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Interim Guidance Memorandum

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MEMORANDUM FOR LARGE BUSINESS AND INTERNATIONAL DIVISION
SMALL BUSINESS/SELF-EMPLOYED DIVISION
FRONTLINE MANAGERS AND EXAMINERS

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SUBJECT: Interim Guidance on the Centralized Partnership Audit Regime
Field Exam Procedures

This memorandum outlines field examination procedures for use by LB&I and SB/SE employees when auditing partnership returns under the centralized partnership audit regime until a new IRM is published. Please ensure that this information is distributed to all affected employees within your organization.

Purpose: The purpose of this memorandum is to provide field examination procedures, processes and guidelines to LB&I and SB/SE employees who examine partnership returns under the centralized partnership audit regime or the BBA regime.

Background/Source(s) of Authority: 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from Tax Hikes Act of 2015 (PATH Act) and sections 201 through 207 of the Tax Technical Corrections Act of 2018 (TTCA) repealed the TEFRA partnership procedures and the electing large partnership provisions and replaced them with a new centralized partnership audit regime.

Procedural Change: Attached guidance (**Attachment – LB&I-04-1019-010**) applies to partnerships for taxable years beginning after December 31, 2017 and partnerships that elect into the BBA regime for taxable years beginning after November 2, 2015 and before January 1, 2018.

Effect on Other Documents: Guidance is based on new legislation, new process and new procedure where there is no related IRM section. Procedures will be housed in a new IRM 4.31.9.

Effective Date: October 31, 2019

Contact: Monique (Mimi) Gabel, Program Manager in the Partnership Practice Network.

Attachment – LB&I-04-1019-010 (Guidance for Centralized Partnership Audit Regime Field Exam Procedures)

Distribution:

[IRS.gov \(http://www.irs.gov\)](http://www.irs.gov)

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Terms

Term	Definition
You	Field examiner or revenue agent.
BBA regime	<p>Examination subject to the Bipartisan Budget Act of 2015 (BBA).</p> <p>This term is used interchangeably with "centralized partnership audit regime".</p>
Reviewed year	Partnership taxable year under exam or which partnership adjustment relates to.
Adjustment year	<p>Partnership taxable year in which:</p> <ul style="list-style-type: none"> • The decision of a court becomes final in a proceeding brought under 6234; • An administrative adjustment request is filed; or • If no petition under section 6234 is filed, a notice of final partnership adjustment is mailed under 6231 or a waiver is executed to waive the restrictions under section 6232(b).
Partnership	Any partnership required to file a return under section 6031(a).
Partnership adjustment	Any adjustment to a partnership-related item as defined in section 6241.
Pass-through partner	Any pass-through entity that holds an interest in a partnership.

Acronyms

Acronym	Definition
BBA	Bipartisan Budget Act of 2015
CPF	Campus Pass-Through Function
DI	Designated Individual
ECI	Effectively Connected Income
EPR	Entity Partnership Representative
FDAP	Fixed, Determinable, Annual or Periodical
FPA	Notice of Final Partnership Adjustment
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
POA	Power of Attorney
POC	Point of Contact
PR	Partnership Representative
PRI	Partnership-Related Item
SECA	Self-Employed Contribution Act
SRS	Specialist Referral System
TCS	Tax Computation Specialist
TIN	Taxpayer Identification Number
TS	Technical Services

Exhibits (Job Aids)

Exhibit #	Description
EXH 1	BBA Partnership Check Sheet (Reserved)
EXH 2	Partnership Representative of Record
EXH 3	Form 8979 Filing Chart
EXH 4	Form 8979 Validation
EXH 5	PR Notices Summary Grid
EXH 6	IUA Workbook

Overview

1. 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.
 - A. 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 phase of the examination is modification which will be handled by the BBA Unit in Ogden.
2. 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 have no participation rights during the examination.
3. 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 the adjustment on the basis of correcting the error is not considered a notice of final partnership adjustment under section 6231(a)(3).
 - A. 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.
4. 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.
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 section 705(a)(2)(B).
6. These procedures apply to all partnerships for taxable years beginning after December 31, 2017 unless a valid election out has been made. These procedures also apply to partnerships that elect into the BBA regime for taxable years beginning after November 2, 2015 and before January 1, 2018. Refer to LB&I-04-0719-006.
7. You and your manager are expected to have knowledge of existing procedures, specifically IRM 4.10 and IRM 4.46, and this guidance will mainly focus on exam procedures and processes that are impacted by the BBA regime.
8. Document and file all your actions, determinations, forms, letters, and job aids under Section 600 for SB/SE or SAIN 724 for LB&I cases.

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. Therefore, if the delinquent return secured includes such an election out, it is automatically deemed invalid and should be denied.
 - B. You must contact the BBA point of contact for any election out that is denied.
 - C. Refer to IRM 4.4.9 for AIMS procedures and processing instructions.
2. 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.
3. Once a determination has been made to conduct an examination of the non-filed/late filed return, issue Letter 2205-D and follow the BBA procedures.

Compliance Assurance Process (CAP)

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.
 - A. Refer to IRM 4.51.8 for CAP information and procedures.
2. Partnerships participating in the CAP have not yet filed a return; and thus, no adjustments to partnership-related items are being made during CAP. Therefore, the CAP procedures are not subject to the BBA regime.

Partnerships in Bankruptcy and Cease to Exist

1. You may audit a BBA partnership return if warranted or complete the examination even if the BBA partnership is in bankruptcy or ceases to exist.
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. However, the filing of a petition under Title 11 (in a BBA examination) does not prohibit the following actions:
 - 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 and point of contact, refer to:
 - A. [IRM 4.27.2](#),

- B. [Technical Services Exam Bankruptcy Coordinator](#), or
- C. [LB&I Bankruptcy Guide](#)

4. When a partnership ceases to exist, 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 § 708(b)(1), or
 - B. Does not have the ability to pay, in full, any amount due (not collectible).
5. The determination will be made by the BBA unit.

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.
 - A. 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. The term PRI means:
 - 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 section 6031, the regulations thereunder, or the forms and instructions prescribed by the IRS for the partnership's taxable 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 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 relating to an election under section 754; and
 - I. Partnership allocations and any special allocations.
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 section 170(b)) at the partner level to a partnership-related item based on the partner's facts and circumstances, and
 - B. A partner's adjusted basis in his/her partnership interest (outside basis).

Note: Components of the partner's adjusted basis may be PRI.

Non-chapter 1 tax

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 IRC at the time this interim guidance was released.
2. You must contact the BBA POC if you are working on any non-chapter 1 taxes.
 3. 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.
 - A. Section 6501(c)(12) provides in the case of any partnership adjustment determined under the BBA regime, the period for assessment of any tax imposed under chapter 2 or 2A which is attributable to such adjustment shall not expire before the date that is one year after one of two events.

- i. In the case of an adjustment pursuant to the decision of a court in a proceeding brought under section 6234, the period for assessment shall not expire before the date that is one year after the decision becomes final.
 - ii. 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 section 6231.
- B. 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 section 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.

Auditing chapters 2 & 2A – BBA Partnership is your key case

1. All Partnerships are required to determine whether a partner's distributive share of income is subject to SECA or NIIT. Partnerships report information about SECA on Schedules K and K-1, line 14 and about NIIT on Schedules K and K-1, line 20. (Line references to 2018 version)
 - A. If a partnership correctly classifies income as subject to SECA or NIIT on its originally filed return, section 6501(c)(12) applies to allow assessment of SECA or NIIT at the partner level related to adjustments to PRIs made at the BBA Partnership level. Example – you increase ordinary income on line 1 of Schedule K-1 and correspondingly increase net earnings from self-employment on line 14 of Schedule K-1 by the same amount.
 - B. If a partnership improperly classifies income, or does not classify income at all, as subject to SECA or NIIT on its originally filed return, there is a risk that section 6501(c)(12) will not apply to the assessment of any tax imposed under chapter 2 or 2A which is attributable to partnership adjustments determined under the BBA regime. In this case, you must protect partners' section 6501(a) statutes to assess SECA or NIIT related to both their originally reported distributive share and/or to their distributive share of adjustments to PRIs you make at the BBA partnership level. Example – your sole adjustment is to increase net earnings from self-employment on line 14 of Schedule K-1 from zero to equal to ordinary income on line 1 of Schedule K-1.
2. An adjustment to SECA on line 14 of Schedule K-1 is a PRI where an adjustment to NIIT on line 20 of Schedule K-1 is not a PRI.
 - A. SECA reported on line 14 of Schedule K-1 is a PRI because it's an item reported on the BBA partnership's Schedule K/K-1 and affects the chapter 1 liability of any person because an individual is entitled to an adjustment to income for their deductible part of self-employment tax, which reduces their chapter 1 liability.
 - B. NIIT reported on line 20 of Schedule K-1 is not a PRI because there are no adjustments related to NIIT that affect a taxpayer's chapter 1 liability.

3. Although whether partnership income is subject to SECA has been determined to be a PRI, dual procedures must be followed. Adjustments to whether partnership income is subject to SECA is primarily treated as a PRI and is to be alternatively treated as not a PRI.
 - A. Dual Procedures means, with respect to working a SECA issue when auditing both a BBA partnership and its partner(s) that, you will protect both the BBA partnership's section 6235 statute(s) and the partner(s) section 6501(a) statute(s) and make an adjustment at the BBA partnership level treating the partnership's income as subject to SECA as a PRI and make an adjustment at the partner level treating it as not a PRI.
 - B. Adjusting ordinary income that will impact both lines 1 and 14 of Schedule K will be presented as an adjustment to a PRI at the partnership level and may result in an imputed underpayment. If warranted, Technical Services (TS) or Campus Pass-Through Function (CPF) will prepare and issue partners' SNDs to assess SECA at the partner level for their distributive share of line 14 (your adjustment at the BBA partnership level). The SNDs may state that this is a SECA adjustment related to a partnership adjustment made in an audit of a BBA partnership and section 6501(c)(12) will apply.
 - C. Adjusting line 14 to correspond in full or part with line 1 of Schedule K will require dual procedures.
 - i. You will present the adjustment as an adjustment to a PRI at the partnership level and compute an imputed underpayment. This PRI adjustment is your primary argument.
 - ii. You will also prepare Form 4605A and workpapers for the SECA issue to assess SECA at the partner level for their distributive share of line 14 (your adjustment at the BBA partnership level). The reports will state that the partner is subject to SECA on their distributive share of income from the BBA partnership because (state reason; i.e., The IRS has determined that your interest in the BBA partnership is not a limited partnership interest for purposes of Chapter 2 SECA).
 - iii. The partners' section 6501(a) statutes must be protected.

Note: You must provide TS or CPF the language specific to the issue in your case to be used on the partner SNDs. Upon finalization of the FPA, TS or CPF will prepare and mail the SND (Letter 531 Notice of Deficiency).

4. Auditing a BBA partnership with adjustments that affect chapters 2 and 2A requires PCS linkage to flow your adjustments down to the partners. The partners' returns can be controlled in the field or campus but must still be linked. Follow Chapter 2/2A Linkage procedures within this section below.

Note: If auditing a partnership that elected out of the BBA, refer to ILSC Linkage procedures in IRM 4.31.5.

Auditing chapters 2 & 2A – Form 1040 is your key case

1. Assessments of chapters 2 and 2A taxes are made at the partner (direct and indirect) level in proceedings outside of the BBA regime.
 - A. Adjust non-PRI and assess chapter 2 taxes at the partner level. If an adjustment to PRI or line 14 of Schedule K-1 is required, you must make the adjustment at the BBA partnership level. In other words, you must open the BBA partnership for audit and follow dual-procedures as described above.
 - B. Adjust and assess chapter 2A taxes at the partner level. The BBA regime doesn't apply to taxes under chapter 2A.

BBA linkage procedures

1. PCS linkage is required when auditing a BBA partnership as your key case and there are chapter 2 or 2A issues.
2. You and your manager must determine who the relevant partners are prior to submitting the PCS linkage request. See IRM 25.6.23.4.5.1 for limited statute control.
 - A. You must determine during the risk analysis phase of your audit or at the latest within 60 days of issuance of the NAP if you need to protect the BBA partnership's partners' section 6501(a) statutes for purposes of adjusting or assessing SECA and/or NIIT.

Note: A new PCS Linkage Form is being developed for the sole purpose of linking relevant partners of a BBA partnership for assessing SECA or NIIT. This form requires you to choose whether you are asking the CPF to link the partners and protect the relevant partners' section 6501(a) statutes (if not already controlled), or if your assessments can be made under section 6501(c)(12) statute protection. A new mailbox solely for BBA Partnership linkages has been requested.

3. There must be at least 12 months remaining on partner statutes the CPF would control when submitting a linkage package to the CPF requesting section 6501(a) statute protection.
4. If there are less than 12 months remaining on any partner statute, you're responsible for securing partner statute extensions. You're always responsible for statutes for partners under your control. The partner returns may be transferred to the CPF once extensions are secured.

Non-PRI report writing

1. Partnership adjustments at a partnership level that affect tax under chapters 2 and 2A need to be allocated to the relevant partners in order to properly pass-through those adjustments to the terminal partners and make assessments.
2. Procedures for allocating Non-PRI adjustments to the partners of a BBA partnership will leverage existing procedures. See IRM 4.31.5 for ILSC Field Procedures.

3. A Form 4605A must be prepared and issued to a BBA partnership for adjustments to SECA and NIIT that are to be treated as non-PRIs.
4. Forms 886-A and 886-Ss must be prepared for each partner receiving an allocable share of your Non-PRI adjustments.

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 ($\$100,000 \times 3.8\%$ maximum Medicare rate). BBA doesn't apply to taxes under chapter 2 and the inconsistent reporting rules under section 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's no adjustments to PRI.
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 section 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 dual procedures. Primarily the examiner will make a \$100,000 PRI adjustment to line 14 of Schedule K-1 and compute an IU of \$37,000. The examiner is required to utilize BBA PCS linking procedures to have the CPF issue substantially similar SNDs for SECA tax to all the partnerships' partners and protect the partners' 6501(a) statutes; these SNDs will state that the partner is subject to SECA on their distributive share of income from the BBA partnership because (state reason; i.e., The IRS has determined that your interest in the BBA partnership is not a limited partnership interest for purposes of Chapter 2 SECA) and

this \$3,800 ($\$100,000 \times 3.8\%$ maximum Medicare rate) assessment of SECA will be made at the partner level.

Examples of partnership-level audits

1. An examiner is auditing the Form 1065 of a partnership subject to the BBA. The partnership has 10 equal individual partners. The partnership reported \$1,000,000 of ordinary income on schedule K, line 1 and reported that \$0 of that income as subject to SECA on schedule K, line 14. The examiner determines that the partnership should have reported the entire \$1,000,000 on line 14 of Schedule K as subject to SECA. There is no other adjustments to a PRI. Under dual procedures, primarily, this PRI adjustment will result in an IU. Secondly, the \$1,000,000 adjustment to line 14 must be taken into account for purposes of determining the partners' SECA tax obligations. The IRS may adjust and assess each partners' SECA tax liabilities on their individual returns. Since each partner is an equal partner, each partners' income subject to SECA will be increased by \$100,000 or 10% of the increase to line 14 of Schedule K-1. The IRS will issue a SND stating that the partner is subject to SECA on their distributive share of income from the BBA partnership and assess \$3,800 ($\$100,000 \times 3.8\%$ maximum Medicare rate) to each partner for their SECA tax related to an adjustment made to the BBA partnership. The examiner must follow the BBA linkage procedures and protect the partners' section 6501(a) statutes.

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, you should:
 - A. Refer to the [International Knowledge Base Homepage](#) and select [Repatriation/Withholding Book](#) from the Business Inbound shelf for more information.
 - 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 you do 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 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.
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 US citizen and one is a non-resident alien who is a resident of another country. The partnership earned \$200 of US 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 US citizen and one is a nonresident alien who is a resident of another country. The partnership earned \$200,000 of US 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, that the partnership should have reported \$400,000 of US 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.

- C. Similar facts in 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.

Planning the Examination

1. During this phase of the examination, you will prepare and execute a plan that will take into consideration various factors; including but not limited to, risk assess the tax return (including any AARs) for potential examination, understand the partnership's organizational structure, determine if the examination is subject to the BBA regime, and identify the initial PR.
2. You shouldn't initiate an examination with less than 12 months remaining on the statute of limitations on making adjustments under section 6235(a)(1) without prior managerial approval. If you and your manager decide to initiate the examination with less than 12 months on the statute, you will need to request an extension or contact the BBA POC for imminent assessment statute procedures. See below for 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).
 - 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 respond within 2 weeks from the date of the request.

Risk analysis

1. Obtain IDRS prints to determine whether:
 - A. An administrative adjustment request (AAR) was filed. If so, secure a copy unless already provided. The AAR would constitute the starting point for any risk analysis and issue consideration.
 - i. Ensure the 6235(a)(1) date is updated properly. See statute of limitations (SOL) on making adjustments section below.
 - ii. You should consider all adjustments reported on the AARs in addition to Form 1065. Under the BBA regime, an AAR is effectively equivalent to a superseded return for the tax year.
 - B. The partnership return being risk assessed includes payments of an imputed underpayment, penalties and interest that resulted from any prior year BBA audit(s). If so, the payments for imputed underpayments and related penalties and interest are nondeductible expenses.
 - i. Secure a BMFOLT and look for a Transaction Code 971 with Action Code 813. This will disclose the imputed underpayment amount and the corresponding reviewed year.
2. Assess whether any negative adjustments related to a prior year BBA examination reported on the return being risk assessed are consistent with how those adjustments are reflected on any Form 14792 or Form 15027. The negative adjustments as reported should be consistent in amount, character/category and timing with the amounts reported on Form 14792 or Form 15027 (and corresponding Form 886-A).
3. Consider any potential non-chapter 1 tax issues; such as, Chapter 2 or 2A issues. If so, you must contact the BBA POC for further guidance.

Mandatory referral to the BBA point of contact (POC)

1. You must contact the appropriate BBA POC if the partnership involves any of the following:
 - A. Election into the centralized partnership audit regime for taxable years beginning after November 2, 2015 and before January 1, 2018;
 - B. An invalid election out under section 6221(b);
 - C. Partnership Representative is not in effect or invalid Form 8979;
 - D. Adjustments impacting non-chapter 1 tax;
 - E. Form 2848 (POA);
 - F. Notice to partner of inconsistent treatment;
 - G. Form 872-M;
 - H. Netting any of the groupings or subgroupings with negative adjustments that are considered in computing the imputed underpayment; or
 - I. Determining multiple imputed underpayments.
2. A referral should be made as early in the examination as the need is identified.

- A. For LB&I, submit an inquiry into the request tracker and request for a BBA POC.
- B. For SB/SE, submit the request through the SRS system.

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 section 6031(a) whose tax years begin on or after 1-1-2018, except:
 - A. Partnerships electing out of the BBA; and
 - B. Partnerships electing out of partnership status pursuant to section 761(a). Refer to IRM 4.31.2.2.17.
2. You must determine, for each taxable year, whether the partnership return is subject to the BBA regime. This is necessary since a partnership may have elected out of the BBA for one year under examination but not another.
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 section 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 - ILSC Field Procedures.
5. You must record the determination whether it’s a BBA partnership or not on your activity record.

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

Election out of the BBA – tax periods begin on or after 1/1/2018

1. If there’s an election out, you must 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 section 6221(b) to elect out of the centralized partnership audit regime on their timely filed Form 1065/1066, Schedule B, question 25 (including extensions).
 - A. AMDISA will display “ELECT-OUT-OF-BBA-CD>1” if there’s an election out.

Note: Form 1065/1066, Schedule B question 25 (2018 version).

3. In addition, eligible partnerships must attach Schedule B-2 to provide information concerning their partners as required by section 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. You and your manager have the discretion to approve the election out even if the information reflected on SCH B-2 was transposed incorrectly and the IRS has information that would remedy the incorrect information. You should consult the BBA POC if you have any concerns.

Determining if an election was made timely

1. Before determining whether a partnership is eligible to elect out, you must ensure that the election was made timely.
 - A. Non-filers can't elect out because there was no return filed. The election can't be made on a substitute for return (SFR). The SFR will be subject to the centralized partnership audit regime.
 - B. 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, you may use the partnership's proof of timely filing, such as eFile receipts or certified mailing slips.
 - A. To assess whether a return has been timely filed, refer to IRM 20.1.2.1.1.
3. If the election is not made on a timely filed return (including extensions), the election out is invalid.

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.

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 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 disregarded entity for federal tax purposes
 - E. An estate of an individual other than a deceased partner
 - F. A nominee

Determining if the partnership has any ineligible partner during the taxable year

1. You must do your due diligence and confirm that there are no ineligible partners at any time during the year. 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. Any inconsistencies between the two should be investigated, especially the type of partner indicated.
3. If any of the partners are 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 you determine that the partnership had ineligible partners during the taxable year, the election out is invalid.

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 Schedule 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.
4. With regard to 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 furnish 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.

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 section 6031(b) with respect to each of its 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 Schedules K-1 attached to the return. This entry will provide you 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, you should ensure that 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 section 6037(b) are also accounted for.
 - A. For 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 shareholders (36) for a total count of 57.

4. If you determine that the number of schedule K-1s required to be furnished is more than 100, the election out is invalid.

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 appealable.
2. Letter 6062, *Notice of Invalid Election Out of the BBA*, is used to notify a partnership of the IRS' determination.
 - A. Mail or issue this letter separately and no earlier than the issuance of Letter 2205-D.
3. You must 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 "Comments" section of the form, request to change the value of the "ELECT-OUT-OF BBA-CD" to "2".
 - B. Ensure the AMDISA shows "ELECT-OUT-OF-BBA-CD>2".

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 must 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).
 - A. An election to revoke must be done on a year by year basis.
3. Partnership must mail or submit the revocation statement to the person whose name appears on Letter 2205-D. The revocation statement must have the following:
 - A. A statement that this is an election to revoke section 6221(b) election and identify the taxable year for which the election to revoke is being made.
 - B. Sign and date by any person who is authorized to sign the Form 1065. Any partner or LLC member is an authorized person.
 - C. The partnership must also designate a partnership representative and submit Form 8979.

Validate the revocation statement

1. You must ensure that the revocation statement 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 you accept the revocation, the partnership examination is subject to the BBA regime.

- A. Your manager must approve the determination (accept or reject). The activity record should record this action.
 - B. You must update ERCS/AIMS to indicate the return is subject to the BBA regime.
 - i. Prepare Form 5348, AIMS/ERCS Update (Examination Update) and in the “Comments” section of the form, request to change the value of the “ELECT-OUT-OF BBA-CD” to “2”.
 - ii. Ensure the AMDISA screen shows “ELECT-OUT-OF-BBA-CD>2”
3. If you reject the revocation, you must communicate the determination to the partnership.
 - A. The partnership can’t appeal this determination.
 4. The revocation statement should be filed under Section 600 for SBSE/SAIN 724-BBA for LBI.

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 should be coordinated with the BBA POC.

Partnership Representative (PR)

1. The partnership must designate a PR on each return filed for taxable years beginning after December 31, 2017. The designation is effective on the date the return is filed.
 - A. Page 3 of Form 1065 should reflect the designation of the PR. Generally, this is the initial designation of record.
 - B. If there is no designation of the PR, there is no PR designation in effect.

Note: Form 1065 (2018 version).

2. A PR has a key role in a BBA proceeding. Under section 6223, it is 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. There may be only one PR for a partnership taxable year at any time. Therefore, it is critical that the PR is clearly identified.
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 only requirement is that the PR must have a substantial presence in the United States.
 - A. If a partnership designates an entity (including the partnership itself) to be the PR, it must also appoint a designated individual (DI) to act on behalf of

the EPR. The DI can be anybody but must also have substantial presence in the United States.

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

4. 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.
5. 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. If there is a change to the PR or DI, any actions of the old PR or DI prior to the change will remain valid.
6. 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 below.
7. Form 8979 may also be submitted in conjunction with the partnership’s filing of an administrative adjustment request. If so, the change in designation (or appointment) is treated as occurring prior to the filing of the administrative adjustment request.
8. Document all your actions concerning the identification of the PR in your case file under SECTION 600 for SB/SE or SAIN 724 for LB&I cases. You may use the Partnership Representative of Record Job Aid (EXH 2) to keep track of all the designations.

Substantial presence in the United States

1. Both the PR and DI must have a substantial presence in the United States. All the following requirements must be met:
 - A. Make themselves 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 Regulations section 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).
2. If the PR is an entity (including if the PR is the partnership itself), it must be in legal existence to have substantial presence. For example, if the PR is an Entity Partnership Representative (EPR) it must be in legal existence and both the PR and DI must have a United States street address, a telephone number with a United States area code, and a taxpayer identification number.

Form 8979

1. [Form 8979](#) is the sole mean to revoke a PR or DI, resign as a PR or DI, or designate a PR where no PR designation is in effect. Form F8979 is submitted for a single taxable 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)
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)

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) to the partnership.
4. A PR or DI may submit Form 8979 any time after the issuance of a notice of administrative proceeding (NAP) to resign.
 - A. 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 no PR designation being in effect.

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 appointed DI. Part 4 is the signature section.

Multiple revocations by the partnership within the 90-day period

1. The IRS's goal is to conduct effective and efficient examinations. Multiple revocations within a relatively short timeframe can have a negative impact on achieving this goal.
 - A. If you receive two revocations within a 90-day period, you may (but are not required to) determine that the second revocation (the "current" revocation) results in no PR designation in effect.
 - i. Do not send out Letter 6053 responding to the current revocation if you contemplate determining that no PR designation in effect.
 - B. If you and your manager understand the reasons for multiple revocations within the 90-day period based on facts and circumstances, you may accept the current revocation (if valid) and confirm the latest PR of record. You will send Letters 6053, 6007 and 6008.
2. If you do determine there's no PR designation in effect, you must provide notice within 90 days of receiving the current revocation to indicate that there is no designation in effect. Otherwise, you can't later determine that no designation is in effect because of these multiple revocations. You will send Letters 6053 and 6007 only.
 - A. Although there is no set time to designate a new PR after you've declared there's no designation in effect, you must 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 you have 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.

Form 8979 and examiner responsibilities

1. When you receive a Form 8979, date stamp it and carefully 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 your determination.
 - A. Form 8979 is deemed valid until the IRS says it's invalid.
2. You may use Form 8979 Filing Chart (EXH 3) as a roadmap. Ensure the form has the following information.
 - A. The correct name of the partnership, EIN, address and tax year ending date.
 - i. You will need to decide if the information in the header is acceptable. Generally, at least the partnership name, EIN and tax

year should be accurate to ensure the form is valid. If there are some minor scrivener errors and you decide to accept the form, clearly document these errors and your intention to accept the form anyway so it comes to the attention of your manager when he/she reviews your determination.

- B. Reason for submitting the form; such as:
 - i. The partnership is revoking the current entity or individual PR;
 - ii. The partnership is revoking the current DI;
 - iii. The PR is resigning;
 - iv. The DI is resigning; or
 - v. The partnership is designating a PR because there's no PR in effect.
 - C. The correct name of the PR or DI that is being revoked or resigned, TIN, address, and phone number. Due to privacy concerns, the TIN(s) may not be provided. If this is the case, ensure the other information is correct.
 - i. If the information is for a person other than the current PR or DI of record, the Form 8979 is invalid.
 - ii. Generally, the most recent Form 8979 supersedes all prior Form 8979 submissions. However, it is possible that the partnership did not properly revoke the PR or DI by erroneously listing the wrong person. In such a case, that revocation and designation are invalid. The PR or DI before the invalid revocation remains as the PR or DI of record.
 - D. The correct name of the successor PR and/or DI designated by the partnership, TIN, address, and phone number.
 - i. Research IDRS to ensure the name and TIN exist and they match. Note: Due to privacy concerns, the TIN(s) may not be provided on the Form 8979. If the TIN(s) are not provided, contact the PR or DI directly to obtain them and document in the case file.
 - ii. Both PR and DI must have substantial presence in the United States.
3. Form 8979 must be signed and dated by the appropriate PR, DI or authorized person along with the person's name and title. You can use Form 8979 Job Aid (EXH 4) to assist with validation. Document your determination in your case file.
 4. If you cannot determine the PR or DI of record, you may determine that there is "no PR designation in effect".
 5. You must prepare and issue notices upon receiving a Form 8979, such as:
 - A. [Letter 6053](#), Notice to Partnership of Partnership Representative Status,
 - B. [Letter 6007](#), Notice to [Existing or Old] Partnership Representative of Status, and
 - C. [Letter 6008](#), Notice to [New] Partnership Representative of Status.

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 should always be mailed to the partnership. Letters 6007 and 6008 should be 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 following table will help you chose the appropriate selectable paragraph and checkbox (if any) for each of the letters. Additionally, the “PR Notices Summary Grid” job aid (EXH 5) can assist you in determining what letters to mail.

F8979 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) (i) See note.	Entity PR to resign.	(ii) See note. 6053, paragraph C, In 4 6007, paragraph A	6053, paragraph D, In 1 6007, paragraph B
(2b) (i) See note.	Individual PR to resign.	(ii) See note. 6053, paragraph C, In 4 6007, paragraph A	6053, paragraph D, In 1 6007, paragraph B
(3) (i) See note.	DI to resign.	(ii) See note. 6053, paragraph C, In 5 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	(ii) See note. 6053, paragraph C, In 3
(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	(ii) See note. 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 that no designation is in effect.	6053, paragraph A 6008, paragraph A	(iii) See note. 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	(iii) See note. 6053, paragraph C 6053, paragraph B 6008, paragraph B

Note: You 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 you do, 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:

- Date stamp each Form 8979 received.
- Determine if the resignation Form 8979 is 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.
 - If the designation Form 8979 is valid, issue Letters 6053, para A, 6007, para A and 6008, para A.
 - If the designation Form 8979 is invalid, issue Letter 6053, para C, In 4 or 5 depending upon whether the PR or the DI resigned and check In 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, para A. Ensure you include the response due date in the header of the Letter 6053 that is 30 days from the date you mail the Letter 6053.

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

(iii) If the Form 8979 is determined to be invalid, issue Letter 6053, para. C, other line 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 you decide who to designate as the PR, issue Letters 6053, para. B and 6008, para B, notifying the Partnership and the new PR who the IRS has designated as the PR (and appoint as the DI, if necessary).

8. If you receive two revocations within a 90-day period and determine that no PR designation is in effect due to the multiple revocations, you must provide notice within 90 days of receiving the second revocation to indicate that there is no PR designation in effect. Prepare and issue:
 - A. Letter 6053 to the partnership’s last known address and select paragraph C, line 6 and type “N/A” in the “response due date” field in the header of the letter.
 - B. Letter 6007 to the PR designated on the first revocation. Select and complete paragraph A and indicate the date you received the second revocation.
 - C. Letter 6007 to the PR designated on the second revocation. Select paragraph C to indicate its designation is no longer effect.
 - D. See “Service’s Selection of a PR” for what letters to mail after you determine who to designate as the PR.

9. If the IRS made a designation of a PR, the partnership can request permission from the IRS to revoke that designated PR by submitting a valid revocation Form 8979.

The regulations indicate that you will not unreasonably withhold your permission when this occurs.

- A. If you decide to not grant permission, detail the reason(s) why in your case file and complete Letter 6053 paragraph D, line 3 and mail to the partnership within 30 days of receipt of the Form 8979. Also, complete Letter 6007, selecting paragraph B and mail to the current partnership representative.
- B. If you decide to grant permission, determine if the Form 8979 is valid and process it as a standard revocation discussed in this guidance.

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 “Initiate Taxpayer Contact” section below.
 2. Unless the partnership submitted Form(s) 8979 together with an administrative adjustment request (AAR) filing prior to the issuance of Letter 2205-D, the PR or DI on Page 3 of Form 1065 is the PR or DI of record and should be listed on Letter 2205-D.
 - A. Form 1065 instructions permit the TINs for the PR and DI to be listed as all zeros. 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 after the NAP has been issued unless the PR or DI has already contacted you.
3. If the partnership filed an AAR with a Form 8979 (properly revoking the prior PR and/or DI) and properly designating 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. When the partnership filed multiple AARs with Forms 8979, generally you will use the PR or DI information from the most recently submitted Form 8979 to complete the Letter 2205-D.
 - A. It is important that each Form 8979 properly revokes 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) is invalid and the PR or DI that was not properly revoked remains in effect.
 - i. 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. You should review the historical sequence of all submitted Forms 8979 to ensure each PR or DI of record with the IRS was properly revoked.
 - ii. If you have an invalid Form 8979, you must contact the BBA POC.

5. If there is no valid designation on Page 3 of Form 1065 and/or no subsequent designation via a valid Form 8979, then no PR designation is in effect.
 - A. You should input in the space for the partnership representative, *“No partnership representative designation in effect”*.

No PR designation in effect

1. Some circumstances under which the IRS can determine that no PR designation exists include:
 - A. No substantial presence in the United States. See section “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 determines 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.

Reminder: Contact the BBA POC if no PR designation in effect.

2. If no PR designation exists or is no longer in effect, you must first give the partnership an opportunity to select one (except in instances where it is due to multiple revocations within the 90-day period). You must prepare and issue the applicable letter to the partnership’s last known address:
 - A. Letter 2205-D when a partnership contact has not yet been made. Among other things, this letter informs the partnership that there’s no PR in effect and the partnership can timely designate a PR via Form 8979.
 - B. Letter 6053 (if you have already issued Letter 2205-D and subsequently determine that there is no PR designation in effect) and choosing the relevant line item for selectable paragraph C.
 - i. Ensure the response due date field reflects a date that is 30 days from the date you mail the letter.
3. If you determine the existing PR designation is no longer in effect, prepare and issue Letter 6007 to the PR’s last known address with selectable paragraph C.
4. If the partnership failed to submit a Form 8979 or you received the form after the response due date, you will select a PR. See “Service’s selection of a PR” section below.
5. If a Form 8979 is received timely, date stamp it.
 - A. Determine the form’s validity and process it accordingly. See “Form 8979 and examiner responsibilities” section above.

Reminder: Document your activities in the case file.

Service's selection of a PR

1. If the IRS must select a PR, there is no specific prescribed timeframe to do so. However, you must select a new PR 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. If you need to designate a PR, you should 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,
 - 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 is a United States person, and
 - H. The person's ability to meet with the IRS to participate in the examination.
4. To determine the above, you may seek information and discuss the matter with partners, employees, and other prospective candidates to assess the person's depth of knowledge. These inquiries are not disclosures or third-party contacts under sections 6103 and 7602. However, limit your information gathering solely to factors involving an appropriate PR designation. Do not address or inquire about tax issues.
5. Your manager must participate in and approve the PR selection. This approval should be noted and substantiated in the case file. You may want to consult with Counsel. 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.

Note: If a partnership attempts to revoke an IRS designated PR, See "Form 8979 and examiner responsibilities" section above.

Administrative Adjustment Request (AAR)

1. A partnership may file an AAR under section 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.

- A. The filing of an AAR will extend the section 6235(a)(1) statute date which is 3 years from the date the AAR was filed.
 - i. Verify that the section 6235(a)(1) date on AIMS/ERCS reflects the proper date. See statute of limitations (SOL) on making adjustments section below.
 - B. Only the PR (or DI, if applicable) may sign and file an AAR on behalf of the partnership.
 - i. 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.
 - C. AAR is filed with the IRS service center where the original return was filed.
 - i. If the partnership filed an AAR with you before the issuance of a notice of administrative proceeding, you should date stamp the AAR, make a copy for the case file and forward the AAR to the IRS service center where the original return was filed.
 - D. A partnership may not file an AAR more than 3 years after the later of the date the partnership return for such taxable year was filed or the last day for filing such partnership return (without regard to extension); or after a notice of administrative proceeding (NAP) has been issued with respect to such taxable year.
2. 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.
 3. In general, the partnership must pay the imputed underpayment on the date the partnership files the AAR.
 - A. A partnership may apply modifications to the amount of the imputed underpayment if a notification (Form 8980) is attached to the AAR and includes the following.
 - i. Notification to the IRS of the presence of any modification,
 - ii. A description of the effect that each modification had on the calculation of the imputed underpayment,
 - iii. An explanation of the basis for the modification made, and
 - iv. Documentation to support the partnership's eligibility for the modification.
- Note:** You should 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.
4. 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.

5. If the adjustments requested in the AAR do not result in an imputed underpayment, such adjustments must be taken into account by the reviewed year partners.
6. If a reviewed year partner is required to take into account the adjustments requested in the AAR, the partnership must furnish a statement to the reviewed year partner and file such statement with the IRS on the date the AAR is filed. Each statement must include correct information as follows:
 - A. The name and TIN of the reviewed year partner;
 - B. The current or last address of the partner that is known to the partnership;
 - C. The reviewed year partner's share of items as originally reported or previously reported;
 - D. The reviewed year partner's share of the adjustments in the underlying AAR;
 - E. The date the statement is furnished to the partner; and
 - F. The partnership taxable year to which the adjustments relate.
7. If a partner of the partnership that filed an AAR is a pass-through entity, the pass-through partners must issue statements to its partner and include the following (in addition to the above)
 - A. The name and TIN of the partnership that filed the AAR;
 - B. The adjustment year of the partnership that filed the AAR; and
 - C. The extended due date for the adjustment year return of the partnership that filed the AAR.

Note: The above list doesn't have all the items required for pass-through partners. You should contact the BBA POC if questions arise.

8. Each reviewed year partner must take into account their share of all the adjustments requested in the AAR as shown on such statements.
9. 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.
 - A. 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.
10. 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.
11. 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.

AAR exam scope

1. The IRS may determine that an AAR is not valid or readjust 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: A filed AAR can't be void.

2. The partnership audit plan should include any PRI that you do 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: You should contact the BBA POC for assistance.

Executing the Examination

1. During this phase of the examination, you will initiate taxpayer contact and execute the examination plan. You will consider the statute of limitations on making adjustments, gather facts and develop the potential issues, and regularly communicate with the PR. Your activities should be recorded.

Initiate taxpayer contact (Letter 2205-D)

1. All initial taxpayer contacts must be made by mail. You must prepare and mail Letter [2205-D](#) to all partnerships regardless of the tax year.
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 your division:
 - i. Paragraph 1 for SB/SE taxpayers, or
 - ii. Paragraph 2 for LB&I taxpayers.
 - B. Select the applicable paragraphs 3 through 6 for the appropriate regime:
 - i. Paragraph 3 is for TEFRA partnerships.
 - ii. Paragraph 4 is for NonTEFRA (partnership and partners subject to general deficiency procedures).

- iii. Paragraph 5 is for BBA partnerships for tax period beginning 1/1/2018 and after. Ensure that the name and address of the PR or the name and address of the DI is inserted where indicated. See “Partnership Representative” section above.
 - iv. Paragraph 6 is for partnerships that elected out of the BBA regime for tax years beginning 1/1/2018 and after. See “Election out of the BBA” section above.
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 procedures (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. Ensure you include the response due date that should be 30 days from the date you mail the letter.

Note: Do not send Form 7036 with the letter. The form is referenced in the letter along with the website reference to download the document. Do not include or attach any IDRs to the Letter 2205-D.
 6. A copy of Letter 2205-D should be filed under Section 600 for SBSE/SAIN 724-BBA for LBI.

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.

BBA partnership check sheet (Reserved)

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 PR who is acting on behalf of the partnership under the centralized partnership audit regime. Refer to IRM 4.11.55 for POA rights and responsibilities.
 - A. A power of attorney (including a Form 2848, Power of Attorney) may not be used to designate a partnership representative.
2. The PR or DI (for an EPR) of record must sign the Form 2848 and the authorized individual must be eligible to practice before the IRS.

3. You must contact the BBA POC if you receive a Form 2848 because instructions for Form 2848 may change.
4. 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. For dissolved partnerships, see 26 CFR 601.503(c)(6).

Note: Any statute extension (Form 872-M) should be signed by the PR or DI (for an EPR).

Notice of Administrative Proceeding (NAP)

1. IRS must mail to the partnership and PR a NAP when initiating an examination of the partnership for a taxable year, including an examination following an AAR filed by the partnership.
 - A. You should issue the NAP no earlier than 30 days but no later than 60 days from the issuance of Letter 2205-D.
2. Prepare and mail the NAP via certified mail. The letter date should match the mailing date.
 - A. [Letter 5893](#) will be mailed to the partnership's last known address.
 - B. [Letter 5893-A](#) will be mailed to the PR's last known address that is reflected in the IRS records as of the date the letter is mailed.
 - i. If the PR is an EPR, you should mail the NAP to the EPR with the attention to the DI and using the EPR's last known address.
 - ii. If there is no PR in effect and in the interest of time, you must mail the NAP to "PARTNERSHIP REPRESENTATIVE" at the last known address of the partnership.
 - 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 you are unable to find a current mailing address, contact your BBA Point of Contact for assistance.
3. If the PR NAP is mailed to an address other than the address shown on the Form 1065 and it is returned as undeliverable, you must mail the PR NAP by certified mail to the address reflected on the partnership return.
 - A. A partnership cannot file an AAR and its partners cannot amend their returns to file inconsistently from the partnership after the NAP has been mailed with respect to the taxable year.
4. A separate NAP will be sent for each year under examination since each year stands on its own. You should not delay issuing the NAP.
 - A. Different audit regimes could apply to the different years.

5. The case file should be documented to show that the partnership and PR NAP was issued in accordance with section 6223. Letter 5893 and Letter 5893-A should be filed within SAIN 724 (LB&I) or Section 600 (SB/SE).

Note: Discuss any extension of time requested by the PR with your manager. The request will delay issuance of the NAP.

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), and include the following:
 - A. Your name (as the requestor), your employee group code (EGC) and date, which are located on top of the form.
 - B. NAP letter date in the "Comments" section of the form. You will record the certified mailing date of the NAP.

Note: You must ensure the date on the letter is the same as the certified mailing date.

3. Submit completed Form 5348 to your 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 this date will trigger:
 - A. A TC 971/AC 811 with "NAP-DT: YYYYMMDD" display. This is to flag the BMF account that a BBA exam 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) 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: YMMNNNNNN" display will post to BMF.

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

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 exam is warranted.

- 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.
 - C. You and your manager have a reasonable cause for withdrawing the NAP.
2. Withdrawing the NAP is treated as if it had never been mailed. If the IRS withdraws a NAP with respect to a partnership taxable year, the prohibition on filing an AAR after the mailing of a NAP no longer applies with respect to such taxable year.
 3. Your manager must approve the withdrawal of the NAP.
 4. You should prepare:
 - A. [Letter 6047](#) using the partnership's last known address.
 - B. [Letter 6047-A](#) using the PR's last known address.
 - i. If the PR is an EPR, you should address the letter to the EPR with the attention to the DI and using the EPR's last known address.
 5. If the case is to be closed after withdrawal of the NAP, the case must be closed to Technical Services within 15 days from the determination to withdraw the NAP.
 - A. Technical Services will review the case and issue Letters 6047 and 6047-A.
 - B. Complete Form 3198, Special Handling Notice for Examination Case Processing. In the "Forward to Technical Services" section of the form, you should check the "Other" box and indicate "BBA Partnership – Letters 6047 and 6047-A are enclosed. Remove the NAP issuance date on ERCS".
 - C. Use appropriate Disposal Code and Survey Reason Code (if applicable).
 6. If the case is to be worked under a different audit regime after withdrawal of the NAP, you will maintain control of the case file and continue with the examination based on such audit regime.
 - A. Issue Letters 6047 and 6047-A.
 - B. Update ERCS/AIMS via Form 5348 to ensure the following:
 - i. Remove the NAP issuance date ("NAP-DT" display should be blank).
 - ii. For taxable years beginning on or after 2018,
 - a. In the "Comments" section of the form, request to change the value of the "ELECT-OUT-OF BBA-CD" to "1" to indicate the return is NOT subject to the BBA regime.
 - iii. For taxable years beginning after November 2, 2015 and before January 1, 2018,
 - a. In the "Comments" section of the form, request to change the value of the "EARLY-ELECT-INTO-BBA-CD: to "2" to indicate the return is NOT subject to the BBA regime.
 - iv. Remove any other BBA data previously entered. Note, the audit control number cannot be removed.

Note: If you have adjustments but resulting in no imputed underpayment, the NAP CANNOT be withdrawn. Proceed with the Summary Report Package to show the adjustments.

Consistency principle

1. In general, a 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 section 6227 and the regulations thereunder, and
 - C. Any statement, schedule or list (including amendments or supplements thereto) filed by the partnership with the IRS pursuant to section 6226 and the regulations thereunder.
2. Also, a partner is bound by any action taken by the partnership and any final decision in a proceeding with respect to the partnership under the BBA regime.
 - A. For 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 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.
 - A. Upon notice of such inconsistency, a partner may file an election under section 6222(c)(2)(B) to be treated as providing notice to the IRS of the inconsistent treatment.
4. A partner's treatment of a PRI attributable to a partnership that did not file a return is per se inconsistent.
 - A. For example, a foreign partnership is required to file a return under section 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 partner that is a partnership (partnership-partner), the consistency principle applies regardless if the partnership-partner is subject to the centralized partnership audit regime or has made an election out pursuant to section 6221(b).

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.
 - 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.
 - i. 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 section 6227 and the regulations thereunder.

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.
 - B. A partner filed inconsistently with items reported from an AAR under section 6227 and the regulations thereunder and did not provide notice to the IRS of such inconsistent treatment.
 - C. A partner filed inconsistently with any statement, schedule or list (including amendments or supplements thereto) filed by the partnership with the IRS pursuant to section 6226 and the regulations thereunder regardless if notice was provided.
 - D. A partner filed inconsistently with any final decision in a proceeding with respect to the partnership under the BBA regime regardless if notice was provided.
2. The procedures under section 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 §301.6225-1 (an imputed underpayment) and may be assessed at the partnership-partner level.

- i. The math error correction is not considered an FPA under section 6231(a)(3) and a petition for readjustment under section 6234 is not applicable.
- B. For any partners that are nonBBA partnerships or S-Corporations, the math error correction must be assessed to the reviewed year partners (or indirect partners) and shareholders, respectively.
- C. Contact the BBA POC to help you compute the underpayment of tax.

Notify the partner of an assessment on account of mathematical error

1. If you determine to make an assessment on account of math error, you must contact the BBA POC to help you determine the most effective and efficient way to maximize taxpayer compliance based on facts and circumstances.
2. You 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. The letter is mailed to the partner's last known address.
 - B. If the partner corrects the inconsistency or qualifies and makes a valid election to be treated as having provided notice, then a math error correction will not apply.
3. Only a partnership-partner may correct the inconsistency by filing an AAR (for partnership-partner subject to the BBA) under section 6227 or an amended partnership return (for partnership-partner 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 the BBA POC.
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 6062 to file a written election under section 6222(c)(2)(B) with you.
 - A. 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.
 - B. The written election must have the following contents:
 - i. Clearly identify as an election under section 6222(c)(2)(B),
 - ii. Signed by the partner making the election,
 - iii. 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, and

- iv. Include any other information required in forms, instructions, or other guidance prescribed by the IRS.
- C. Ensure that you 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.
- D. If a partner fails to timely file a valid election, you must contact the BBA POC to help you proceed with the assessment based on math error.
- E. 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).
 - i. If you disagree with the identified inconsistent treatment, you 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.

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.
 - A. Form 8082 must be attached to the partner's return on which the PRI is treated inconsistently. 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.
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:
 - B. To make the item consistent with the treatment of that item on the partnership return, or
 - C. 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.

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).
 - A. 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 at the opening conference.

2. Informal claims timely submitted by a BBA partnership must meet the standards of Treasury Regulation Section 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 and you accept the submission, you must include the issue(s) in your audit plan, develop the issue(s) and prepare Form 886-A accordingly.
 - A. For each adjustment that you allow in full or in part, you will make a negative adjustment in the amount that's allowed on Form 886-A.
 - i. The adjustment will reflect on the applicable grouping and subgrouping per purposes of Forms 14791 and 14792.
 - B. For each adjustment that you disallow in full, you will notate the adjustment as being disallowed in full and show a zero amount on Form 886-A.
 - i. The adjustment will reflect in the "Other Information" section of Forms 14791 and 14792.
 - C. For example, PR provides a claim with two adjustments; decrease gross receipts by \$100 and increase supplies by \$200. You partially agree that gross receipts should be decreased by \$50 but that's it. Your adjustments would be as follows:
 - i. SCH K, line 1, supplies – zero amount of (\$0).
 - ii. SCH K, line 1, gross receipts – negative amount of (\$50)
 - iii. 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, your analysis why you disallowed or allowed, etc.
5. You **MUST NOT** accept any informal claim after the 30-day window has lapsed unless certain exceptions are met as provided under the LEP. Please refer to the LEP and Publication 5125 for details. You may also contact the BBA POC.

Statute of limitations (SOL) on making adjustments

1. Statute control is usually the number one priority in all programs. Refer to IRM 25.6 for Statute of Limitations Handbook.

Note: Contact the BBA POC pertaining to any questions you may have regarding the BBA statute of limitations, including preparation of Form 872-M.

2. Under the centralized partnership audit regime, the statute is controlled exclusively 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, you must contact a BBA POC for imminent statute procedures:

Types of Cases	Time Remaining on Statute
No change (no adjustment)	6 months
With adjustments (no Appeals)	12 months
With adjustments (to Appeals)	18 months

Overview of section 6235(a)

1. The statute of limitations under section 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 taxable 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. You are 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 "IRC6235A1-PPA-DEADLINE-DT" field)

will match with the ASED field on AIMS.

4. If an AAR was filed, verify that the 6235(a)(1) date was properly updated on AIMS/ERCS (3 years after the date the AAR was filed). If not, you are responsible for updating the system.
5. The 6235(a)(1) date can be extended by executing Form 872-M.
6. Under section 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 section 6501(c)(8).	Date that is determined under IRC 6501(c)(8)
IRC 6235(c)(6): Listed Transactions – failed 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)

When to extend the 6235(a)(1) date

1. You should request an extension if the 6235(a)(1) date will expire within 14 months presuming the case is not a no-change. If the partnership refuses to extend the 6235(a)(1) date, you need to begin the process of closing the examination.
2. Your activity record should document that you've received managerial approval to solicit the extension.
3. Follow IRM 25.6.22 for general guidelines for soliciting extensions.

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. 6235(a)(1) date,
 - B. 6235(a)(2) date, or
 - C. 6235(a)(3) date.
2. At the field exam level, the 6235(a)(1) date must be selected.
 3. You must contact the BBA POC for guidance on preparation and issuance of Form 872-M.
 4. If the partnership includes any additional restrictive language on the form, you must consult with local counsel before the IRS countersigns the extension.
 5. The PR or DI (for the EPR) must sign the form before the expiration of the 6235(a)(1) date.
 - A. Your team/group manager must countersign the form prior to the expiration of the 6235(a)(1) date.

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

6. Follow IRM 25.6.22 for general guidelines.

6235(a)(1) date on Examination Returns Control System (ERCS)

1. The 6235(a)(1) date is reflected in the "IRC6235A1-PPA-DEADLINE-DT" field.
 - A. Generally, the 6235(a)(1) date will also be reflected in the ASED field.
2. If you need to update the 6235(a)(1) date, update the "IRC6235A1-PPA-DEADLINE-DT" or "6235(a)(1)-PPA-DL-DT" field via Form 5348.
 - A. Form 5348 requires manager approval before processing.
 - B. Updates to 6235(a)(1)-PPA-DL-DT will automatically update the ASED field.
 - C. **DO NOT update the ASED field.**

Note: If a managerial decision is made to allow the 6235(a)(1) date to expire after issuance of the NOPPA, Alpha Statute "AE" must be entered in the ASED field. Once "AE" is in the ASED field, the 6235A1-PPA-DL-DT can no longer be updated.

Resolving the Examination

1. During this phase of the examination, your 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 executed 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.

No change exam

1. If the examination results in a no-change where all examined issues are accepted as reported (no adjustments to PRI items), you will discuss the examination results with the partnership.
 - A. You must notate the result in your activity record.
2. If the partnership agrees with the no-change, Technical Services will prepare and CCP will issue the no-change letters to the partnership ([Letter 6099](#)) and PR ([Letter 6099-A](#)). Go to Case Disposition Procedures for next steps.
 - A. There should be at least 6 months remaining on the section 6235(a)(1) date when received in Technical Services. Otherwise, contact the BBA POC for imminent assessment statute procedures.
3. If the partnership doesn't agree with the no change determination, you will prepare a summary report package.
 - A. For example, the partnership provided you with an informal claim where you disagreed and disallowed the claim. There are no other adjustments. Although the disallowed claim doesn't impact the filed return (no change to the filed return), you will need to reflect the informal claim adjustments in the summary report package. A no-change letter will not apply in this scenario.

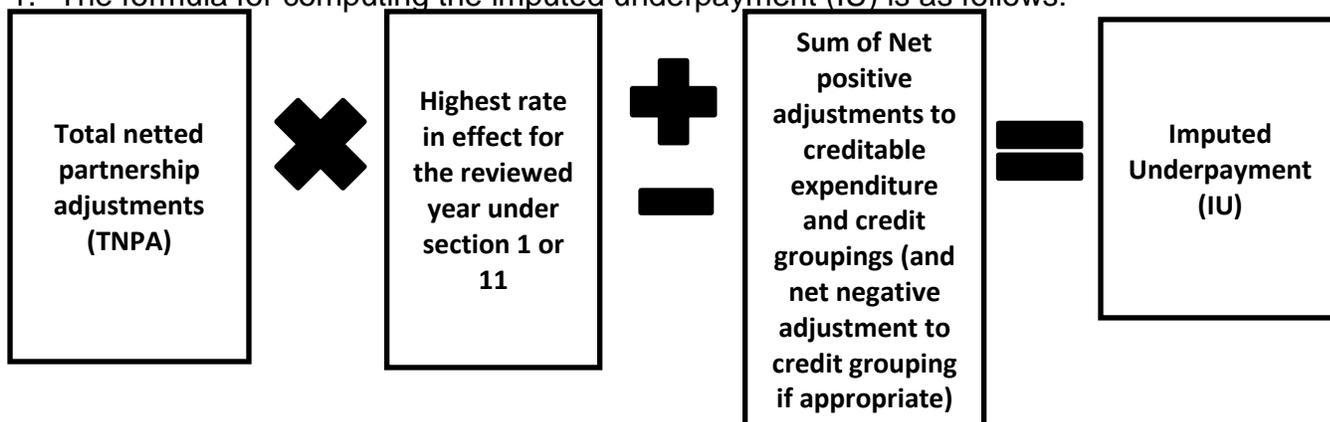
Partnership adjustments and imputed underpayment (IU)

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 relates to such 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, you will prepare a Form 886-A for the imputed underpayment.
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, but rather is a byproduct of disregarding certain adjustments that may be subject to limitations and that would otherwise reduce the imputed underpayment. Disregarding adjustments that would otherwise reduce the imputed underpayment and using the highest tax rate permit a streamlined audit process in which the IRS and the partnership generally do not account for particular partners' facts and circumstances. The imputed underpayment determination also allows the partnership to pay an amount of tax that generally eliminates the need for the IRS to proceed against and collect from the partnership's partners.
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 taxable year.
5. There is only one general imputed underpayment in any administrative proceeding which will be determined at the field level.
 - A. Multiple imputed underpayments if requested by the taxpayer will generally be done in modification. If such request is received at the field level, contact the BBA POC.

Imputed underpayment (IU)

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



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.

- A. 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.
 - B. After an adjustment is placed into a grouping, 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 section 702(a) or any other provision of the Code. This is necessary to keep adjustments that are similar in nature together while keeping adjustment 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. However, subgrouping is only necessary when any proposed adjustment within a grouping is a negative adjustment.
 - i. 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.
 - ii. A positive adjustment is any adjustment that is not a negative adjustment.
 - C. 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 (if applicable) 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 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 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 section 1 or 11 and increase or decrease the product by:
- A. The net positive adjustments from the creditable expenditure grouping.
 - i. 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.

- ii. 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.
 - C. The net negative adjustment from the credit grouping if the examination team determines that it is appropriate to allow the net negative adjustments to be taken into account in calculating the IU.
 - i. You must contact the BBA POC if you take into account the net negative adjustment to credits to reduce the product of the TNPA times the highest tax rate in effect.
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, except for credit grouping.
 - 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 taxable year in which:
 - i. The notice of final partnership adjustment (FPA) is mailed or when a waiver of the FPA is executed by the IRS, or
 - ii. If a petition under section 6234 is filed, the date when the court's decision becomes final.

Steps in computing the imputed underpayment (IU)

1. Computing the IU requires approximately 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 below:
 - A. 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 an adjustment to a credit or to a creditable expenditure. 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.”
 - i. One leg of the reallocation adjustment reverses the effect of the improper allocation of a PRI that 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.”
 - ii. The other leg of the adjustment makes the proper allocation of the PRI and will result in a positive adjustment.
 - iii. These reallocations are theoretical to the actual partners impacted, that is, they will not impact the partner themselves.

- B. Credit grouping – 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.
- i. Generally, a decrease in credits is treated as a positive adjustment, and an increase in credits is treated as a negative adjustment.
 - ii. 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.
- C. Creditable expenditure grouping – 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.
- i. 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.
 - ii. 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.
 - c. 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 section 41, rather than a deduction under section 174.
- D. Residual grouping – 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 section 704(b), such as an adjustment to a liability amount on the balance sheet.

- E. 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).
 - i. One adjustment reverses the improper characterization of the PRI that will result in a negative adjustment.
 - ii. The other adjustment makes the proper characterization of the PRI and will result in a positive adjustment.
 - iii. The adjustments that result from a recharacterization are generally placed into separate subgroupings.
 - F. If the effect of a partnership adjustment is reflected and taken into account in one or more other partnership adjustments, you may treat the adjustment amount as zero solely for purposes of computing the IU.
2. The second step in computing an IU is to determine if any proposed adjustment, within one of the four groupings, needs to be subgrouped. If all the proposed adjustments within any grouping are positive adjustments only, then subgrouping is not required for such grouping, and you can determine the IU at this point by plugging in the positive numbers to the above formula. If any of the proposed adjustments within a grouping is a negative adjustment, then subgrouping for that grouping is required. Each of the proposed adjustments will need to be subgrouped according to the following rules.
- A. Each adjustment is subgrouped according to how the adjustment would be required to be taken into account separately under section 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.
 - i. 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 section 702(a) that each partner is required to take into account separately their 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 section 702(a).

- ii. 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. For 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.
- iii. 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 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.
- iv. If you have a negative adjustment along with a positive adjustment in the same line item of Schedule K/K-1, you must 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 you can place them in the same subgroup.
- v. 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 section 702(a) or other provision of the Code and regulations.

- B. A partnership may request to subgroup adjustments in a manner other than the manner described above, such request is generally done in modification under §301.6225-2 after the issuance of the NOPPA. With that being said, you have discretion to review and grant such request based on the facts and circumstances and you must contact the BBA POC before agreeing to the request.
 - i. 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.
3. The third step in computing the imputed underpayment is to appropriately net all the proposed adjustments within each of the groupings and subgroupings.
- A. Netting means summing all adjustments together within each grouping or subgrouping, as appropriate.
 - i. 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 taxable year may not be netted against adjustments from another taxable year.
 - B. 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.
 - C. All adjustments within a subgrouping are netted to determine whether there is a net positive adjustment or net negative adjustment for that subgrouping.
 - i. 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 includes a positive adjustment that was not netted with any other adjustment. A net positive adjustment includes a net decrease in an item of credit.
 - ii. 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 includes a negative adjustment that was not netted with any other adjustment.
4. 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 groupings.

- A. Each net positive adjustment with respect to a particular grouping or subgrouping in the residual or reallocation grouping that results after netting the adjustments is included in the calculation of the TNPA.
 - B. 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.
5. The fifth step is to determine the highest rate in effect for the reviewed year under section 1 or 11.
6. 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.
 - A. 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.
 - B. 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.
 - i. You must contact the BBA POC if you are taking into account the net negative adjustment to credit to reduce the product of the TNPA times the highest tax rate in effect.
7. 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.

Examples

1. 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 a reallocation, credit or creditable expenditure grouping. 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.

2. The facts are the same as example 1 above, 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 section 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.

Form 886-A for substantive issues

1. For each adjustment to a PRI, you will also need to 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) and subgrouping (if appropriate); and
 - C. The treatment of the adjustment (positive, negative, or zero amount).

2. After you have finalized and issued 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 your first contact with TCS. Submit the TCS request through the SRS.
3. Provide the TCS a listing of 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).
 - C. Grouping (reallocation, residual, creditable expenditure, or credit).
 - i. 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 (see EXH 6) to compute the preliminary imputed underpayment, print the “Adjustments Input Summary” tab and forward it to the TCS, in lieu of the above listing.

Form 886-A for imputed underpayment amount (IUA)

1. Once you have issued all Form 886-A for substantive issues, you will prepare one more Form 886-A to show the preliminary general IU calculation, summary of all the partnership adjustments, and penalties (if any).
 - A. The preliminary IU calculation must show the following components:
 - i. Total Netted Partnership Adjustment (TNPA).
 - ii. Highest rate in effect under section 1 or 11.
 - iii. Sum of net positive adjustment from creditable expenditure grouping.
 - iv. Sum of net positive adjustment from credit grouping.
 - v. Sum of net negative adjustment from credit grouping (if appropriate).
2. You may use the IUA Workbook (see EXH 6) 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 applicable).
 - A. 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. If you use the IUA Workbook to compute the preliminary imputed underpayment, you can attach the IUA spreadsheets from the Workbook to show the preliminary IU calculation, summary of all the partnership adjustments and penalties (if any).

Otherwise, you will need to 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 this 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.
 - A. 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 or modified in the modification phase with the BBA Unit.

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.

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 section 6226).
2. You will contact the Centralized Case Processing (CCP) campus and request interest computation after the TCS prepared Form 14791. Go to [Interest Computations for Payoffs](#) for CCP point of contact. In general,
 - A. For LB&I, send the request to *CCP Ogden email box.
 - B. For SB/SE, send the request to the Memphis campus.
 - C. CCP will respond within 2 weeks.
3. Work with CCP and provide the following data:
 - A. Starting date which is the due date of the reviewed year return (without extension),
 - B. Ending date which is whatever date you want the interest to run up to (e.g., the date that you issue the summary report package),
 - C. Penalties, and
 - D. Imputed underpayment amount.

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

4. You will compute the applicable penalties and consider reasonable cause and good faith defenses.
 - 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.

5. Computing the penalties may require coordination with the Office of Servicewide Penalties (OSP) and/or Penalties Practice Network.
 - A. Refer to the [Penalties Knowledge Base Homepage](#) or IRM 20.1 for penalty considerations and computations.
 - B. Managers must review and approve whether any penalties should be imposed as part of the examination. See IRM 20.1.1.2.3.

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 request should be made after all Forms 886-A (for substantive issues) have been finalized and issued to the PR.

Summary report package

1. After you have finalized and issued all Forms 886-A, 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 both substantive issues and imputed underpayment amount.

2. 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.

3. After you received Form 14791 from the TCS, review the form and verify the IU. Ensure the adjustments not resulting in an IU are reflected in the “other information” section.

4. Contact the appropriate CCP campus and request interest computation. See Interest and Penalties section above. Once you have the interest amount, update Form 14791 and incorporate the following:
 - A. The date the interest is computed to “MMDDYY”, and
 - B. The interest amount on line 19.
5. Prepare Letter 5895 and remember to include the audit control number (ACN) in the header.
 - A. 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. The package does not need to be 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.

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, you must have at least 18 months remaining on the 6235(a)(1) date when the case is transferred to Technical Services.
 - A. An extension via Form 872-M should be requested if need be.
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 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 both substantive issues and imputed underpayment of tax.
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.

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 section 6227.
 - A. A NOPPA package is prepared for each partnership taxable 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. Forms 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.
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.
6. You must not issue the NOPPA package. Technical Services or Appeals will issue the NOPPA package to the partnership and PR.
7. Your manager must review and approve the NOPPA package. This managerial review and approval should be documented in the case file activity record.
 - A. Include the NOPPA package and 30-day letter package (if applicable) in the case file.

Case Disposition Procedures

1. Process and transfer the case to Technical Services.
 - A. 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 CCP, Appeals or the BBA Unit as appropriate.
3. Ensure the case has the following periods of time remaining on the statute when received by Technical Services; otherwise, you must contact the BBA POC for imminent assessment statute procedures.

Types of Cases	Days Remaining on Statute
No change (no adjustment)	6 months
With adjustment (no Appeals)	12 months
With adjustments (to Appeals)	18 months

No-change case

1. You 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 the Technical Services.

2. Complete Form 5344 and follow existing procedures except as otherwise provided below:
 - A. Item 13, Disposal Code, should be 02.
 - B. Item 34, Adjustment Amount, should be left blank.
 - C. Items 312-316, BBA Section, should be left blank.
3. Complete Form 3198 and follow existing procedures except as otherwise provided below:
 - A. In the “Forward to Technical Services” section of the form, you should check the “Other” box and indicate “BBA Partnership – No Change Letters Required”.
 - B. The adjustment amount should be left blank.
 - C. Disposal Code should be 02.

Case with adjustments (no Appeals)

1. After you prepared the NOPPA package, 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.

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 you and your manager for corrections.
3. Complete Form 5344 and follow existing procedures except as otherwise provided below:
 - A. Item 13, Disposal Code 08,
 - B. Item 34, Adjustment Amount, should be left blank.
 - C. Items 312-316, BBA Section, should be left blank.
4. Complete Form 3198 and follow existing procedures except as otherwise provided below:
 - A. In the “Forward to Technical Services” section of the form, you should check the “Other” box and indicate “BBA Partnership with Adjustments (No Appeals Requested)”.
 - B. Disposal Code should be 08.

Case with adjustments (to Appeals)

1. After you prepared the NOPPA package, 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.

2. Technical Services will review the case. If no corrections are warranted, Technical Services will forward the case to Appeals; otherwise, the case will be returned back to you and your manager for corrections.
 - A. Appeals will mail the NOPPA package to the partnership and PR.
3. Complete Form 5344 and follow existing procedures except as otherwise provided below:
 - A. Item 13, Disposal Code 07.
 - B. Item 34, Adjustment Amount, should be left blank.
 - C. Items 312-316, BBA Section, should be left blank.
4. Complete Form 3198 and follow existing procedures except as otherwise provided below:
 - A. In the “Forward to Technical Services” section of the form, you should check:
 - i. The “Unagreed to Appeals” box, and
 - ii. The “Other” box and indicate “BBA Partnership with Adjustments”.
 - B. Disposal Code should be 07.