-A is included as an enclosure.

BBA Ch 2/2A Team BBA Ch 2/2A Procedures (General Information for Field Exam Reference):

- Issue partner Forms 4549 and cover letter (Letter 525-D 30-day letter or campus equivalent).
- The BBA Ch 2/2A Team will assess NIIT tax to each partner per the Form 886-A - NIIT.

Centralized Partnership Audit Regime (BBA) Field Examination Procedures 4.31.9

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Exhibit 4.31.9-3 (10-29-2021)

Options for Partnership Representative Notices

Form 8979 Box Combinations Selected	Submitted by the:	Determined to be VALID - Issue Letter(s):	Determined to be INVALID - Issue Letter(s):
(1a)(i)	Partnership to revoke the existing entity PR and designate a new entity PR and appoint a new DI.	6053 paragraph A; 6007 paragraph A; 6008 paragraph A	6053 paragraph D In 2; 6007 paragraph B
(1a)(ii)	Partnership to revoke existing entity PR and designate a new individual PR.	6053 paragraph A; 6007 paragraph A; 6008 paragraph A	6053 paragraph D In 2; 6007 paragraph B
(1b)(i)	Partnership to revoke existing individual PR and designate a new entity PR and appoint a DI.	6053 paragraph A; 6007 paragraph A; 6008 paragraph A	6053 paragraph D In 2; 6007 paragraph B
(1b)(ii)	Partnership to revoke existing individual PR and designate a new individual PR.	6053 paragraph A; 6007 paragraph A; 6008 paragraph A	6053 paragraph D In 2; 6007 paragraph B
(1c)	Partnership to revoke the existing DI and appoint a new DI.	6053 paragraph A; 6007 paragraph A; 6008 paragraph A	6053 paragraph D In 2; 6007 paragraph B
(2a) See note 1	Entity PR to resign.	See note 2. 6053 paragraph C In 4; 6007 paragraph A	6053 paragraph D In 1; 6007 paragraph B
(2b) See note 1.	Individual PR to resign.	See note 2. 6053 paragraph C In 4; 6007 paragraph A	6053 paragraph D In 1; 6007 paragraph B
(3) See note 1.	DI to resign.	See note 2. 6053 paragraph C In 4; 6007 paragraph A	6053 paragraph D In 1; 6007 paragraph B
(4a)	Partnership to designate a PR (entity) and appoint a DI in instances where the IRS had not previously notified the partnership that no designation is in effect.	6053 paragraph A; 6008 paragraph A	See note 2. 6053 paragraph C In 3

Exhibit 4.31.9-3 (Cont. 1) (10-29-2021)**Options for Partnership Representative Notices**

Form 8979 Box Combinations Selected	Submitted by the:	Determined to be VALID - Issue Letter(s):	Determined to be INVALID - Issue Letter(s):
(4b)	Partnership to designate a PR (individual) where the IRS had not previously notified the partnership that no designation is in effect.	6053 paragraph A; 6008 paragraph A	See note 2. 6053 paragraph C In 3
(4a)	Partnership to designate a PR (entity) and appoint a DI in instances where the IRS had previously notified the partnership	6053 paragraph A; 6008 paragraph A	See note 3. 6053 paragraph C; 6053 paragraph B; 6008 paragraph B
(4b)	Partnership to designate a PR (individual) where the IRS had previously notified the partnership that no designation is in effect.	6053 paragraph A; 6008 paragraph A	See note 3. 6053 paragraph C; 6053 paragraph B; 6008 paragraph B

Note: The examiner may encounter combinations of resignations, revocations, designations or determinations of or about a PR/DI that are not contemplated by this guidance or the letters. If so, contact a BBA POC should questions arise.

(i) This assumes that the resignation Form 8979 was received without an accompanying Form 8979 from the partnership to designate a new PR or appoint a new DI. If the resignation Form 8979 was accompanied by a designation Form 8979 from the partnership, the agent should:

1. Date stamp each Form 8979 received.
 2. Determine if the resignation Form 8979 is valid or invalid.
- If the resignation Form 8979 is **invalid**, follow the notification requirements of (2a), (2b) or (3), as appropriate for the invalid resignation. On Letter 6053, add on the explanation line: *"The accompanying designation by the partnership is also invalid since the resignation is invalid."*
 - If the resignation Form 8979 is **valid**, determine if the **accompanying designation Form 8979** is valid or invalid.
 - If the **designation Form 8979 is valid**, issue Letters 6053, paragraph A, 6007, paragraph A and 6008, paragraph A.
 - If the **designation Form 8979 is invalid**, issue Letter 6053, paragraph C, check box 4 or 5 depending upon whether the PR or the DI resigned and check box 7 ("other reason") and add the following explanation: *"The partnership attempted to designate/appoint by including an accompanying Form 8979 with the resignation. However, that designation/appointment was determined to be invalid."* Also issue Letter 6007, paragraph A. Ensure the response due date is included in the header of the Letter 6053 that is 30 days from the date the Letter 6053 is mailed.

Exhibit 4.31.9-3 (Cont. 2) (10-29-2021)

Options for Partnership Representative Notices

(ii) Include the response due date in the header of the Letter 6053 that is 30 days from the date the Letter 6053 is mailed.

(iii) If the Form 8979 is determined to be invalid, issue Letter 6053, paragraph C, and check box 7 (“other reason”) and explain invalid Form 8979 received after notification by the IRS that no PR designation in effect (for example, “The partnership attempted to designate a partnership representative but we determined that it was a designation failure. Accordingly, we will designate a new partnership representative.”) After the decision is made who to designate as the PR, issue Letters 6053, paragraph B and 6008, paragraph B, notifying the partnership and the new PR who the IRS has designated as the PR (and appoint as the DI, if necessary). If appointing a DI and designating an entity partnership representative be sure to carefully list the name of each in the address block followed by the appropriate title “Designated Individual” or “Partnership Representative.” If designating an individual partnership representative, be sure to list the name of the individual followed by the title Partnership Representative.

Exhibit 4.31.9-4 (10-29-2021)**Audit Regime Scenarios**

Scenario	Tax Periods Beginning	Filing Date	IRS Audit Regime
1. AAR/Amended Return filed without an election into the BBA centralized partnership audit regime	After 11/2/15 and Before 1/1/18	On or After 1/1/2018	TEFRA/NonTEFRA regime
2. AAR filed with a valid election into the BBA centralized partnership audit regime and tax year has not received a notification of selection for examination	After 11/2/15 and Before 1/1/18	On or After 1/1/2018	The BBA centralized partnership audit regime
3. AAR filed by a partnership that made a valid election into the BBA centralized partnership audit regime upon notification of selection	After 11/2/15 and Before 1/1/18	Before the Notice of Administrative Proceeding is mailed	The BBA centralized partnership audit regime
4. AAR filed by a partnership that did not elect out of the BBA centralized partnership audit regime under IRC 6221(b)	On or After 1/1/2018	On or After 1/1/2018	The BBA centralized partnership audit regime
5. Amended return filed by a partnership that validly elected out of the BBA centralized partnership audit regime under IRC 6221(b)	On or After 1/1/2018	On or After 1/1/2018	The BEO/ILSC* partnership audit regime Taxpayer cannot file an AAR, they must file amended returns. *investor level statute control

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Exhibit 4.31.9-5 (10-29-2021)

Case Disposition - Form 5344

This exhibit provides instructions for completing Form 5344, Examination Closing Record, for no-change cases and cases with adjustments. These Form 5344 entries must be completed by examiners prior to transferring the case to Technical Services.

Form 5344 item	No-change (DC 02)	No-change with adj. (DC 01)	Adjustments no Appeals (DC 08)	Adjustments to Appeals (DC 08)
TIN	X	X	X	X
MFT	X	X	X	X
Tax Period	X	X	X	X
Name Control	X	X	X	X
Name	X	X	X	X
08 - Agreement Date	n/a	n/a	leave blank	n/a
12 - Transaction Codes	TC-300 with \$0	TC-300 with \$0	n/a	n/a
13 - Disposal Code	02 - See A below	01 - See B below	08 - See C below	08 - See C below
18 -Unagreed Amount	n/a	n/a	n/a	leave blank
28 -Examiner's Time	X	X	X	X
30 -Examination Technique Code	X	X	X	X
31 -Examiner's Grade	X	X	X	X
32 - Grade of Case	X	X	X	X
Related Return Alpha Code	if applicable	if applicable	if applicable	if applicable
33 - Examiner's Name	X	X	X	X
34 - Adjustment Amount	leave blank	leave blank	See D below	See D below
36 - Hash Total	X	X	See E below	See E below
408 - Related Return Alpha Code	If S, then items 405-407 are required	If S, then items 405-407 are required	If S, then items 405-407 are required	If S, then items 405-407 are required

Exhibit 4.31.9-5 (Cont. 1) (10-29-2021)**Case Disposition - Form 5344**

Form 5344 item	No-change (DC 02)	No-change with adj. (DC 01)	Adjustments no Appeals (DC 08)	Adjustments to Appeals (DC 08)
411 - Payment Code	N	N	"N" if No Payment, "F" or "P" if Full or Partial Payment received.	"N" if No Payment, "F" or "P" if Full or Partial Payment received.
412 - Installment Agreement Code	N	N	"N" if no Installment agreement, "I" if In- stallment Agreement was received, "C" if coordinated with Col- lection	"N" if no Installment agreement, "I" if Install- ment Agreement was received, "C" if coordi- nated with Collection
Note	n/a	n/a	Other entries required on the Form 5344 will be completed by either Technical Services or BBA Op- erations when the case is being prepared for final closure to Status 90. The form should remain in the case file throughout the BBA process.	Other entries required on the Form 5344 will be completed by either Technical Services or BBA Operations when the case is being prepared for final closure to Status 90. The form should remain in the case file throughout the BBA process.

X = applicable

A. Item 13, Disposal Codes should be 02 - No-change. No proposed adjustments; no affirmative issues; no unagreed issues; no summary report; no IU amount; no protest; no notice of Proposed Partnership Adjustment (NOPPA). No adjustments under Ch 2/2A. Requires issuance of No-Change Letters 6099/6099-A only.

B. Item 13, Disposal Code should be 01 - No-change with Adjustments. No Chapter 1 adjustments, and no IU amount. Only non-Chapter 1 adjustments made (outside the scope of BBA) such as Net Investment Income Tax (NIIT) adjustments at the partner level.

C. Item 13, Disposal Code should be 08 - Final disposition is not yet known. Final disposal code cannot be determined until after the NOPPA is issued by either Technical Services or Appeals. DC 08 is for use in ERCS, RGS and IMS only, and will be changed later in the BBA process before the case is closed to status 90.

D. Item 34, Adjustment Amount - This entry should reflect the amount of total changes to ordinary and separately stated income, loss and deduction items, plus a factor when credits are adjusted.

- The items included should be the components of Analysis of Net Income (Loss) Line 1.
- Do not include adjustments to balance sheet items, changes to net earnings from self-employment tax, credits, alternative minimum tax items, or other information items.
- Any credit adjustments must then be divided by 30% and added to the total income, loss and deduction items.

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Exhibit 4.31.9-5 (Cont. 2) (10-29-2021)

Case Disposition - Form 5344

Example: If the examination resulted in a \$4,000 increase to income, loss and deduction items, and a disallowance of \$10,000 in credits, the adjustment amount should reflect \$37,333 (4,000 + 33,333 (10,000 divided by .3)).

E. Example how to compute Item 36, Hash total.

TSPC Reference for Hash Total Computation

Line reference	Enter amount shown on Form 5344	Number used for Hash Total	Note
P24-29	201812	201812	
12	135,790.00	13579000	ignore decimal
15	2,354.00	235400	ignore decimal
18		0	
21		0	
22		0	
23		0	
28	318.5	3185	ignore decimal
34	122,850	122850	net of positive and negative net income adjustments; plus 30% of credit adjustments.
35		0	
44		0	
46		0	
402		0	
403		0	
404c		0	
404d		0	
404e		0	
414		0	
415		0	
418		0	
	Hash Total	14142247	

