

Instructions for Form 8986

(December 2021)



Department of the Treasury
Internal Revenue Service

Partner's Share of Adjustment(s) to Partnership-Related Item(s) (Required Under Sections 6226 and 6227)

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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 8986 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form8986](https://www.irs.gov/Form8986).

Reminder

The Bipartisan Budget Act of 2015 (BBA) created a centralized partnership audit regime that replaced the partnership audit procedures under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). Form 8986 was created for partnerships to show each partner's share of adjustments to partnership-related items as a result of a BBA audit or BBA administrative adjustment request (AAR).

Purpose of Form

Form 8986 is used by BBA partnerships to furnish and transmit each partner's share

of adjustments to partnership-related items.

Definitions

AAR partnership is a BBA partnership (see below) that has filed an administrative adjustment request (AAR) under section 6227.

AAR partnership's adjustment year is the partnership tax year that includes the year the AAR was filed with the IRS.

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

Audited partnership, for purposes of Form 8986, is a BBA partnership that made the election under section 6226 to have its partners report their share of adjustments to partnership-related items.

Audited partnership's adjustment year is the year that includes the date the court decision became final, if the partnership petitioned the Tax Court. Otherwise, it is the year that includes the date the final partnership adjustment (FPA) letter was mailed, or the FPA waiver was executed by the IRS.

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.

Designated individual (DI) is the individual through whom an entity partnership representative acts.

Extended due date of the AAR partnership's adjustment year return is, for purposes of Form 8986, the extended due date of the AAR partnership's adjustment year return regardless of whether the partnership is required to file a return for the adjustment year or timely filed a request for an extension.

Extended due date of the audited partnership's adjustment year return is, for purposes of Form 8986, the extended due date of the audited partnership's adjustment year return regardless of whether the partnership is required to file a return for the adjustment year or timely filed a request for an extension.

Finally determined. The partnership adjustment(s) become finally determined upon the later of the expiration of the time

to file a petition under section 6234 or, if a petition is filed under section 6234, the date when the court's decision becomes final or the date the closing agreement is entered into between the IRS and the partnership.

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.

Imputed underpayment (IU) is the amount determined under sections 6225, 6226, and 6227, and the regulations thereunder.

Partnership representative (PR) is the person designated by the partnership or by the IRS under section 6223 and the regulations thereunder to act on behalf of the audited partnership.

Pass-through partner is a pass-through entity that holds an interest, either directly or indirectly, in a partnership. Pass-through entities include partnerships, S corporations, trusts, and decedents' estates. For purposes of Form 8986, 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.

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

Reviewed year adjustments are adjustments originating from the partnership's reviewed year(s).

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 Should Prepare Form 8986

The following persons or entities should prepare Form 8986.

- Audited partnerships that have made an election under section 6226.
- Direct or indirect pass-through partners that receive a Form 8986 related to an audited partnership if they choose to furnish statements to their partners to further push out the adjustments.
- Partnerships that file an AAR under section 6227 and either elect to push out the resulting adjustments to their partners

or have adjustments that do not result in an IU.

- Direct or indirect pass-through partners that receive a Form 8986 related to an AAR partnership, if the direct or indirect pass-through partner chooses to furnish statements to its partners to further push out adjustments or have adjustments that do not result in an IU.

Where To Submit Form 8986

Audited partnerships and pass-through partners of audited partnerships. Section 6241(10) gives the IRS authority to require electronic submission of anything required to be filed or submitted under section 6226(a). Audited BBA Partnerships and their pass-through partners are required to submit Forms 8985 and 8986 electronically. From the BBA website [IRS.gov/BBAPartnerships](https://www.irs.gov/BBAPartnerships), search for “Electronic Submission of Forms by Audited BBA Partnerships and their Pass-through Partners” for steps required to submit electronically.

AAR partnerships. AAR partnerships that are electing to push out adjustments to their partners or have adjustments that do not result in an imputed underpayment must include Form 8985 with their AAR along with Forms 8986. The Forms 8985 and 8986 must be filed with, and in the same manner, as the AAR.

Pass-through partners of an AAR partnership. Pass-through partners of an AAR partnership must submit Form 8985 to the IRS by fax at 888-981-6982, with or without Forms 8986, as applicable.

Due Dates

Audited partnerships. An audited partnership that has made an election under section 6226 must furnish Forms 8986 to its partners and submit them to the IRS, along with Form 8985, no later than 60 days after the date on which the partnership adjustments are finally determined. Failure to furnish and submit by the due date results in the audited partnership being liable for the IU.

An audited partnership can submit corrected Forms 8986, along with Form 8985, within 60 days of the original due date without IRS permission. If corrected forms need to be submitted after the 60-day correction period, the audited partnership must contact the IRS for permission to submit.

AAR partnerships. An AAR partnership that either elects to push out the resulting adjustments to its partners or has adjustments that do not result in an IU must furnish Forms 8986 to all partners and include them with their AAR, along with Form 8985.

Pass-through partners. Direct and indirect pass-through partners must

furnish Forms 8986 to their partners and submit them to the IRS, along with Form 8985, by the extended due date of the audited partnership’s adjustment year return (or the extended due date of the AAR partnership’s adjustment year return). This date can be found in Part II, item F, of the Form 8986 that was received by the pass-through partner. Failure to submit these forms by the due date results in the pass-through partner being liable for an IU.

A pass-through partner can submit corrected Forms 8986, along with Form 8985, within 60 days of the original due date without IRS permission. If corrected forms need to be submitted after the 60-day correction period, the audited partnership must contact the IRS for permission to submit.

Withholding for Foreign Partners

An audited partnership may have withholding and reporting obligations if it furnishes a Form 8986 to a reviewed year partner that includes an adjustment subject to withholding under chapter 3 (Withholding of Tax on Nonresident Aliens and Foreign Corporations) or chapter 4 (Taxes To Enforce Reporting on Certain Foreign Accounts). In those cases, the audited partnership must pay the amount of tax required to be withheld under chapter 3 or chapter 4 before the due date of the audited partnership’s adjustment year return (without regard to extension) or the extended due date of the audited partnership’s adjustment year return in the case of a pass-through partner. See Instructions for Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons; or Form 8804, Annual Return for Partnership Withholding Tax (Section 1446), for deposit procedures. The audited partnership must also file an applicable withholding tax return, Form 1042 or Form 8804, and the associated information returns, Forms 1042-S, Foreign Person’s U.S. Source Income Subject to Withholding; or Forms 8805, Foreign Partner’s Information Statement of Section 1446 Withholding Tax, for the calendar year (if filing Forms 1042/1042-S) or tax year (if filing Forms 8804/8805) that includes the date on which the Form 8986 was furnished.

Instructions for Partners That Receive Form 8986

Pass-through partners. In general, a pass-through partner that receives a Form 8986 should take into account the adjustments reflected on the form by either:

- Furnishing Forms 8986 to its own partners and submitting those forms, along with Form 8985, to the IRS or

- Figuring and paying an IU and submitting Form 8985 to the IRS, where the adjustments result in an IU to the pass-through entity. See Form 8985 and its instructions.

One of these two options must be completed by the extended due date of the audited partnership’s adjustment year return (or the extended due date of the AAR partnership’s adjustment year return).



If a pass-through partner fails to timely furnish and submit the relevant statements, the pass-through partner is liable for an IU as well as any penalties and interest with respect to the adjustments reflected on the Form 8986 received by the pass-through partner.

Other partners. All other partners that receive Form 8986 should report the information on Form 8978, Partner’s Additional Reporting Year Tax, and attach the Form 8978 to the partner’s reporting year tax return. For more information, see Form 8978 and its instructions.

These partners may pay in advance to stop the running of interest.

- Pay by EFTPS, debit, or credit card, or Direct Pay (Forms 1040 only).
- Select Prepayment on BBA AAR/Exam Push Out as payment type.
- As applicable, apply payment to the tax form that will have the Form 8978 attached to it.

Specific Instructions

Submitting a corrected form due to an incorrect TIN. If submitting a corrected form due to an incorrect TIN on a previously submitted and accepted original Form 8986, you will need to submit two corrected forms:

1. A corrected Form 8986 with the correct TIN, and
2. A corrected Form 8986 with the incorrect TIN and zeros in Part IV sections E through G, and in Part V. Anytime a corrected Form 8986 is submitted, a corrected Form 8985 must also be included.

Original or corrected. At the top of the form, check the appropriate box to indicate if the form is original or corrected.

Tracking number. Enter the outgoing tracking number shown on the related Form 8985 that was completed by an audited BBA partnership or a pass-through partner of an audited BBA partnership. This field should be left blank for all Forms 8986 related to the filing of a Form 8985 by a BBA partnership that filed an administrative adjustment request (AAR) or a pass-through partner (direct or

indirect) of a BBA partnership that filed an AAR.

Audit control number. Enter the audit control number that is provided on correspondence with the IRS. Pass-through partners can locate this number at the top of the Form 8986 they received. AAR partnerships, including pass-through partners of an AAR partnership, should leave this field blank.

Part I—Information About the Entity Submitting This Form

Item A—Indicate which entity is issuing this form by checking one of the boxes.

Item B—Check the box that corresponds to the type of return normally filed by the entity issuing this form. If “Other,” also indicate the type of return filed on the line provided.

Part II—Information About the Audited Partnership or the Partnership That Filed an AAR

Items A and B—On lines 1–6, enter the name and address of the partnership. The name must be entered exactly as it appears on the Form 8985 associated with this Form 8986. For example, if you entered XYZ LLC on the Form 8985, you must enter XYZ LLC on the Form 8986. In the state field, enter the two-letter abbreviation or the full name of the foreign province. U.S. partnerships leave the country code field blank. Foreign partnerships enter the country code found at [Foreign Country Codes](#).

Item C—Enter the partnership's tax identification number. This number must be entered exactly as it appears on the Form 8985 associated with this Form 8986.

Item D—Enter the tax year end date of the reviewed year of the partnership. Each reviewed year should have a separate Form 8986. This form must be completed for reviewed years that have adjustments related to an audit or an AAR.

Item E—Enter the partnership's adjustment year ending date.

Item F—Enter the extended due date of the partnership's adjustment year tax return, regardless of whether the partnership has filed for an extension. For AAR partnerships, this will be the extended due date of the tax year the AAR was filed.

Item G—Enter the date the partnership furnished the Forms 8986 to its partners.

Part III—Information About the Pass-Through Partner Issuing and Submitting This Form 8986

Item A—On lines 1–6, enter the pass-through partner's name, address,

city, state, country code, and ZIP code. In the state field, enter the two-letter abbreviation or the full name of the foreign province. U.S. partnerships leave the country code field blank. Foreign pass-through partners enter the country code found at [Foreign Country Codes](#).

Item B—Enter the pass-through partner's tax identification number.

Item C—Enter the pass-through partner's tax year end to which the adjustments relate.

Item D—Enter the name of the entity that issued the Form 8986 to the pass-through partner, if different from the audited partnership or AAR partnership in Part II.

Item E—Enter the tax identification number of the entity that issued the Form 8986 to the pass-through partner, if different from the audited partnership or AAR partnership in Part II.

Part IV—Information About the Partner Receiving This Form 8986

Item A—On lines 1–6, enter the partner's name, address, city, state, country code, and ZIP code. In the state field, enter the two-letter abbreviation or the full name of the foreign province. U.S. partners leave the country code field blank. Foreign partners enter the country code found at [Foreign Country Codes](#).

Item B—Enter the partner's tax identification number.

Item C—Indicate by checking box 1 or 2 if the partner is a general partner or LLC member manager, limited partner, or LLC member. Indicate by checking box 3 or 4 if the partner is a domestic or foreign partner.

Item D—Indicate if, for tax purposes, the partner is an individual, S corporation, C corporation, partnership, or other type of entity by checking one of the boxes 1–5. If “Other,” indicate what type on the line provided. Also indicate if the partner is a retirement plan or other tax-exempt entity. Note: If you entered a social security number as the partner's tax identification number in box B, you should check box 1. You should only select boxes 2–5 when you have entered an EIN in box B.

Item E—Enter the partner's percentage share of partnership profits, losses, and capital as originally reported on Schedule K-1, the change per audit or AAR (if none, enter zero), and the corrected percentage.

Item F—Enter the partner's share of total liabilities—recourse and nonrecourse—as originally reported on Schedule K-1, the change per audit or AAR (if none, enter zero), and the corrected amounts.

Item G—Enter the components of the partner's capital account as originally

reported on Schedule K-1, the change per audit or AAR (if none, enter zero), and the corrected amounts.

Part V—Partner's Total Reviewed Year Income, Gain, Loss, Deductions, Credits, and Other Items

Note. Adjustments that increase a schedule K-1 item as originally reported or as corrected should be shown as positive amounts; adjustments that decrease schedule K-1 items should be shown as negative amounts.

For columns (a)–(c), refer to the relevant Schedule K-1 and instructions. See special instructions for changes to Schedule K-3. For each item that was adjusted, enter the following.

Column (a), Line number—The Schedule K-1 line number that was adjusted. If you have changes to Schedule K-3, enter “K3” (no dash).

Column (b), Line title—The title of the Schedule K-1 item that was adjusted. For adjustments to Schedule K-3, enter the part, section (if applicable), line, and column reference.

Column (c), Code—If applicable, use the code letters listed in the Schedule K-1 instructions that correspond to the line number shown in column (a). For adjustments to Schedule K-3, if applicable, enter the country code. See the Schedule K-3 instructions. If no specific code applies, enter “NA.”

Column (d), As reported—Enter the original amount reported to the partner on their Schedule K-1 or as previously corrected by the partnership. For adjustments to Schedule K-3, do not enter amounts on column (d).

Column (e), Check if statement in Part VI—Check the box in this column if the item shown in column (a) has a corresponding statement in Part VI. For adjustments to Schedule K-3, enter an explanation of the adjustment on Part VI of Form 8986 with reference to the entry on Part V, column (b).

Example 1

On its filed 2021 return, partnership ABC reported \$1,000 of general category foreign source interest income with respect to Country Y on Partner A's Schedule K-3. Partnership ABC later determined that the amount should have been reported as passive category foreign source interest income on Schedule K-3. To make the correction to the 2021 return, ABC filed an AAR on November 10, 2022, attaching Forms 8985 and 8986. The two-letter code from the list at [Foreign Country Codes](#) for Country Y is YY. Partnership ABC includes in Part V of the Form 8986 sent to Partner A the information as follows.

Example 1. Form 8986, Part V. Partner's Total Reviewed Year Income, Gain, Loss, Deduction, Credits, and Other Items

Schedule K-1					
(a) Line number	(b) Line title	(c) Code*	(d) As reported	(e) Check if statement in Part VI	(f) Reviewed year adjustments as finally determined
K-3	Part II, Sec. 1, Line 6A, column (e)	YY		<input checked="" type="checkbox"/>	
K-3	Part II, Sec. 1, Line 6A, column (c)	YY		<input checked="" type="checkbox"/>	

Partnership ABC includes in Part VI of the Form 8986 sent to Partner A the information as follows.

Example 1. Form 8986, Part VI. Statements

(a) Line no./ code	(b) Statement				
	Line title	Code	As reported	Review year adjustments	As corrected
K-3	Part II, Sec. 1, Line 6A, column (e)	YY	\$1,000	\$(1,000)	\$0
	Part II, Sec. 1, Line 6A, column (c)	YY	\$0	\$1,000	\$1,000

Example 2

On its filed return, Partnership ABC reported on Partner A's Schedule K-3, Part VIII, as follows.

Example 2. Schedule K-3 (Form 1065), Part VIII.

Line	Entry
A	1234
B	PAS
C	iii
Unit	Euro QBU1
1a1i	YY
1a1ii	1000

Subsequent to filing its return, Partnership ABC determines that the amount reported on Line 1a1ii of Partner A's Schedule K-3, Part VIII, should have been €1,500. Partnership ABC makes the correction by filing an AAR with Forms 8985 and 8986 attached. It includes the following information in Part V of the Form 8986.

Example 2. Form 8986, Part V. Partner's Total Reviewed Year Income, Gain, Loss, Deduction, Credits, and Other Items

Schedule K-1					
(a) Line number	(b) Line title	(c) Code*	(d) As reported	(e) Check if statement in Part VI	(f) Reviewed year adjustments as finally determined
K-3	Part VIII, Line 1a1	YY		<input checked="" type="checkbox"/>	

Partnership ABC must report the adjustment amount with respect to Partner A in Part VI of Form 8986 as follows.

Example 2. Form 8986, Part VI. Statements

(a) Line number/code	(b) Statement			
	Part VIII, K-3 Line	As reported	Adjustments	As corrected
K-3	A	1234		
	B	PAS		
	C	iii		
	1a1ii	1,000	500	1,500

Note. Although the first three lines are not adjusted, they are necessary to identify the adjustment line, because there might be more than one Part VIII.

Column (f), Reviewed year adjustments as finally determined— Enter the partner's share of reviewed year adjustments that corresponds to the line item in column (a). For adjustments to Schedule K-3, do not enter amounts on column (f).

Column (g), Approved modifications— Enter the partner's share of the total modifications approved by the IRS with respect to the item adjusted. Modifications related to the filing of an AAR should not be shown in this column. For adjustments to Schedule K-3, do not enter amounts on column (g).

Column (h), Net (column (f) minus column (g))— Enter the amount in column (f) less the amount in column (g). For adjustments to Schedule K-3, do not enter amounts on column (h).

Loans and other items recharacterized as distributions to partners. If a reviewed year adjustment has been made to change a partner loan or other item to a partner distribution, this adjustment should be reported with the column (a) line number that corresponds to the Schedule K-1 "Distributions" category and with column (c), code A, for cash

distributions if the partner received money, and as a code C if the partner received property other than money.

Disguised sale adjustments. Distributions to a partner that were changed as part of an audit proceeding to disguised sale proceeds under section 707 should be reported with the column (a) line number that corresponds to the Schedule K-1 "Other" category and with column (c), code DS. The partnership should also include a statement in Part VI describing the asset that was sold, the proceeds, and the tax basis of the asset at the time of the contribution.

Note. Column (f) amounts should correspond to the partner's distributive share of audit adjustments as finally determined (or AAR adjustments). Column (g) amounts should only include approved modifications with respect to the partner receiving the Form 8986. Only approved amended return and closing agreement modifications should be included in column (g) above. All other modifications should be included in a separate statement in Part VI.

Applicable penalties. The applicability of penalties is determined at the audited partnership or AAR partnership level. In the penalties section of Part V, enter the penalty code sections, descriptions, rates, adjustment line numbers, and total adjustment amount to which the penalty applies.

Part VI—Statements

Column (a), Line no./code—List the corresponding Part V column (a) Schedule K-1 line number and column (c) code (if applicable) for each item for which a statement is included.

Column (b), Statement—Include a detailed explanation of the amount(s) that correspond to the item in column (a).

Supporting schedules and statements should be in a format that shows the original amount, the net change, and the correct amount for each item listed in the statement. If any column (b) statements exceed the space allowable in one box, continue in the next box with the same information in column (a).

Statements that need to be sent separately by fax. Adjustments that cannot be fully reflected in Part VI can be faxed

separately to 888-981-6982. All faxed statements to be associated with a Form 8986 should have the following information at the top of the statement: "Statement for Form 8986," Submitting Entity Name, Submitting Entity TIN, Partner's TIN (if related to Form 8986), Tax Year (should be the same as the year in the Form 8986 Part II, section D), and Audit Control Number (if applicable). All changes should be reported in the "Description, Line Number, Amount Reported, Adjustments, and As Corrected" format. This section can also be used to report any intervening year adjustments that result from related review year adjustments. If reporting intervening year adjustments be sure to list in the tax year, line number, as reported, adjustments, and as corrected format.

Statements related to section 199A information.

Note. Because section 199A dividends are reported as a cumulative amount and

not per qualified trade or business, these should only be included once in the first section 199A statement attached to Form 8986, regardless of how many statements may be necessary.

Adjustments that increase or decrease section 199A information reported to the partners must be shown in a separate statement for each trade or business or each aggregated trade or business. See below for an example of the information that should be included in Part VI of the Form 8986.

Note. Section 199A dividends should only be included in the first section 199A statement attached to Form 8986.

Each trade or business should indicate if it is a PTP, Aggregated, or an SSTB. See the Instructions for Schedule K-1 (Form 1065 or Form 1120-S).

If the partnership is a patron of a specified agricultural or horticultural cooperative, the partnership must also

include a statement for each trade or business identifying the adjustment(s) to qualified items of income, gain, deduction, and loss and W-2 wages allocable to qualified payments.

Note. Because section 199A(g) deductions are reported as a cumulative amount and not per qualified trade or business, these should only be included once in the first statement of adjustments to items allocable to qualified payments attached to Form 8986, regardless of how many statements may be necessary.

Example. Assume Partnership ABC has one trade or business that is an SSTB and is not a patron in a specified agricultural or horticultural cooperative. On its filed return, Partnership ABC reported the items shown in Table 1 on Statement A—QBI Pass-Through Entity Reporting, attached to Partner A's Schedule K-1.

Table 1. Example of Section 199A Related Amounts Reported to Partner A on Statement A—QBI Pass-Through Entity Reporting

EIN:	<input type="checkbox"/> PTP <input type="checkbox"/> Aggregated <input checked="" type="checkbox"/> SSTB
Partner A's share of:	
QBI or qualified PTP items subject to partner-specific determinations:	
Ordinary business income (loss)	\$200,000
Rental income (loss)	\$10,000
Royalty income (loss)	
Section 1231 gain (loss)	\$50,000
Other deductions	\$80,000
W-2 wages	\$50,000
UBIA of qualified property	\$60,000
Section 199A dividends	\$5,000

Assume the adjustments per audit increased Partner A's share of ordinary income by \$10,000 and royalty income by \$5,000, and decreased other deductions by \$20,000. Assume that all of the adjustments are determined to be qualified items of income, gain, deduction, and loss at the partnership level.

Partnership ABC should include in Part VI of the Form 8986 sent to Partner A the information shown in Table 2.

Table 2. Example of Part VI of Form 8986

EIN:	As Reported	Net Adjustments	As Corrected
Partner's Share:	<input type="checkbox"/> PTP <input type="checkbox"/> Aggregated <input checked="" type="checkbox"/> SSTB		<input type="checkbox"/> PTP <input type="checkbox"/> Aggregated <input checked="" type="checkbox"/> SSTB
QBI or qualified PTP items subject to partner-specific determinations:			
Ordinary business income (loss)	\$200,000	\$10,000	\$210,000
Rental income (loss)	\$10,000		\$10,000
Royalty income (loss)		\$5,000	\$5,000
Section 1231 gain (loss)	\$50,000		\$50,000
Other deductions	\$80,000	(\$20,000)	\$60,000
W-2 wages	\$50,000		\$50,000
UBIA of qualified property	\$60,000		\$60,000
Section 199A dividends	\$5,000		\$5,000

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

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.