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# Instructions for Form 8978 (Including Schedule A)

(December 2019)

## Partner's Additional Reporting Year Tax

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

### Future Developments

For the latest information about developments related to Form 8978 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form8978](https://www.irs.gov/Form8978).

### What's New

Under section 6221(a), adjustments to partnership-related items, as well as penalties, additions to tax, or additional amounts that relate to those adjustments, are determined at the partnership level. Generally, any tax attributable to those adjustments is assessed and collected at the partnership level in the form of an imputed underpayment which is paid by the partnership.

Instead of paying the imputed underpayment, a partnership may elect to have each reviewed year partner take into account the partner's share of the adjustments, as finally determined. If a partnership makes such an election, it must report to the IRS and to each reviewed year partner that partner's share of any adjustments and the applicability of any penalties. The partnership reports these items on Form 8986, Partner's Share of Adjustment(s) to Partnership-Related Item(s).

### Purpose of This Form

Partners (other than pass-through partners such as partnerships or S corporations) use Form 8978 and Schedule A (Form 8978) to report adjustments shown on Forms 8986 received from partnerships that have

elect to push out adjustments to partnership-related items to their partners.

The Schedule A (Form 8978) lists all the adjustments a partner receives on Form 8986. Schedule A is also used to report any related amounts and adjustments not reported on Form 8986 which may result from changes to partner-level tax attributes as a result of adjustments from Form 8986.

### Definitions

**AAR Partnership** is a BBA partnership (see below) which has filed an administrative adjustment request (AAR) under section 6227. For purposes of these instructions, AAR filers should assume that the term "audited partnership" includes AAR partnerships.

**Additional reporting year tax** is the partner's change in chapter 1 tax for the reporting year after taking into account the adjustments.

**Affected partner** is a partner that held an interest in the pass-through partner entity at any time during the tax year of the pass-through partner to which the adjustments in the statement relate.

**Applicable tax year** is any tax year that is impacted by the audit adjustments shown on Form 8986. For example, if the adjustments are from tax year 2020 (first affected year), that year would be impacted as well as any year between the first affected year and the reporting year that had related changes to partner-level tax attributes.

**Audited partnership**, for purposes of Form 8978, is a BBA partnership that made the election under section 6226 to have its partners take into account their share of adjustments for partnership-related items.

**BBA AAR** is an administrative adjustment request filed by a BBA partnership.

**BBA partnership** is a partnership that is subject to the centralized partnership audit regime that was enacted into law by section 1101 of the Bipartisan Budget Act of 2015 (BBA).

**First affected year** is the partner's tax year that includes the end of the audited partnership's reviewed year(s). Each reviewed year of an audited partnership should have a corresponding first affected year for each partner.

**Intervening years** include partners' tax years that end after the first affected year and before the reporting year.

**Non-pass-through partner** is a partner that is other than a pass-through partner.

**Pass-through partner** is a pass-through entity that holds an interest in a partnership. Pass-through entities include partnerships required to file a return under section 6031(a), S corporations, trusts (other than wholly owned trusts disregarded as separate from their owners for federal tax purposes), and decedents' estates. For this purpose, a pass-through entity is not a wholly owned entity disregarded as separate from its owner for federal tax purposes.

**Reporting year** is the partner's tax year(s) that includes the date the audited partnership furnished the Forms 8986 to its partners. The date the audited partnership furnished Forms 8986 to its partners is found on Form 8986, Part II, item G. For example, if the Form 8986, Part II, item G, date is 06/15/2021 and the partner receiving the Form 8986 is a calendar year end partner, that partner's reporting year is tax year ending 12/31/2021.

**Reviewed year** is the audited partnership's tax year to which the partnership adjustment(s) relate.

**Reviewed year partner** is any person that held an interest in the audited partnership at any time during the partnership's reviewed year.

### General Instructions

#### Who Must File

Every partner (except pass-through partners) that receives a Form 8986 from a pass-through entity must file Form 8978 to report any additional reporting year tax as a result of taking into account the partner's share of the review year(s) adjustments.

#### Where and When To File

A reviewed year partner or affected partner must file Form 8978 with a timely filed federal income tax return for the partner's reporting year.

**Example.** On March 1, 2020, an audited partnership furnishes Forms 8986 to its two partners. One of these reviewed year partners is a calendar year individual and the other is a pass-through partner. On January 15, 2021, the pass-through partner, in turn, furnishes Forms 8986 to its two partners who are calendar year individuals. The reporting year for all three individuals is the tax year that includes

March 1, 2020. The federal income tax return due date (without regard to extensions) for all three individuals is April 15, 2021. The partners must each attach a completed Form 8978 to their individual income tax returns.

## Completing Form 8978 and Schedule A

**Note.** See a comprehensive example at the end of these instructions.

**What to report on Form 8978 and Schedule A (Form 8978).** The specific adjustments listed on Form 8986 received by a reviewed year or affected partner, and other adjustments from partner-level tax attributes that have changed as a result of taking into account the adjustments, should be listed on the partner's Schedule A under lines 1, 3, and 5 for income, deductions, and credits, respectively, for the applicable tax year. The totals on lines 2, 4, and 6 of Schedule A are reported on lines 1b, 3b, and 9b of Form 8978.

**Tax calculations.** Taxes should be figured and shown on a separate statement. In general, non-pass-through partners that receive adjustments from a Form 8986 should figure the additional reporting year tax as if the adjustments had been included on the partner's first affected year return using a statement attached to Form 8978 to support the amounts reported on lines 6 and 7 of the Form 8978. This additional reporting year tax is then reported on the partner's reporting year income tax return.

**Columns (a) through (d).** Columns (a) through (d) on Form 8978 and Schedule A can be used for adjustments for the first affected year or intervening years. See *Receipt of multiple Forms 8986*, later.

**Years to include and exclude on Form 8978 and Schedule A.** Only applicable tax years (see *Definitions*, earlier) need to be shown on Form 8978 and Schedule A. A year that is not impacted does not have to be shown on the form or schedule. For example, if the first affected year is 2020 and the reporting year is 2025, years 2021–2024 are considered intervening years. If the only intervening year impacted is 2022 (that is, 2022 is the only intervening year that had related changes to partner-level tax attributes as a result of the 2020 adjustments), the form and schedule only need to show 2020 and 2022.

**Receipt of multiple Forms 8986.** If a partner receives multiple Forms 8986 for different years, a column on the form and schedule could be both an affected year and an intervening year. See *Receipt of multiple Forms 8986*, later.

**More than 4 applicable tax years.** If there are more than 4 applicable tax years (see *Definitions*, earlier), additional Forms

8978 should be prepared for the additional years. The first Form 8978 should include the total of all additional tax, penalties, and interest for all Forms 8978. For example, if a taxpayer has 7 applicable tax years, years 1–4 should be shown on the first Form 8978 and years 5–7 should be shown on the second Form 8978. On the first Form 8978, lines 14, 16, and 18 should include the total amount of all lines 13, 15, and 17, respectively, from both the first and second forms. On the second Form 8978, lines 14, 16, and 18 should be left blank. Include a Schedule A for each Form 8978.

**Foreign corporate partners which receive Forms 8986.** Foreign corporate partners which receive Forms 8986 must complete separate Forms 8978 and Schedules A (Form 8978) to report adjustments pertaining to effectively connected income (ECI) under section 882, and fixed, determinable, annual, periodical (FDAP) income under section 881. ECI is income effectively connected with the conduct of a trade or business in the United States; FDAP income is income from U.S. sources not effectively connected with the conduct of a trade or business in the United States. The Forms 8978 and related Schedules A should clearly indicate whether they reflect ECI or FDAP income. Each "ECI Form 8978" and its Schedule A should only include ECI figures, and each "FDAP Form 8978" and its Schedule A should only include FDAP figures.

**Note.** Attach a statement to each "ECI Form 8978" and each "FDAP Form 8978" explaining how all line 13 income tax numbers were calculated. Enter the total of all the line 13 amounts on line 14. Enter the amounts from line 14 on the applicable lines on the partner's reporting year income tax return. See the instructions for the applicable income tax return.

## Specific Instructions for Form 8978

### Part I—Computation of Additional Reporting Year Tax

Each column, (a) through (d), is figured separately for lines 1 through 13.

**Line 1a—Total income per original return or as previously adjusted.** Enter the total income amount as shown on your original or amended return, or as adjusted by the IRS. Enter negative amounts in parentheses.

**Line 1b—Adjustments to income.** Enter the amount from Schedule A, line 2, Total adjustments to income. A positive amount on this line represents an increase to taxable income and a negative amount represents a decrease to taxable income.

**Line 2—Corrected income.** Enter the total of lines 1a and 1b.

**Line 3a—Total deductions per return or as previously adjusted.** Enter the total amount of deductions shown on your original or amended return, or as adjusted by the IRS.

**Line 3b—Adjustments to deductions.** Enter the amount from Schedule A, line 4, Total adjustments to deductions.

**Note.** This is an adjustment to taxable income as a result of adjustments to deductions. A positive amount on this line represents an increase to taxable income and a negative amount represents a decrease to taxable income.

**Line 4—Corrected deductions.** Subtract the amount on line 3b from the amount on line 3a and enter the result.

**Line 5—Corrected taxable income.** Subtract line 4 from line 2 and enter the result. This should be the corrected taxable income. If, as a result of changes in tax attributes, corrected taxable income is different from the result obtained by subtracting line 4 from line 2, include a separate statement showing how the corrected taxable income amount was figured and enter that corrected amount on line 5.

**Line 6—Income tax.** Include a separate statement showing how the corrected income tax was figured and enter that corrected income tax on line 6. See the Instructions for Forms 1040 and 1040-SR or the instructions for your income tax return for the appropriate year(s).

**Line 7—Alternative minimum tax (AMT).** If AMT applies, include a separate statement showing how the corrected AMT, including the applicable adjustment(s) shown on Schedule A, was figured and enter the corrected AMT on line 7. See the Instructions for Forms 1040 and 1040-SR or the instructions for your income tax return for the appropriate year(s) to figure the corrected AMT.

**Line 8—Total corrected income tax.** Enter the sum of lines 6 and 7.

**Line 9a—Total credits per return or as previously adjusted.** Enter the total amount of credits shown on your original or amended return, or as adjusted by the IRS.

**Line 9b—Adjustments to credits.** Enter the amount from Schedule A, line 6, Total adjustments to credits.

**Note.** An increase to this line represents an increase to income tax and a negative amount represents a decrease to income tax.

**Line 10—Total corrected credits.** Subtract line 9b from line 9a and enter the result on line 10.

**Line 11—Total corrected income tax liability.** Subtract line 10 from line 8 to obtain the corrected income tax liability. This amount should not include any non-income taxes. If, as a result of changes not reflected on a line item on the form or schedule, corrected income tax liability after credits is different from the result obtained by subtracting line 10 from line 8, include a separate statement showing how the corrected liability was figured and enter that correct amount on line 11.

**Line 12—Total tax shown on return or as previously adjusted.** Enter the amount shown on your original or amended return, or as adjusted by the IRS.

**Line 13—Increase/decrease to tax.** Subtract the amount shown on line 12 from the amount on line 11 and enter the result.

**Line 14—Total additional reporting year tax.** Enter the sum of line 13, columns (a) through (d). Report this amount on the appropriate line of your income tax return for the reporting year.

**Line 15.** Form 8986, Part V, Applicable Penalties, lists which penalties, if any, apply and which line items are affected. If penalties apply, include a statement showing how the penalties were figured and enter the amount of penalties in the applicable column(s) of Form 8978. Penalties for each applicable tax year should be reported on line 15, columns (a) through (d).

**Line 17.** Interest on any increase in income tax is figured from the original due date of your income tax return for the tax year to which the increase in tax is attributable, as determined under section 6226(b)(3). Interest is computed at the underpayment rate under section 6621(a)(2), but substituting “five percentage points” for “three percentage points” for purposes of section 6621(a)(2)(B) (that is, the sum of the federal short-term rate plus five percentage points instead of three percentage points). For additional reporting year tax reported as a result of a Form 8986 from an AAR, this substitution is not made. Interest for each applicable tax year should be reported on line 17, columns (a) through (d).

**Note.** Interest should not be calculated on any decreases in tax on line 13 for a tax year.

**Note.** Interest on penalties is figured in the same manner as interest on tax, except it is figured from the due date of the partner’s return including any valid extensions that were filed by the partner.

**Where to report additional reporting year tax.** The total additional reporting year tax from Form 8978, Part I, line 14, is reported on the appropriate lines of the partner’s reporting year return (see the instructions for the applicable reporting year tax return). The additional penalties and interest should be included in the payment made for the partner’s reporting tax year but these are not reported on the partner’s reporting year return and are not included in the additional reporting year tax.

## Specific Instructions for Schedule A (Form 8978)

**Adjustments.** Enter the description of the item that corresponds to the Schedule K line number and title as reflected in columns (a) and (b) of Form 8986, Part V. For example, if Form 8986, Part V, column (a), shows “1” and column (b) shows “Ordinary business income,” enter on Schedule A, Adjustments column, “Schedule K-1, line 1, Ordinary business income.” For adjustments due to changes in partner tax attributes, use the description used on the partner’s return.

**Tracking number.** If an adjustment is from a Form 8986 that is related to an audited partnership, the tracking number column should be completed for that adjustment line. If applicable, the tracking number can be found at the top of the Form 8986. If the tracking number is not on the Form 8986, use the audit control number at the top of the Form 8986. If an adjustment is from a Form 8986 that is related to an AAR partnership, enter the tax identification number of the entity that issued the Form 8986. Leave the tracking number field blank for all adjustments to partner-level tax attributes.

**Reporting amounts from Form 8986.** All adjustments (positive and negative) from a Form 8986 should be shown as reported on that form. When entering adjustments from a Form 8986, enter amounts from Form 8986, Part V, column (h), which reflect the adjustments net of any approved modifications (column (g) of Form 8986). These amounts should be entered in the applicable columns (a) through (d) that correspond to the partner’s affected year. However, if Form 8986 is a result of an AAR partnership (and not an audited partnership), no modifications should be shown on Part V, column (g), of that Form 8986 and no modifications should be reported on Schedule A.

**Reporting positive and negative amounts.** Increases to net taxable income, such as increases to income and decreases to deductions and credits, should be shown as positive amounts. Decreases to net taxable income, such as decreases to income and increases to

deductions or credits, should be shown as negative amounts. For example, if an audited partnership adjustment increases income, this would be a positive adjustment on line 1 of Schedule A and if this, in conjunction, increases the amount of charitable deductions that can be claimed by the partner, this should be listed as a negative adjustment to deductions on line 3 of Schedule A.

**Receipt of multiple Forms 8986.** If a partner receives multiple Forms 8986 for different years, a given column on Form 8978 and Schedule A could be both a first affected year and an intervening year. For example, a partner receives a Form 8986 for tax year 2020 and another Form 8986 for tax year 2021. The 2022 tax year is the reporting year with respect to both Forms 8986. The 2021 tax year is an intervening year due to the 2020 Form 8986. In this example, column (a) of Schedule A would be used for 2020 adjustments and column (b) for 2021 adjustments. Column (a) would be the first affected year with respect to the Form 8986 received for the 2020 tax year. Column (b) would be both the first affected year for the Form 8986 received with respect to the 2021 tax year and also an intervening year for the 2020 tax year. Column (a) should include the adjustments from the 2020 Form 8986 as well as any adjustments from changes in partner-level tax attributes resulting from the 2020 Form 8986. Column (b) should include the adjustments from the 2021 Form 8986 as well as any adjustments from changes in partner-level tax attributes resulting from the 2021 Form 8986 and the intervening year adjustments such as adjustments from changes in partner-level tax attributes resulting from the 2020 Form 8986.

### Schedule A line instructions.

**Line 1—Income.** Enter all the adjustments individually from Form 8986, Part V, that affect taxable income. Generally, this includes adjustments to ordinary income, rental income, interest income, dividends, royalties, gains and losses, and other income. Also include related amounts and adjustments not on Form 8986 that result from changes to partner-level tax attributes as a result of adjustments from Form 8986.

**Line 2—Total adjustments to income.** Enter the total of all adjustments from line 1. Carry the total of each column to the corresponding column on Form 8978, line 1b.

**Line 3—Deductions.** Enter all the adjustments individually from Form 8986, Part V, that affect deductions from income. Generally, this includes adjustments to separately stated items such as a section 179 deduction. Also include related amounts and adjustments not on Form 8986 that result from changes to

partner-level tax attributes as a result of adjustments from Form 8986.

**Line 4—Total adjustments to deductions.** Enter the total of all adjustments from line 3. Carry the total of each column to the corresponding column on Form 8978, line 3b.

**Line 5—Credits.** Enter all the adjustments individually from Form 8986, Part V, that affect tax credits. Also include related amounts and adjustments not on Form 8986 that result from changes to partner-level tax attributes as a result of adjustments from Form 8986.

**Line 6—Total adjustments to credits.** Enter the total of all adjustments from line 5. Carry the total of each column to the corresponding column on Form 8978, line 9b.

### Inconsistent Positions

If you originally reported an amount for an item inconsistent with the amount reported to you by the partnership on Schedule K-1, and this same item is included as an adjustment on the Form 8986 received or if there was a court proceeding for the tax year, you should also include the amount of inconsistency for that item on Schedule A (Form 8978). For example, if partner X, a calendar year taxpayer, received a tax year 2020 Schedule K-1 with \$100 of ordinary business income, and he only reported \$70 on his Form 1040 or 1040-SR, U.S. Individual Income Tax Return, he would be taking a \$30 inconsistent position on his Form 1040 or 1040-SR. If he subsequently receives a Form 8986 for affected tax year 2020, with an audit adjustment reflecting a \$50 increase to the Schedule K-1, line 1, ordinary business income amount, he would have two amounts to enter on Schedule A (Form 8978). First, X would enter on line 1a "Schedule K-1, line 1, Ordinary business income" in the adjustments column and \$50 in column (a), which would be labelled "12/31/2020." Second, X would enter on line 1b "Inconsistent position previously taken on line 1a item" in the adjustments column and \$30 in column (a). If he had no other adjustments, the amount of his total adjustments to income on line 2 of Schedule A, column (a), would be \$80. He would carry this amount to Form 8978, line 1b, column (a).

**Note.** A partner's requirement to treat partnership-related items consistently applies to adjustments that result from an audited partnership or an AAR partnership regardless of whether the partner previously treated the item inconsistently. However, partners that properly and timely file a subsequent Form 8082, Notice of

Inconsistent Treatment or Administrative Adjustment Request (AAR), for items that are adjusted as part of an AAR filing are not required to treat the items on Schedule A (Form 8978) consistent with the partnership's treatment.

### Comprehensive Example

- On June 10, 2020, individual X, a calendar year taxpayer, receives a Form 8986 from an audited partnership (reviewed year 2018) that indicates his share of adjustments which consist of a \$15,000 increase to ordinary income shown as a positive amount in Part V of Form 8986 and a \$10,000 decrease to other deductions shown as a positive amount in Part V of Form 8986.
- Form 8986, Part II, box G, indicates that the audited partnership issued Forms 8986 to its partners on June 8, 2020. Since June 8, 2020, falls in X's tax year ending December 31, 2020, X must report these adjustments on his 2020 income tax return and attach Form 8978.
- X enters the individual adjustments and the appropriate tracking number on Schedule A (Form 8978), lines 1a and 3a and sums these amounts on lines 2 and 4, respectively.
- X carries the totals from lines 2 and 4 of Schedule A to Form 8978, lines 1b and 3b, respectively.
- X attaches to Form 8978 a statement that shows how his tax year 2018 corrected taxable income, income tax, and AMT, if applicable, were figured, including the income adjustment as an increase to income and the deduction adjustment as a decrease to deductions.
- X carries the amounts figured to the Form 8978, lines 5, 6, and 7.
- X enters his corrected tax liability for tax year 2018 on Form 8978, line 11.
- X enters his income tax as previously reported for tax year 2018 on Form 8978, line 12, and subtracts this amount from the amount on line 11 to obtain the increase or decrease to tax which he enters on line 13.
- If any applicable penalties are shown on Form 8986, Part V, X attaches a statement to his Form 8978 that shows how the additional penalties that result from the additional tax were figured. X includes this amount on line 15 of Form 8978.
- If X is a corporation, it should follow the same procedures for completing the Form 8978 and Schedule A (Form 8978), include the forms with its tax year 2020 income tax return, and report the additional reporting year tax, per the instructions for that form year. X's payment should include penalties and interest in addition to the tax due.
- X figures his additional interest on any increase in tax shown on line 14 plus

penalties from April 15, 2019, (the due date of his 2018 return) up to the date the additional reporting year tax and corresponding penalties are paid. Interest on penalties is figured from the extended due date of his 2018 return, if a valid extension was filed.

- If there are any positive intervening year partner-level adjustments, X will need to do similar calculations for those years.
- X must report the additional reporting year tax from Form 8978, line 14, on the appropriate line on his 2020 Form 1040 or 1040-SR, following the instructions for that form.
- X's payment should include the penalties and interest in addition to any tax due for 2020.
- X must attach Form 8978, Schedule A (Form 8978), and the calculation statements to his 2020 Form 1040 or 1040-SR when he files it.
- If X is a corporation, it should follow the same procedures for completing Form 8978 and Schedule A, include the forms with its tax year 2020 income tax return, and report the additional reporting year tax, per the instructions for that form year. X's payment should include penalties and interest in addition to the tax due.

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You are not 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 comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.