



Note: *The draft you are looking for begins on the next page.*

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Most forms and publications have a page on IRS.gov: [IRS.gov/Form1040](https://www.irs.gov/Form1040) for Form 1040; [IRS.gov/Pub501](https://www.irs.gov/Pub501) for Pub. 501; [IRS.gov/W4](https://www.irs.gov/W4) for Form W-4; and [IRS.gov/ScheduleA](https://www.irs.gov/ScheduleA) for Schedule A (Form 1040), for example, and similarly for other forms, pubs, and schedules for Form 1040. When typing in a link, type it into the address bar of your browser, not a Search box on IRS.gov.

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Instructions for Form 1065-X



(Rev. December 2024)

Amended Return or Administrative Adjustment Request (AAR)

Section references are to the Internal Revenue Code unless otherwise noted.

Future Developments

For the latest information about developments related to Form 1065-X and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form1065X](https://www.irs.gov/Form1065X).

For information pertaining to BBA partnerships filing Form 1065-X, go to [IRS.gov/bbaaar](https://www.irs.gov/bbaaar).

What's New

Which revision of Form 1065-X to use. For tax years beginning on or after January 1, 2023, use the August 2023 revision of Form 1065-X. For tax years beginning after December 31, 2020, and before January 1, 2023, use the December 2021 revision of Form 1065-X available at [IRS.gov/pub/irs-prior/f1065x--2021.pdf](https://www.irs.gov/pub/irs-prior/f1065x--2021.pdf). For tax years beginning prior to January 1, 2021, use the September 2018 version of Form 1065-X available at [IRS.gov/pub/irs-prior/f1065x--2018.pdf](https://www.irs.gov/pub/irs-prior/f1065x--2018.pdf).

Reminders

Part I, Section 2—BBA AAR. Item C2 was added to indicate when adjustments don't result in an imputed underpayment.

Part II, line 13, changed. Part II, line 13a, was changed from "Contributions" to "Cash contributions." Line 13b is "Noncash contributions." Prior year lines 13b, 13c, and 13d were changed to 13c, 13d, and 13e, respectively.

Note. Unless otherwise noted, references to sections 6221 through 6241 are to Internal Revenue Code (the Code) sections, as amended by BBA.

General Instructions

Purpose of Form

Use Form 1065-X, if you aren't filing electronically, to complete one of the following.

- Correct items on a previously filed Form 1065, U.S. Partnership Return of Income; Form 1065-B, U.S. Return of Income for Electing Large Partnerships; or Form 1066, U.S. Real Estate Mortgage Investment Conduit (REMIC) Income Tax Return.
- Make an AAR for a previously filed Form 1065, Form 1065-B, or Form 1066.
- File an amended return by a partnership-partner of a BBA partnership as part of the modification process of a BBA proceeding with respect to that BBA partnership.

Form 1065-X can't be used to file a notice of inconsistent treatment under section 6222 (TEFRA or

BBA) or a partner-level AAR under section 6227(d) (under TEFRA proceedings). For a definition of TEFRA proceedings, see *Definitions*, later. Continue to use Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR), to make those changes.

Bipartisan Budget Act (BBA). All partnerships with tax years beginning after 2017 are subject to the centralized partnership audit regime unless eligible partnerships elect out by making a valid election under section 6221(b). For purposes of these instructions (unless otherwise noted), the centralized partnership audit regime proceedings under sections 6221 through 6241 will be referred to as "BBA proceedings."

If you're a non-TEFRA partnership (see *Definitions* and Section I, Part I, items B and C, later) or a non-BBA partnership (defined under *Definitions*, later) filing an amended return electronically, use Form 1065 and see the related instructions. If you aren't filing electronically, use Form 1065-X.

Form 1065-X should only be used to make a paper filing. For electronic filing, use Form 8082 in conjunction with Form 1065.

Generally, the criteria used to determine whether the original Form 1065 is required to be filed electronically are also used to determine if the amended return or AAR must be filed electronically.

For information regarding when Form 1065 is required to be filed electronically, and how to electronically file an amended return or AAR for a partnership, see the Instructions for Form 1065.



Form 1065-X isn't used to elect out of BBA. See the Instructions for Form 1065 for electing out of BBA.

Who Must File

Amended return. Partnerships and real estate mortgage investment conduits (REMICs) that become aware of incorrect items of income, deductions, etc., use Form 1065-X to correct their previously filed partnership or REMIC return. See *Specific Instructions*, later, for information on completing Form 1065-X as an amended return.

Note. To make adjustments to partnership-related items, partnerships under BBA must file an AAR instead of an amended return unless there is specific guidance allowing for the filing of an amended return. For information on BBA partnerships filing Form 1065-X, go to [IRS.gov/bbaaar](https://www.irs.gov/bbaaar).

AAR-Partnerships (except electing large partnerships (ELPs)). Partnerships that are subject to either BBA or TEFRA proceedings use Form 1065-X to file for an AAR. See *Specific Instructions*, later, for information on completing Form 1065-X as an AAR.

Protective TEFRA AARs. Generally, a protective AAR is a request for credit or refund based on current litigation or expected changes in tax law or other legislation. The TMP or partner with authority (PWA) files a protective AAR when the right to a refund is contingent on future events and may not be determinable until after the period for filing an AAR has expired. Protective AARs are subject to AAR statutes set forth in sections 6227, 6228, and 6229 (prior to amendment by BBA). If you're a TMP filing on behalf of the partnership, the petition period described in section 6228 (prior to amendment by BBA) can be extended by using Form 9248, Agreement to Extend the Time to File a Petition for Adjustment by the Tax Matters Partner With Respect to Partnership Items. A protective AAR must clearly state that it is a protective AAR, alert the IRS to the essential nature of the adjustment, and specify the line item to be protected.

AAR under BBA. File Form 1065-X if you're the partnership representative (PR) or designated individual (DI) requesting an administrative adjustment to correct a previously filed partnership return on behalf of the BBA partnership. See [Partnership representative \(PR\)](#), later, for the definition of a PR. Go to [IRS.gov/bbaaar](https://www.irs.gov/bbaaar) for additional information.

AAR-Electing Large Partnerships (ELPs). ELPs that file Form 1065-B and need to correct errors on a previously filed Form 1065-B use Form 1065-X to file for an AAR. See *Specific Instructions*, later, for information on completing Form 1065-X as an AAR.

AAR-REMICs. For tax years beginning prior to January 1, 2018 (unless electing into BBA), REMICs that don't meet the small REMIC exception under sections 860F(e) and 6231 (prior to amendment by BBA), and related regulations, or make the election described in section 6231(a)(1)(B)(ii) (prior to amendment by BBA) not to be treated as a small REMIC, use Form 1065-X to file for an AAR. For tax years beginning after December 31, 2017, REMICs that had more than one residual interest holder at any time during the tax year and didn't elect out of the centralized partnership audit regime, use Form 1065-X to file an AAR. See *Specific Instructions*, later, for information on completing Form 1065-X as an AAR.



When a partnership's or REMIC's federal return is changed for any reason, it may affect its state return. For more information, contact the state tax agency with which the state return is filed.

When To File

Generally, a pass-through entity may file an amended return or AAR to change items on its return:

- Within 3 years after the later of the date on which the partnership return for that year is filed, or the last day for filing the partnership return for that year (excluding extensions); and
- In the case of a TEFRA partnership or REMIC, before a notice of final partnership administrative adjustment for that year is mailed to the TMP or tax matters person, or, in the case of an ELP, before the mailing to the partnership of a notice of partnership administrative adjustment with respect to that year;

- In the case of a BBA partnership, before a notice of an administrative proceeding with respect to the tax year is mailed under section 6231; or
- In the case of a partnership that is a partner in a BBA partnership which is filing an amended return for purposes of BBA partnership modification under section 6225(c)(2), in the time period specified under section 6225(c).

What To Attach

If the corrected amount involves an item that must be supported with a schedule, statement, or form, attach the appropriate schedule, statement, or form to Form 1065-X. Include the entity's name and employer identification number (EIN) on any attachments. See the instructions for Form 1065, 1065-B, or 1066 (as applicable) for a list of forms that may be required.

If the attachments needed to support the corrected amount include copies of forms or schedules from previously filed tax returns, write at the top of each previously filed form or schedule, "Copy Only—Do Not Process."

A BBA partnership must attach a schedule to Form 1065-X that supports the position(s) reported. If the partnership doesn't make the election under section 6227(b)(2) to have the adjustments taken into account by the reviewed year partners and would like to modify per section 6227(b)(1), it must attach Form 8980, Partnership Request for Modification of Imputed Underpayments Under IRC Section 6225(c), to support any modifications made to the imputed underpayment (IU), as described in sections 6225(b) and (c), and as applied to a BBA AAR under section 6227(b)(1). See *Modifications to an Imputed Underpayment Included in an Administrative Adjustment Request* in Pub. 5346, Instructions for Form 8980.

In addition, if a REMIC requests that the IRS electronically deposit a refund of \$1 million or more, attach Form 8302, Electronic Deposit of Tax Refund of \$1 Million or More.

Who Must Sign

Non-TEFRA and non-BBA partnerships. Any partner or limited liability company (LLC) member must sign the return. Form 1065-X isn't considered to be a return unless it is signed. When a return is made for a partnership by a receiver, trustee, or assignee, the fiduciary must sign the return instead of the partner or LLC member. Returns and forms signed by a receiver or trustee in bankruptcy on behalf of a partnership must be accompanied by a copy of the order or instructions of the court authorizing the signing of the return or form.

BBA partnerships. The PR or DI, as applicable, must sign Form 1065-X.

TEFRA partnerships. The TMP must sign Form 1065-X. See [Tax matters partner \(TMP\)](#), later, for the definition of a TMP.

ELPs. The PWA must sign Form 1065-X. See [Partner with authority \(PWA\)](#), later, for the definition of a PWA.

REMICs with a startup day after November 9, 1988. For these REMICs, Form 1065-X may be signed by any

person who could sign the return of the entity in the absence of the REMIC election. Thus, the return of a REMIC that is a corporation or trust would be signed by a corporate officer or a trustee, respectively. For REMICs with only segregated pools of assets, the return would be signed by any person who could sign the return of the entity owning the assets of the REMIC under applicable state law.

Note. If the REMIC is subject to BBA for the tax year and is using Form 1065-X to file an AAR, the PR or DI, as applicable, must sign Form 1065-X.

REMICs with a startup day before November 10, 1988. These REMICs may elect to apply the rules for REMICs with a startup day after November 9, 1988 (as described in Regulations section 1.860F-4(c)(2)(iii)). Otherwise, Form 1066 must be signed by a residual interest holder or, as provided in section 6903, by a fiduciary, as defined in section 7701(a)(6), who is acting for the REMIC and who has furnished adequate notice, as described in Regulations section 301.6903-1(b).

In the prior paragraph, the term “startup day” means any day selected by a REMIC that is on or before the first day on which interests in such REMIC are issued. Otherwise, the startup day is the day on which the REMIC issued all of its regular and residual interests. However, a sponsor may contribute property to a REMIC in exchange for regular and residual interests over any period of 10 consecutive days and the REMIC may designate any 1 of those 10 days as the startup day. The day so designated is then the startup day, and all interests are treated as issued on that day.

Note. If the REMIC is subject to BBA for the tax year and is using Form 1065-X to file an AAR, the PR or DI, as applicable, must sign Form 1065-X.

Where To File

Form 1065-X must be filed with the service center where the original return was filed.

Definitions

Adjustment year. For BBA partnerships, the adjustment year is the partnership tax year in which:

- An adjustment pursuant to the decision of a court in a proceeding brought under section 6234 becomes final;
- An AAR is filed under section 6227; or
- A notice of final partnership adjustment is mailed under section 6231 or, if the partnership waives the limitations on assessments under section 6232(b), the waiver is executed by the IRS.

BBA partnership. A partnership that is subject to the centralized partnership audit regime is referred to as a “BBA partnership.” All partnerships with tax years beginning after 2017 are BBA partnerships unless, under section 6221, they make a valid election out of the centralized partnership audit regime. A partner in a BBA partnership is referred to as a “BBA partner.” An AAR filed by a BBA partnership is referred to as a “BBA AAR” and must be filed by the PR. Go to [IRS.gov/bbaaar](https://www.irs.gov/bbaaar) for additional information.

Designated individual (DI). A DI is an individual chosen by a partnership to have the sole authority to act on behalf of the partnership when the partnership has a PR that is an entity. The DI must be designated at the same time as the PR, on Form 1065.

Imputed underpayment (IU). An IU is the amount a partnership is potentially liable for as a result of an adjustment to a partnership-related item (PRI). Whether an adjustment results in an IU is determined in accordance with the rules under Regulations section 301.6225-1, with that amount subject to possible modification under Regulations section 301.6227-2.

Item. Any item of a partnership, S corporation, estate, trust, or REMIC required to be taken into account for the pass-through entity's tax year by the partners, shareholders, beneficiaries, owners, or residual interest holders of that pass-through entity.

Non-BBA partnership. Under BBA, certain partnerships with 100 or fewer eligible partners for the tax year can elect out of the centralized partnership audit regime. For additional information, see the Instructions for Form 1065. A partnership that elects out of the centralized partnership audit regime is referred to as a “non-BBA partnership.”

Non-TEFRA partnership. A partnership with a tax year beginning before 2018 that isn't subject to TEFRA proceedings and didn't elect into BBA for that tax year beginning after November 2, 2015, and before January 1, 2018, is referred to as a “non-TEFRA partnership.”

Partner with authority (PWA). Each ELP must designate a partner (or other person) as the PWA who shall have the sole authority to act on behalf of the partnership. See section 6255(b)(1) (prior to amendment by BBA). If the partnership fails to designate a PWA, the IRS can select any partner to serve as the partner with such authority. The PWA has the authority to file an AAR on behalf of the partnership. The PWA does this by filing Form 1065-X.

Partnership-related item (PRI). A PRI is any item or amount with respect to the partnership that is relevant in determining the tax liability of any person under chapter 1, and any partner's distributive share of that item or amount. This includes an IU for which the partnership may be liable, as well as any tax, penalty, addition to tax, or additional amount imposed on the partnership under chapter 1.

Partnership representative (PR). Under section 6223, BBA partnerships must designate a partner or other person with a substantial presence in the United States as the PR who shall have the sole authority to act on behalf of the partnership. If the PR is an entity, the partnership must also appoint a DI to act on behalf of the entity PR. The appointed DI must be an individual and may not be an entity. The partnership and all partners are bound by the actions of the PR in dealings with the IRS under BBA. Go to [IRS.gov/bbaaar](https://www.irs.gov/bbaaar) for additional information. A REMIC that's a BBA partnership (hasn't elected out of BBA) would need to designate a PR.

Pass-through entity. A partnership (including an ELP), S corporation, estate, trust, or REMIC.

Reviewed year. For BBA partnerships, the reviewed year is the partnership's tax year to which a partnership adjustment relates.

Reviewed year pass-through partner. For purposes of these instructions, under BBA, a reviewed year pass-through partner is a pass-through entity that held an interest in a BBA partnership at any time during the reviewed year, which is the partnership tax year to which the partnership adjustment relates. For example, if the BBA AAR is filed to make an adjustment to income for the 2023 tax year, 2023 is the reviewed year.

Schedule K-1. Schedule K-1 is the annual schedule reporting the partner's, shareholder's, or beneficiary's share of income, deductions, credits, etc., from a partnership, S corporation, estate, or domestic trust.

Schedule K-2. An extension of Form 1065, Schedule K, used to report items of international tax relevance from the operation of a partnership.

Schedule K-3. An extension of Schedule K-1 (Form 1065) generally used to report to partners their share of the items reported on Schedule K-2.

Schedule Q. Schedule Q is the quarterly schedule reporting the residual interest holder's share of taxable income or net loss from the REMIC.

Tax matters partner (TMP). If the partnership is subject to the TEFRA procedures, it can designate a partner as the TMP for the tax year for which the return is filed. The TMP is a general partner (in most cases, the TMP must also be a U.S. person) designated by the partnership to represent the partners in the consolidated audit and litigation proceedings under sections 6221 through 6234 prior to amendment by BBA (TEFRA proceedings). The designation is made by completing the *Designation of Tax Matters Partner* section of Form 1065 used for tax years beginning before 2018.

Additionally, a REMIC may designate a tax matters person in the same manner in which a partnership may designate a TMP under Regulations section 301.6231(a)(7)-1. When applying that section, treat all holders of a residual interest in the REMIC as general partners. The designation may be made by completing the *Designation of Tax Matters Person* section of Form 1066 for tax years beginning before 2018. For tax years beginning after December 2017, a REMIC that's a BBA partnership (hasn't elected out of BBA) would need to designate a PR.

For an LLC, a member of the LLC is treated as a partner and a member-manager is treated as a general partner. A member-manager is any owner of an interest in the LLC who, alone or together with others, has continuing exclusive authority to make the management decisions necessary to conduct the business for which the LLC was formed. If there are no elected or designated member-managers, each owner is treated as a member-manager. For details, see Regulations section 301.6231(a)(7)-2.

TEFRA partnership. The consolidated audit proceedings of sections 6221 through 6234 (prior to amendment by BBA) are referred to as "TEFRA proceedings" and partnerships that are subject to TEFRA

proceedings are referred to as "TEFRA partnerships." An AAR filed by the TMP of the TEFRA partnership is a TEFRA AAR. Any partner in a TEFRA partnership may file an AAR using Form 8082. TEFRA proceedings won't apply to partnerships with tax years beginning after 2017.

Paid Preparer's Information

If a partner or an employee of the partnership or REMIC completes Form 1065-X, the "Paid Preparer Use Only" section should remain blank. In addition, anyone who prepares Form 1065-X but doesn't charge the partnership or REMIC shouldn't complete this section.

Generally, anyone who is paid to prepare Form 1065-X must do the following.

- Sign the return in the space provided for the preparer's signature.
- Fill in the other blanks in the "Paid Preparer Use Only" area of the return. A paid preparer can't use a social security number in the "Paid Preparer Use Only" box. The paid preparer must use a preparer tax identification number (PTIN).
- Give the partnership or REMIC a copy of the return in addition to the copy to be filed with the IRS.



A paid preparer may sign original or amended returns by rubber stamp, mechanical device, or computer software program.

Interest and Penalties

Interest. Generally, interest is charged on taxes not paid by the due date, even if an extension of time to file is granted. Interest is also charged on penalties imposed for negligence, fraud, substantial valuation misstatements, substantial understatements of tax, and reportable transaction understatements. The interest is charged from the due date (including extensions) to the date of payment. The interest charge is figured at a rate determined under section 6621.

Late payment penalty. The penalty for not paying the tax when due is usually $\frac{1}{2}$ of 1% of the unpaid tax for each month or part of a month that the tax remains unpaid. The penalty can't exceed 25% of the unpaid tax.

Other penalties. Penalties can also be imposed for negligence, substantial understatements of tax, reportable transaction understatements, and fraud. See sections 6662, 6662A, and 6663.

Interest and penalties applicable to the IU. Except when the partnership elects to have its partners take into account the adjustments, BBA partnership interest and penalties are the following.

- The interest figured for an IU is the interest that would be determined under chapter 67 for the period beginning on the day after the return due date for the reviewed year and ending on the return due date for the adjustment year, as defined under section 6225(d)(2) or, if earlier, the date the IU is paid.
- Any penalty, addition to tax, or additional amount shall be determined at the partnership level and is applied as if that BBA partnership had been an individual subject to tax under chapter 1 for the reviewed year and the IU were an actual underpayment (or understatement) for that year for purposes of part II of subchapter A of chapter 68.

Election to apply the alternative to payment of the IU.

If the partners must take into account the adjustments because the BBA partnership filed an AAR and there are adjustments that don't result in an IU, or if a BBA partnership elects the alternative to payment of the IU under sections 6227(b)(2) and 6226(c), interest shall be determined:

- At the partner level;
- From the due date of the return for the tax year to which the increase is attributable (determined by taking into account any increases attributable to a change in tax attributes for a tax year under section 6226(b)(2)), until the date of payment; and
- At the section 6621(a)(2) underpayment rate.

Judicial review of an AAR (for returns subject to the TEFRA procedures or ELPs). If the IRS fails to act on an AAR, the TMP or PWA may file a petition for judicial review with the U.S. Tax Court, U.S. Court of Federal Claims, or U.S. District Court. The TMP or PWA must file the petition before the date that is 2 years after the date the TMP or PWA filed the AAR, but not until after the date that is 6 months from the date of such filing. The 2-year period may be extended if the IRS and the TMP or PWA agree in writing. For more details, see sections 6228 (prior to amendment by BBA) and 6252.

Specific Instructions

If, after reading the instructions, you're unable to complete an item in Part I or Part II, enter "See Part V" in the entry space for that item and provide the information there.

Name and Identifying Number

Enter the legal name of the entity and identifying number on the appropriate lines. Include the suite, room, or other unit number after the street address. If the post office doesn't deliver mail to the street address and the entity has a P.O. box, show the box number instead.

If the entity receives its mail in care of a third party (such as an accountant or attorney), enter on the street address line "C/O" followed by the third party's name and street address or P.O. box.

If the entity's address is outside the United States, or its possessions or territories, enter the information on the line for "City or town, state, and ZIP code" in the following order: city, province or state, and foreign country. Follow the foreign country's practice in placing the postal code in the address. Don't abbreviate the country name.

Part I. Check the Appropriate Box

An AAR can be filed by a partnership subject to TEFRA proceedings (TEFRA AAR), a partnership subject to BBA proceedings (BBA AAR), an ELP, and a REMIC.

If you're a BBA partnership that has received a notice of administrative proceeding, you may not file an AAR. Also, a partner may not file an AAR on behalf of the BBA partnership in which it is a partner unless doing so in its capacity as the PR for that partnership.

For Partnership Tax Years Beginning Before January 1, 2018 (Unless Electing Into BBA)

TEFRA AAR. The consolidated audit proceedings of sections 6221 through 6234 (prior to amendment by BBA) are referred to as "TEFRA proceedings" and partnerships that are subject to TEFRA proceedings are referred to as "TEFRA partnerships." An AAR filed by the TMP of the TEFRA partnership is a TEFRA AAR. TEFRA proceedings won't apply to partnerships with tax years beginning after 2017.

Non-TEFRA AAR. A partnership with a tax year beginning before 2018 that isn't subject to TEFRA proceedings is referred to as a "non-TEFRA partnership."

ELPs/REMICs The ELP procedures were repealed for tax years beginning after 2017. However, ELPs filing a non-e-filed AAR for a tax year that began before 2018 will use Form 1065-X.

For Partnership Tax Years Beginning After 2017 and Partnerships Electing Into BBA for Tax Years Beginning After November 2, 2015, and Before January 1, 2018

BBA AAR. All partnerships with tax years beginning after 2017 are subject to the centralized partnership audit regime unless an eligible partnership makes a valid election under section 6221(b) to elect out of the centralized partnership audit regime. Partnerships electing into BBA for tax years beginning after November 2, 2015, and before January 1, 2018, are also subject to the centralized partnership audit regime. Partnerships that are subject to the centralized partnership audit procedures of sections 6221 through 6241 are referred to as "BBA partnerships." An AAR filed by a BBA partnership is a BBA AAR.

Non-BBA. A partnership with a tax year beginning after 2017 that isn't subject to BBA proceedings because it has made a valid election under section 6221(b) is referred to as a "non-BBA partnership."

Partnership-Partner Amended Return Related to Modification of Another Partnership's IU

A partner that is itself a partnership (partnership-partner) that is filing an amended return as part of modification of the IU under section 6225(c)(2) should check this box.

Section 1—TEFRA/Non-TEFRA Determination

Item A

If the answer to item A is "Yes," the partnership return isn't subject to the TEFRA proceedings. You should proceed to item E and check the "Not subject to TEFRA" box.

Items B Through E

These items are used to determine if the partnership is subject to the rules for consolidated audit procedures (TEFRA procedures).

Consolidated REMIC proceedings. Generally, the tax treatment of REMIC items is determined at the REMIC level in a consolidated REMIC proceeding, rather than in separate proceedings with individual residual interest holders. A REMIC subject to consolidated REMIC procedures will have checked the box on item G on page 3 of its original Form 1066 (for tax years beginning before January 1, 2018).

Items B and C

All partnerships with tax years beginning before 2018 (except ELPs) and REMICs are subject to TEFRA partnership audit procedures unless the partnership or REMIC is subject to the small partnership exception. See section 6231(a)(1)(B) (prior to amendment by BBA).

A small partnership is a partnership with 10 or fewer partners at all times during the year. All partners must be U.S. individuals and their estates, resident alien individuals, or C corporations.

Note. For making the small partnership determination, a married couple, each spouse having their own partnership interest, is considered one partner. An individual who has passed away during the year and their estate are considered one partner.

Item D

A partnership defined as a small partnership can elect to be treated as a TEFRA partnership for tax years beginning before 2018. The partnership elects TEFRA treatment by attaching a statement to the tax return for the first year they wish the election to be effective. This statement must be signed by all partners. See Regulations section 301.6231(a)(1)-1(b). Form 8893, Election of Partnership Level Tax Treatment, is the statement that can be used to make this election. If you answer "Yes" to item D, enter the tax year of the filing of this election in the space provided.

Item E

If, at any time during the tax year, there are more than 10 partners or any of the following are partners in the partnership, then the partnership isn't a small partnership.

- Another partnership.
- An LLC which files as a partnership or is treated as a disregarded entity.
- Any type of trust, including a grantor trust.
- A nominee.
- A nonresident alien.
- An S corporation.

| Table for Determining Which Box To Check in Item E | | |
|--|-----------------------|--------------------------|
| IF in item... | The box checked is... | THEN in item E, check... |
| B | No | Subject to TEFRA. |
| C | No | Subject to TEFRA. |
| D | Yes | Subject to TEFRA. |
| B and C | Yes | Not subject to TEFRA. |
| D | No | Not subject to TEFRA. |

Item F

Check the box to indicate whether you're filing an amended return or an AAR.

Amended Return. Check this box if you checked the "Not subject to TEFRA" box in item E, and you aren't an ELP. This means that you're filing a request to correct a previously filed non-TEFRA partnership return or REMIC return.

If your partnership or REMIC return meets the exception under section 860F(e) or section 6231 (prior to amendment by BBA), and doesn't file an election to be treated as a TEFRA partnership under section 6231(a)(1)(B)(ii) (prior to amendment by BBA), and related regulations, and you received a corrected Form 1099 or are making changes to income, deductions, or credits, but there are no flow-through changes from a TEFRA partnership, then you're filing an amended return. Check the "Amended Return" box.

AAR. Check this box if you're filing a request to correct a previously filed partnership or REMIC return and you're one of the following.

- The TMP of the TEFRA partnership or REMIC. The REMIC must be subject to consolidated REMIC proceedings. For more information on consolidated REMIC proceedings, see the Instructions for Form 1066.
- An ELP correcting a previously filed return.

Item G

A substituted return requests that the treatment of an item shown on the AAR be substituted for the treatment of the item on the pass-through entity's return.

Check "Yes" if you're requesting substituted return treatment for the partnership. If the IRS allows substituted return treatment, the changes shown on the amended return will be treated as corrections of mathematical or clerical errors, and the IRS may assess any resulting tax to the partners or residual interest holders without a deficiency or entity-level proceeding. In this case, partners or residual interest holders may file amended returns requesting refunds. See section 6227(c)(1) (prior to amendment by BBA).

If the IRS doesn't allow substituted return treatment for the partnership, the partners or residual interest holders may file amended returns requesting refunds. The IRS may conduct an examination of the pass-through entity's

return, or take no action on the request. When a request isn't treated as a substituted return, the IRS can't assess tax without a deficiency or entity-level proceeding. See section 6227(c)(2) (prior to amendment by BBA).

ELPs. An ELP can't request substituted treatment. See section 6227(c)(1) (prior to amendment by BBA).

Section 2—BBA AAR

For additional information on filing BBA AARs, go to [IRS.gov/bbaaar](https://www.irs.gov/bbaaar).

Item A

If the "Yes" box is checked, complete Form 8979 and attach it to the AAR. See the Instructions for Form 8979, Partnership Representative Revocation, Designation, and Resignation Form, for more information.

Note. If you're a BBA partnership, you may not file an AAR solely for the purpose of changing the PR.

Item B

BBA partnerships filing an AAR will need to determine if the partnership adjustments result in an IU. See [Figuring the Imputed Underpayment \(IU\)](#), later, for information as to how to figure the IU. The BBA partnership should consider all available guidance issued by the IRS in making a determination of whether or not the AAR results in an IU. Also, see [Part IV](#), later, for discussion of the IU.

Item C1

If the adjustments contained in the BBA AAR result in an IU, the partnership must pay the IU at the same time the AAR is filed. However, under section 6227(b)(2), the partnership can elect to have its reviewed year partners take the adjustments into account. This is an election to push out the adjustments to the partners as an alternative to payment of the IU. See section 6226(a)(2) for details. If this valid election is made, the partnership is no longer liable for the IU.



If the partnership's election under section 6227(b)(2) to push out the adjustments to the partners is determined to be invalid, the partnership will still remain liable for the IU.

Item C2

The partnership will need to furnish Forms 8986 to each reviewed year partner reflecting the partner's share of adjustments for when the adjustments don't result in an IU (for example, the adjustments in the BBA AAR result in an IU of zero or less than zero; or there is a net negative adjustment). The partnership is also required to file with the AAR all Forms 8986 furnished to partners and Form 8985. See the instructions for these forms for further information.

Note. The BBA partnership doesn't furnish Schedules K-1 to its partners when filing a BBA AAR. Instead, it'll provide Forms 8986.

Item D

Each reviewed year partner is required to take into account its share of adjustments requested in a BBA AAR if the partnership adjustments result in a positive IU and the partnership makes the alternative to payment election discussed under *Item C1*, earlier. Additionally, each reviewed year partner is required to take into account its share of any adjustments requested in a BBA AAR resulting in an IU of zero or less than zero, or that don't result in an IU. The determination of whether or not an adjustment results in an IU amount is discussed under *Item B*, earlier.

The partnership is required to furnish each reviewed year partner with a Form 8986 reporting its share of the BBA AAR adjustments. The PR must attest to the partnership's compliance with this requirement. The PR will sign Form 1065-X under item D to declare, under penalties of perjury, that all statements have been provided to the reviewed year partners, as required by these instructions.

Item E

Under section 6227(b)(1), the partnership may modify the IU resulting from adjustments reported in a BBA AAR in accordance with the provisions under section 6225(c), disregarding the provisions under paragraphs (2), (7), and (9). Any modification made to the IU under section 6227(b)(1) must be disclosed and fully explained on Form 8980 and included with the AAR.

Note. If the partnership makes a valid election to push out the adjustments to the partners as an alternative to payment of the IU, the modifications to the IU are disregarded and aren't included on the statements provided to the partners.



However, if the partnership's election to push out the adjustments rather than pay an IU is determined to be invalid, the partnership will still be liable for the IU. In such a case, if the partnership filed its IU calculation and Form 8980 to request permitted modifications be applied to the IU, those modifications will be considered in making any such determination and potential subsequent assessment.

Section 3—Partnership-Partner Amended Return Filed as Part of Modification of the Imputed Underpayment (IU) During a BBA Audit

Section 6225(c)(2) allows a BBA partnership under examination to request specific types of modifications of an IU proposed by the IRS. One type of modification applies when a partner or indirect partner, including a partnership-partner, files an amended return for the tax year of the partner which includes the end of the reviewed year of the BBA partnership under examination. See Form 8980, Item E, Part I, and Pub. 5346.

A BBA partnership under examination will be assigned a unique audit control number. A partnership-partner using Form 1065-X to file an amended return as part of a modification under section 6225(c)(2) must include in

Section 3 (Form 1065-X) the name, EIN, reviewed year, and audit control number of the BBA partnership under examination to which the amended return relates. In addition, the partnership-partner shouldn't furnish amended Schedules K-1 or K-3, or Forms 8986, to its partners, but instead must pay an amount computed like an IU on the adjustments allocable to it, plus any penalties and interest. See [Part IV](#), later, for payment instructions.

Part II—Amended or Administrative Adjustment Request (AAR) Items for Partnerships Filing Form 1065 Only (ELPs and REMICs Use Part III)

For information on income, deductions, credits, etc., see the instructions for Form 1065, Schedules K, K-1, K-2, and K-3 for the tax year being amended or otherwise adjusted. See the Instructions for Form 1065 for a list of forms that may be required.

Note. In Part II of Form 1065-X, “see instructions” refers to the instructions for Form 1065 and Schedule K-1, not the Instructions for Form 1065-X.

TEFRA partnerships filing AARs. A TEFRA partnership filing an AAR to change items that were reported on its original return must do the following.

1. Determine the required changes to be made.
2. Complete Form 1065-X to identify the changes being made.
 - a. On Form 1065-X, check the “TEFRA AAR” box under Part I.
 - b. See later for how to complete Part II, columns (a) through (c).
3. Complete Form 1065-X.
 - a. See [Who Must Sign](#), earlier, for who must sign the Form 1065-X.
 - b. Attach amended Schedules K-1 showing the corrected amounts for each partner.
4. File Form 1065-X and attach any other supporting documents required.
5. Give a copy of the amended Schedules K-1 to the applicable partners.

BBA partnerships filing AARs. A BBA partnership filing an AAR to change items that were reported on its original return must do the following.

1. Determine the required changes to be made.
2. Complete Form 1065-X to identify the changes being made.
 - a. On Form 1065-X, check the “BBA AAR” box under Part I.
 - b. See later for how to complete Part II, columns (a) through (c).
3. Figure an IU and determine if there are any adjustments that don't result in an IU.
4. Determine if it'll pay the IU or push out the adjustments to the partners.
 - a. If paying an IU, report the IU appropriately in Part IV. With your filing, include any permitted modifications

that you'd like applied to the IU and a completed Form 8980 with your filing. Complete Forms 8985 and 8986 (pushout package) pertaining to the adjustments that don't result in an IU (if applicable). Don't include Schedules K-1 because they aren't appropriate for a BBA partnership AAR.

b. If pushing out all the adjustments to the reviewed year partners, complete Forms 8985 and 8986 (pushout package).



If the partnership pushes out the adjustments, but the election is invalid, the partnership remains liable for an IU and such IU potentially may be assessed. If the partnership filed its IU calculation and Form 8980 to request permitted modifications be applied to the IU, those modifications will be considered in determining the liability.

5. File Form 1065-X and attach any other supporting documents required, including copies of Forms 8985 and 8986 (if applicable).

6. If applicable, distribute the Forms 8986 to reviewed year partners according to the Form 8986 instructions.

Column (a). Enter the amounts from Form 1065, Schedule K, as originally filed or as was previously adjusted. If the return was changed or audited by the IRS, enter the amounts as adjusted.

Column (b). Enter the net increase or decrease for each line being changed. Enter as a positive the amount by which column (c) exceeds column (a) or enter as a negative the amount by which column (a) exceeds column (c). Use parentheses around all amounts that are negative. Positive amounts are increases and negative amounts are decreases. Explain the increase or decrease in Part V.

Column (c). Enter the correct amount. This will be the sum of column (a) and column (b).

Forms 8985 and 8986

If a BBA partnership files an AAR and it is making an election under section 6227(b)(2) to have the adjustments taken into account by the reviewed year partners, or (1) when the adjustments in the BBA AAR result in an IU of zero or less than zero; or (2) the adjustments don't result in an IU, then it will furnish to each partner for the reviewed year a Form 8986 reflecting the partner's share of the adjustments to PRI as a result of a BBA audit or BBA AAR for situations where the partners are taking into account the adjustments. The partnership is also required to file with the AAR all Forms 8986 furnished to partners and Form 8985. Form 8985 is used to summarize and transmit Forms 8986, in situations where the partners are taking into account the adjustments. Adjustments shown on Form 1065-X, Part II, column (b), should tie to the adjustments reported on Form 8985, Part IV, column (f). Form 8985 is also used to report payment(s) made and related calculations by a pass-through partner, if applicable. See the instructions for these forms for further information.

Amended Schedules K-1

If a BBA partnership files an AAR and needs to make its partners aware of their allocable share of adjustments, it will furnish to each partner for the reviewed year Form 8986 reflecting the partner's share of the adjustments (and shouldn't provide amended Schedules K-1). The partnership must also file all Forms 8986 furnished to partners and Form 8985 with the AAR. See the instructions for these forms for further information. ELPs filing a Form 1065-X as an AAR should see *Part III*, later. All other partnerships should file amended Schedules K-1 with Form 1065-X and furnish copies of the amended Schedules K-1 to the partners.

If a TEFRA partnership files Form 1065-X for an AAR, it should inform the partners receiving the amended Schedules K-1 that the partnership is filing the AAR. If the partnership isn't subject to either the rules for consolidated audit proceedings (TEFRA proceedings) under sections 6221 through 6234 (prior to amendment by BBA) or to the centralized partnership audit regime under BBA, it must furnish the amended Schedules K-1 to its partners. The partners must then file their own amended returns.

Amended or Corrected Schedules K-2 and K-3 for Tax Years Beginning on or After January 1, 2021

Non-BBA partnership filing an amended return.

Attach the amended Schedule K-2 and on the header of the schedule enter "As Amended." Attach the amended Schedules K-3 with the amended box checked at the top of each. The partnership must furnish the amended Schedules K-3 to its partners.

BBA partnerships filing AARs. When a BBA partnership files an AAR and needs to make its partners aware of their allocable share of adjustments, it shouldn't file an amended Schedule K-2 or Schedules K-3 instead it must file Forms 8985 and 8986 with the AAR to report the changes to the Schedules K-2 and K-3. The BBA partnership must also furnish Forms 8986 to its partners. See the instructions for Forms 8985 and 8986. Also see the Instructions for Form 8986 for examples of how Schedule K-3 adjustments should be reported. The related Schedule K-2 (summary of Schedules K-3) adjustments should be reported in the same manner.

Part III—Amended or Administrative Adjustment Request (AAR) Items for ELPs and REMICs Only

ELPs only. An ELP may file an AAR to adjust its partnership items. Generally, the ELP has two choices for handling the adjustment.

1. It may combine the adjustment with the same partnership item for the year in which the IRS allows the adjustment and pass it through to the current partners for that year. However, if the adjustment involves the reduction in a credit which exceeds the amount of that credit for the partnership tax year in which the adjustment is allowed, the partnership must pay tax in an amount equal to the excess amount.

2. It may elect to not pass the adjustment through to current partners by paying tax on any IU that results from the adjustment. If the partnership elects to pay the tax, enter it on Part III, line 16. Attach a computation of the tax to Form 1065-X.

In either case, the partnership is liable for any interest and penalties on IUs that result from the adjustment. See section 6242(b) (prior to amendment by BBA) for details. Interest is figured on the IU for the period beginning on the day after the due date (excluding extensions) of the partnership return for the tax year the adjustment takes effect or, if earlier, the date the partnership paid the tax due under (2) above. The adjusted year is the partnership tax year in which the item being adjusted arose.

ELPs and REMICs. Identify in Part III the amount and treatment of any item the partnership or REMIC is changing from the way it was reported on the original return.

Column (a). Enter a description of the item that the partnership or REMIC is adjusting or amending.

Column (b). Enter the amounts from the ELP's or REMIC's return as originally filed or as it was later adjusted. If the return was changed or audited by the IRS, enter the amounts as adjusted.

Column (c). Enter the net increase or net decrease for each line being changed. Use parentheses around all amounts that are decreases. Explain the increase or decrease in Part V.

Column (d). Enter the correct amount. This will be the sum of column (b) and column (c).

Line 6. Show any increase or decrease to the ELP's tax or other payments.

Line 10. Enter the total tax as follows.

ELPs. Enter the line 6 amounts on line 10.

REMICs. Add the amounts on lines 7 through 9 and enter the total for each column on line 10.

Line 11. Enter the amount of tax paid with Form 7004, Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns.

Line 14. Enter the amount from the "Overpayment" line of the original return, even if the ELP or REMIC chose to credit all or part of this amount to the next year's estimated tax. This amount must be considered in preparing Form 1065-X because any refund due from the original return will be refunded separately from any additional refund claimed on Form 1065-X. If the original return was changed by the IRS and the result was an additional overpayment of tax, also include that amount on line 14.

Line 16. If the ELP or REMIC doesn't use electronic fund transfers, including the Electronic Federal Tax Payment System (EFTPS), enclose a check with this form. Make the check payable to "United States Treasury."

Line 17. If the ELP or REMIC is entitled to a refund larger than the amount claimed on the original return, line 17 will show only the additional amount of overpayment. This additional amount will be refunded separately from the

amount claimed on the original return. The IRS will figure any interest due and include it in the refund.

Amended Schedules K-1 or Schedules Q

If the ELP or REMIC is filing Form 1065-X for an AAR, don't furnish the amended Schedules K-1 or Schedules Q to the partners or residual interest holders. If the REMIC isn't filing for an AAR and isn't subject to the rules for consolidated audit proceedings under sections 6221 through 6231 (prior to amendment by BBA), the REMIC must furnish the amended Schedules Q to its residual interest holders.

Part IV—Imputed Underpayment (IU) Under the Centralized Partnership Audit Regime



BBA AARs must always include a computation of the IU (even when the IU is zero or less than zero, or the adjustments don't result in an IU), as determined under section 6225(b).

If the adjustments don't result in an IU, the IU should be shown as zero. Documentation should be included with the AAR that supports the computation of the IU amount. If the resulting IU amount is zero or less than zero, or the adjustments don't result in an IU, or if the partnership is making an election under section 6227(b)(2) to have the adjustments taken into account by the reviewed year partners, Part IV, line 1, should be shown as zero. Otherwise, the IU amount should be reported on Part IV, line 1.

If the adjustments requested in the AAR result in an IU, generally the partnership takes the adjustments into account and must pay the IU. Adjustments requested in the AAR that result in zero, less than zero, or the adjustments don't result in an IU must be taken into account by each reviewed year partner as if the partnership had made an election under section 6227(b)(2), but only with regard to those adjustments that don't result in an IU. In this instance, see Forms 8985 and 8986 and their related instructions for reporting amounts not included in the IU.

The partnership may elect under section 6227(b)(2) to have the reviewed year partners take into account adjustments resulting in an IU. If the partnership makes the election, the partnership isn't liable for, nor required to pay, the IU related to the adjustments. Additionally, if the IU calculation results in an amount that is zero, less than zero, or the adjustments don't result in an IU, then all adjustments are taken into account by the reviewed year partners. However, the partnership may have withholding and reporting obligations under chapter 3 or chapter 4 with respect to the adjustments taken into account by the reviewed year foreign partners. See the instructions for Form 8985 and Form 8986.

If the partnership validly elects under section 6227(b)(2) to have its reviewed year partners take all the adjustments into account, all modifications by the partnership (that would have been allowed had the partnership paid an IU) aren't allowed and are disregarded.

The partnership must always include an IU calculation, irrespective of whether the IU is zero (or less than zero, or the adjustments don't result in an IU) or the partnership elects under section 6227(b)(2) to have its reviewed year partners take all the adjustments into account. See [Figuring the Imputed Underpayment \(IU\)](#), later, for information on how to figure the IU. Also go to [How to figure an imputed underpayment](#).

Under section 6227(b)(1), the partnership may modify the IU resulting from adjustments reported in a BBA AAR in accordance with the provisions under section 6225(c), disregarding the provisions under sections 6225(c)(2), (7), and (9). Any modification made to the IU under section 6227(b)(1) must be disclosed and fully explained in documentation included with the AAR.

If modifications are applied to the IU, complete and attach Form 8980 and report the modified IU amount on Part IV, line 1. See [Part I, Section 2, Item E](#), earlier, for more information on modification.



If the partnership makes an election to push out the adjustments rather than pay an IU but the election is determined to be invalid, the partnership remains liable for an IU and such IU potentially may be assessed. If the partnership filed its IU calculation and Form 8980 to request permitted modifications be applied to the IU, those modifications will be considered in determining the liability.

The applicability of interest and penalties is discussed under [Interest and penalties applicable to IU](#), earlier. The BBA AAR may include a prepayment for interest and penalties. If making such prepayments, the AAR should include documentation that supports the calculations. A payment made with Form 1065-X should detail the portions of the payment that are for the IU, prepaid estimated interest, and prepaid estimated penalties. The total of all three should be reported on Part IV, line 2.

Under section 6232(a)(2), partnerships filing a BBA AAR that has adjustments that result in an IU, and don't elect the alternative to payment of the IU (by not electing to push out the adjustments to the reviewed year partners), must pay the IU. The IU should be shown on Form 1065-X, Part IV, line 1, at the time of filing the AAR. When paying by check, include the name of the partnership, "Form 1065," the TIN of the partnership, the tax year, and "BBA AAR Imputed Underpayment." Checks must be made payable to "United States Treasury" and included with the BBA AAR. If making an electronic payment, choose the payment description "BBA AAR Imputed Underpayment" from the list of payment types. The payment amount, including any amount paid toward the IU, prepaid estimated interest, and penalties, should be reported on Part IV, line 3.

Figuring the Imputed Underpayment (IU)

For an example of how to figure an IU, go to [How to figure an imputed underpayment](#).

Definitions

Adjustments not resulting in an IU. If, after grouping, subgrouping, and netting, the amount in any grouping or

subgrouping is a net negative or the calculation of the IU is zero or less than zero, then the adjustments in those net negative groups or in the calculation of the IU are adjustments that don't result in an IU. Any adjustments that don't result in an IU are taken into account by the reviewed year partners in accordance with Regulations section 301.6227-3.

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.

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 wasn't originally reported by the partnership) as a credit, including a reallocation adjustment to a creditable expenditure, is placed in the creditable expenditure grouping.

Negative adjustment. A negative adjustment is any adjustment that is a decrease in an item of gain or income; an increase in an item of loss or deduction; an increase in an item of credit or creditable expenditure; a decrease in an item of tax, penalty, addition to tax, or additional amount for which the partnership is liable under chapter 1; or a decrease to an IU calculated by the partnership for the tax year.

Net negative adjustment. Any amount which results from netting adjustments within a grouping or subgrouping that isn't a net positive adjustment. A net negative adjustment includes a negative adjustment that wasn't netted with any other adjustment.

Net positive adjustment. 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 wasn't netted with any other adjustment. A net positive adjustment includes a net decrease in an item of credit (or creditable expenditure).

Positive adjustment. A positive adjustment is any adjustment that isn't a negative adjustment.

Reallocation grouping. In general, any adjustment that allocates or reallocates a PRI to and from a 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 becomes a separate subgrouping.

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. This grouping also includes any adjustment to a PRI that derives from an item that wouldn't have been required to be allocated by the partnership to a partner under section 704(b), such as an adjustment to a liability amount on the balance sheet.

Subgrouping. Each adjustment is subgrouped according to how the adjustment would be required to be taken into account separately under section 702(a). In general, a subgrouping follows Schedules K, K-1, K-2, and K-3 line items, including any alpha codes related to a Schedule K-1 line item.

Total netted partnership adjustments (TNPA). The sum of all net positive adjustments in the reallocation grouping and the residual grouping.

Formula for Figuring the IU

Figuring the IU

| | |
|---|--|
| TNPA x rate* = | |
| + Sum of net positive adjustments to creditable expenditure and credit groupings: | |
| = Total IU | |
| * Highest rate in effect for the reviewed year under section 1 or 11. | |

The process of taking the adjustments shown on the AAR and inputting them into the formula above requires an understanding of the concepts of grouping, subgrouping, and netting. There are seven steps necessary in figuring an IU. The first three steps focus on grouping, subgrouping, and netting.

Steps in Figuring the IU

Step 1—Grouping

Place each adjustment into one of four groupings: reallocation, credit, creditable expenditure, and residual groupings.

Note. Under Regulations section 301.6225-1(b)(4), a partnership that files an AAR may treat a positive adjustment as zero (solely for purposes of calculating any IU) if the positive adjustment is related to, or results from, a positive adjustment to another item. The IRS may later determine that the adjustment should not have been treated as zero by the partnership in its calculation of the IU. Go to [How to figure an imputed underpayment](#).

Reallocation grouping. A reallocation adjustment generally consists of at least two adjustments, one positive and one negative, with each in a separate subgrouping.

- One part of the reallocation adjustment reverses the effect of the improper allocation of a PRI.
- The other part of the adjustment makes the proper allocation of the PRI.
- Under the AAR rules, if one of the reallocation adjustments is negative, such negative adjustment must be pushed out to the proper partner(s).



Don't net reallocation adjustments. Because each part of a reallocation adjustment is placed in a separate subgrouping within the reallocation grouping, those adjustments can't be netted in accordance with the netting rules.

Example. \$100 of ordinary income is being reallocated from Partner A to Partner B. For purposes of figuring the IU, there will be two adjustments, each in a separate subgrouping: a negative adjustment of \$100 (reversing improper allocation to Partner A) and a positive adjustment of \$100 (making proper allocation to Partner

B). These two adjustments can't be netted. As a result, the total net positive adjustment in the reallocation grouping is \$100 and will be included in the TNPA.

Credit grouping.

- Generally, a decrease in credits is treated as a positive adjustment, and an increase in credits is treated as a negative adjustment.
- A reallocation adjustment relating to the credit grouping is placed into two separate subgroupings and won't be netted together nor will they be netted with other credit adjustments.

Creditable expenditure grouping.

- Generally, a decrease in creditable expenditures is treated as a positive adjustment to credits, and an increase in creditable expenditures is treated as a negative adjustment.
- A reallocation adjustment relating to a creditable expenditure grouping is placed into two separate subgroupings and won't be netted together.
- A creditable expenditure is treated in this manner even if the partners claimed a deduction in lieu of a credit.
- Each adjustment to a creditable expenditure is subgrouped based on the separate category of income to which the creditable expenditure relates and to account for any different allocation of the creditable expenditure between partners. Two or more adjustments to creditable expenditures are included within the same subgrouping only if each adjustment relates to creditable expenditures in the same separate category, and each adjusted PRI would be allocated to the partners in the same ratio had those items been properly reflected on the originally filed partnership return.

Residual grouping. The residual grouping contains all adjustments that don't fit into one of the other groups.

Recharacterization adjustments. A recharacterization adjustment will generally result in at least two separate adjustments within the residual grouping.

- One adjustment reverses the improper characterization of the PRI.
- The other adjustment makes the proper characterization of the PRI.
- The adjustments that result from a recharacterization are placed into separate subgroupings.

Step 2—Subgrouping

Determine if any adjustment, within one of the four groupings, needs to be subgrouped. Each adjustment is subgrouped according to how the adjustment would be required to be taken into account separately under section 702(a). 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.

Generally, each separate line item of Schedules K, K-1, K-2, and K-3 or return schedule (for example, Schedule L) represents a separate and distinct subgrouping.

Example. Adjustments to ordinary income must be placed in a different subgrouping than capital gain income or interest income because each of those items is required to be separately stated under section 702(a).

- Subgroupings generally reflect a line item from Schedules K, K-1, K-2, and K-3, including any subcategories of those lines (for example, alpha codes per the Schedule K-1 instructions or activities broken out via attached statements). If any line item on Schedules K and 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 IRS guidance, then such line item must be further subgrouped.

Example. 2019 Schedule K-1, box 13, code A (cash contributions 60%), and box 13, code B (cash contributions 30%), are two separate subgroupings.

- The ordinary income (loss) amount reported on Schedule K, line 1, and in box 1 of Schedule 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 expenses, if they are appropriately netted and included on Schedule K, line 1, and in box 1 of Schedule K-1, the net amount will be considered a single subgrouping, except when such amount is required to be separately allocated, such as when the partnership has more than one trade or business. If the partnership has more than one trade or business reported on Form 1065, page 1, the net income (loss) from each trade or business must be separately reported on Schedule K-1. Each separate activity will constitute a separate subgrouping and it must be determined which activity an adjustment to the page 1 item of income and expense relates to for subgrouping purposes.
- If you have a negative adjustment along with a positive adjustment in the same line item of Schedules K and 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. The adjustments may be subject to a limitation or preference under the Code before you can place them in the same subgrouping (for example, passive and nonpassive activities).
- A negative adjustment that isn't 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 or 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.

Step 3—Netting

Net all adjustments within each of the groupings and subgroupings.

- Positive adjustments may be netted with other positive adjustments only if they are in the same grouping.

- Negative adjustments may be netted with other negative adjustments only if they are in the same grouping.
- Positive and negative adjustments may only be netted against each other if they are in the same subgrouping.
- An adjustment in one grouping or subgrouping may not be netted against an adjustment in any other grouping or subgrouping.
- All adjustments within a subgrouping are netted to determine whether there is a net positive adjustment or net negative adjustment for that subgrouping.
- Net positive adjustments from subgroupings or positive adjustments within a grouping (if subgroupings are unnecessary) are netted to determine the net positive adjustment for that grouping. Net negative adjustments from subgroupings within a grouping are netted to determine the net negative adjustment for that grouping.

Step 4—Figure the Total Netted Partnership Adjustments (TNPA)

- Each net positive adjustment in a grouping or subgrouping in the residual or reallocation grouping that results after netting the adjustments is included in the calculation of the TNPA.
- Each net negative adjustment in a grouping or subgrouping that results after netting the adjustments is excluded from the calculation of the TNPA because those adjustments don't result in an IU.

Note. If a positive adjustment to an item is reflected in positive adjustments to other items, the positive adjustment of equal or lesser magnitude that is reflected may be treated as zero solely for purposes of calculating any IU.

Step 5—Determine the Highest Tax Rate in Effect Under Section 1 or 11 in the Reviewed Year

Step 6—Determine the Sum of Net Positive Adjustments to Creditable Expenditures and Credit Groupings That Will Increase the Product of the TNPA Multiplied by the Highest Rate in Effect

- A net decrease to creditable expenditures is treated as a net positive adjustment to credits and increases the product of the TNPA multiplied by the highest tax rate in effect. A net increase to creditable expenditures is treated as a net negative adjustment, including net negative adjustments resulting from a creditable expenditures reallocation adjustment, is excluded from the calculation of the TNPA and is an adjustment that doesn't result in an IU.
- For the credit grouping, a net positive adjustment will increase the product of the TNPA multiplied by 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 doesn't result in an IU.

Step 7—Figure the IU Based on the Results of Steps 4 Through 6 and Insert Those Results Into the IU Formula

Figuring the IU

| | |
|---|--|
| TNPA x rate* = | |
| + Sum of net positive adjustments to creditable expenditure and credit groupings: | |
| = Total IU | |
| * Highest rate in effect for the reviewed year under section 1 or 11. | |

Partnership-Partner Amended Return Filed as Part of Modification

Partnership-partners who are filing amended returns as part of the modification of the IU during examination under section 6225(c)(2) will report the applicable payment of tax on Part IV, line 1. The pass-through partner will compute the amount like an IU on the adjustments allocated to it and make the payment with the filing of Form 1065-X. A payment made with Form 1065-X should detail the portions that are for the payment of the IU, the interest, and the penalties. The partnership should consider all available guidance issued by the IRS when figuring the amount due. In general, the partnership should compute its amount due in accordance with the IU computation in these instructions. See [Steps in Figuring the IU](#), earlier. The total of the IU, penalties, and interest should be reported on Part IV, line 2. When paying by check, include the name of the partnership-partner, "Form 1065," the TIN of the partnership-partner, the tax year, and "Partner Payment for BBA Modification." Checks must be made payable to "United States Treasury" and included with the amended return. If making an electronic payment, choose the payment description "Partner Pymnt for BBA Modification" from the list of payment types. The payment amount, including any amount paid toward the IU, interest, and penalties, should be reported on Part IV, line 3.

Partnership-Partners Who Are Allocated Adjustments That Don't Result in an IU

If a partnership-partner is paying an amount due as part of an amended return submitted for purposes of modification, during examination under section 6225(c)(2), any adjustments that don't result in an IU must be taken into account in the tax year that the amount is paid by the partnership-partner. However, if there are only adjustments that don't result in an IU, those adjustments are subject to modification by the ultimate taxpayers who reported the original amounts and not by the partnership-partner itself. Refer to Regulations section 301.6225-3 for further guidance.

Part V—Explanation of Changes to Items in Part II and Part III

For each amended item, explain in detail the reasons for the change. Include any computations necessary to support the amended item.

Changes in allocations. If there is a change in the allocation of income, gain, loss, deduction, or credit to a partner, specify the nature and reasons for the changes.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You're required to give us the information. We need it to ensure that you're complying with these laws and to allow us to figure and collect the right amount of tax.

You aren't required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for business taxpayers filing this form is approved under OMB control number 1545-0123 and is included in the estimates shown in the instructions for their business income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. You can send us comments through [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or, you can write to: Internal Revenue Service, Tax Forms and Publications Division, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. **Don't** send Form 1065-X to this address. Instead, see [Where To File](#), earlier.

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November 20, 2024