October 21, 2021

Control Number: LB&I-04-1021-0017
Expiration Date: 9/30/2023
Affected IRM: 4.31, 4.46.3, 4.50.2

MEMORANDUM FOR ALL LB&I EMPLOYEES

FROM: Theodore D. Setzer /s/ *Theodore D. Setzer*
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                   Large Business and International Division

SUBJECT: Interim Guidance on Implementation of the Large Partnership
                   Compliance Pilot Program

Purpose:
The purpose of this memorandum is to communicate to Large Business and International (LB&I) employees the implementation of the Large Partnership Compliance (LPC) Pilot Program, including the identification, selection and delivery of large partnership tax returns, exam procedures, and feedback.

Introduction:
The Large Partnership Compliance (LPC) Pilot Program addresses LB&I's compliance approach to large partnerships. The filing of partnership tax returns is expected to continue growing. The complex structures and tax issues present in large partnerships require a focused approach to best identify the highest risk issues and apply resources accordingly.

The goal of the Large Partnership Compliance Pilot Program is to enhance LB&I's Portfolio Management Model by:
- Identifying the largest partnership cases by focusing on the characteristics of the largest Form 1065 filers,
- Developing improved methods to identify and assess the compliance risk presented by these taxpayers,
- Considering examination processes and tools that will allow us to better audit this population, and
- Enhancing IRS' understanding of large partnership compliance issues through feedback.

Identification:
Partnership returns with more than $10 million in assets fall under the jurisdiction of LB&I. LPC returns are identified using data analytics similar to those used for the Large Corporate Compliance Program. Adjustments to the selection criteria are needed to account for unique characteristics of the partnership population. Once the LB&I partnership population is stratified based on the selection criteria, a threshold is determined to identify those partnerships that are considered large. As more knowledge is gained from the examination of large partnerships, the process or factors used to identify what is a large partnership may change.

Modeling and Classification:
Partnership returns that meet the threshold for large partnerships will be subject to data analytics and classification processes. These processes will include Subchapter K issues specific to partnerships as well as operational issues that may or may not be specific to partnerships. As more knowledge is gained from the examination of large partnerships, existing tools as well as the use of machine learning models will be leveraged to enhance identification of non-compliant returns.

Exam Procedures:
For LPC cases, the exam procedures outlined in IRM 4.46, LB&I Examination Procedures, and IRM 4.10, Examination of Returns, IRM 4.31, Pass-Through Entity Handbook, and the updated BBA procedures to be incorporated into IRM 4.31.9, Centralized Partnership Audit Regime, will be followed, unless otherwise directed.

The LPC exam planning phase must follow the administrative procedures found in IRM 4.46.3.10, Coordinated Industry Case (CIC) Information, or any successor IRM provisions applicable to the Large Corporate Compliance (LCC) program.

The following exam procedures, deviating from IRM 4.46.3, will be followed for LPC exams:

- Until otherwise allowed, the LPC returns may not be surveyed because the knowledge learned from these examinations will be utilized in improving case selection.
- MIRA/SIRA is not required for LPC pilot program at this time. Potential risk issues will be provided to the examiner from LB&I's classification process. In addition, the examiner will conduct their risk assessment as required under the IRM. As determined, specialist and subject matter support will be obtained using existing referral processes.
- The exam team must consider or develop the issues identified by the classifiers. To improve future return selection, detailed feedback is needed for all issues, those identified by classification and those added by the exam team.

Feedback:
Robust feedback, both technical and procedural, will be requested from the exam team at defined milestones during the exam. Technical feedback will be gathered on all pre-identified, classified/risk profile issues, as well as any large, unusual, questionable

(LUQ) items identified during the audit through the [LB&I Taxpayer Registry (LTR) system](#). The feedback gathered will be used to improve modeling/filtering and classification, as well as the LPC exam process. Issue Based Management Information System (IBMIS) feedback reports generated from examiners' inputs into Issue Management System (IMS) will be used to supplement LTR technical feedback. Procedural feedback will be gathered through networking calls. During the network calls, we will also provide additional guidance on LPC technical issues, offer LPC administrative items, obtain feedback on specific LPC issues, and share information between the LPC exam groups.

Executives, managers, and examiners will be provided access to the LPC SharePoint site which will store LPC administrative and technical information.

<u>Effect on Other Documents</u>:
This guidance is effective immediately and will be re-evaluated two years from the date of this memo. At such time, the guidance will be incorporated into IRM 4.31, 4.46.3, 4.50.2 as applicable or a new Interim Guidance Memo will be issued.

For questions or comments concerning this guidance, contact the LB&I Policy Office through the [LB&I Policy Gateway](#) and [Create a Request](#).

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