



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

SMALL BUSINESS/SELF-EMPLOYED DIVISION

October 21, 2021

Control Number: SBSE-04-1021-0051
Expiration Date: 10-21-2023
Impacted IRM: 4.31.3 & 4.31.6

MEMORANDUM FOR CAMPUS PASS-THROUGH FUNCTION GROUPS IN SB/SE &
LB&I

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Date: 2021.10.21 17:19:46 -0400
Director, Examination Quality and Technical Support

SUBJECT: Handling of the qualified business income deduction on investor
returns controlled by examination field support groups in LB&I
and SB/SE Campus operations

This memorandum issues guidance to SB/SE and LB&I Campus Pass-through Function (CPF) groups on addressing the qualified business income deduction on controlled investor returns. Please ensure that this information is distributed to all affected employees within your organization.

Purpose: This memorandum provides guidance to employees in SB/SE and LB&I Campus Pass-through Function (CPF) groups on how to address the qualified business income deduction (QBID) on investor returns controlled in their operations.

Background: IRC Section 199A, Qualified Business Income, was enacted in December 2017 as part of the Tax Cuts and Jobs Act. IRC Section 199A provides individuals and certain trusts and estates a deduction of up to 20% of their qualified business income (QBI) plus up to 20% of their qualified REIT dividend and publicly traded partnership (PTP) income, subject to various limitations.

Determining QBI and qualified PTP income can be difficult and often requires additional information not provided on the tax return. Adjustments to section 199A items will be present on a significant majority of all pass-through entity examinations. These adjustments may stem from direct exam adjustments (i.e., misreported QBI) or indirectly from other exam adjustments (e.g., a change to ordinary income is often also a change to QBI). Many pass-through entity adjustments are made by SB/SE or LB&I

examiners in the Field while adjustments made to related investor returns may be made by report writers in CPF groups.

Generally, key-case adjustment reports sent to CPF groups provide information that is input directly to the reporting software to compute investor level adjustments. For QBID, however, this is not the case. The information contained on a key-case adjustment report must be considered in light of each investor's fact pattern to assess the impact of the adjustment.

RGS is unable to systemically compute the deduction and, beginning in tax year 2019, will remove any QBID claimed on a return that includes "exception criteria," including those that have an adjustment to an item on the Schedule E. This will generally be the case for any investor-level returns being adjusted by CPF groups.

Procedural Change: When adjusting Tax Year 2018 or later controlled Form 1040* investor returns, Campus Pass-Through Function groups will take the following steps:

1. Review the investor return to determine if the investor claimed a QBID on their original or subsequently filed tax return.
 - a. Tax Year 2018: Form 1040 - Line 9
 - b. Tax Year 2019: Form 1040 - Line 10
 - c. Tax Year 2020: Form 1040 - Line 13
 - d. Tax Years 2021 and later: See Form 1040 for appropriate line item
2. If there was no QBID claimed on the taxpayer's filed return, add a Form 14997, *Adjustment to the Qualified Business Income Deduction*, to the report package sent to the taxpayer, skip the following steps and take no further action relative to the QBID.
3. If there was a QBID claimed on the taxpayer's filed return, add a Qualified Business Income Deduction issue in RGS using IMF Code 51040.
4. Add an adjustment using the "Net qualified business income deduction" categorization.
5. Input [REDACTED]
6. Add a Form 14997, *Adjustment to the Qualified Business Income Deduction*, to the report package sent to the taxpayer.

*Follow the appropriate process for Form 1041 taxpayers who claim a QBID on their originally filed return to allow the # [REDACTED]
 [REDACTED] # Form 1041 QBID is reported on:

Tax Year 2018: Form 1041 - Line 15, part of "Other deductions"
 Tax Year 2019: Form 1041 - Line 20
 Tax Year 2020: Form 1041 - Line 20
 Tax Years 2021 and later: See Form 1041 for appropriate line item

Returns impacted by this procedural change include any CPF controlled tax year 2018 or later Form 1040 or Form 1041 tax return being adjusted by CPF as a result of a key-case examination. This may include:

- Investor Level Statute Control (ILSC) investor returns where adjustments are being made to a tax year 2018 or later return to address any ILSC entity adjustment or
- TEFRA investor returns where adjustments are being made to a tax year 2018 or later return to address a TEFRA partnership carry forward adjustment from 2017 or earlier years.

When applying the procedures above, any adjustment to QBI items included on key-case examination reports will be # [REDACTED] #

If the taxpayer corresponds with CPF in response to the Form 14997, employees will review the information provided and consider the proposed adjustment to QBID in light of the additional information received. If an adjustment to the QBID is warranted, the employee will make the adjustment in RGS using the issue established in Steps 3 and 4 above, inputting the corrected value in the per exam field of the "Net qualified business income deduction" categorization.

Effect on Other Documents: This guidance will be incorporated into IRMs 4.31.3 and 4.31.6 no later than October 21, 2023.

Effective Date: This interim guidance is effective immediately.

Contact: If you have questions regarding this memorandum, you may contact Steve Henson, Program Manager, Exam Quality and Technical Support at (678) 283-1248.

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