

Partnerships With Reportable Entity Partners

By Charles E. Boynton and
Barbara A. Livingston

Charles E. Boynton is a program manager and senior program analyst with the Office of Research and Workload Identification (RWI), IRS Large and Midsize Business Division. From 2000 to 2006 he was a Stanley S. Surrey Senior Research Fellow at Treasury's Office of Tax Analysis. Before joining Treasury, he taught tax accounting at the University of Wisconsin and tax and financial accounting at the University of North Texas.

Barbara A. Livingston is a senior operations research analyst with RWI. She has held positions with the Statistics of Income Division (1987-1997) and with the Office of Pre-Filing and Technical Guidance and LMSB (1998-2008).

The authors thank the management of SOI and RWI for permission to use the 2007 SOI partnership data file and to conduct this study. They thank the organizers of the 2010 IRS Research Conference for including the study as part of the panel "Compliance of Large Business Entities." An earlier version of this report was presented there on June 29.

The authors particularly wish to thank for comments, assistance, and support: Kevin Cecco, Joseph Koshansky, Kenneth Szefflinski, Tim Wheeler, and Nina Shumofsky at SOI; Elizabeth Kruse, Alan Plum-

ley, and Melissa Kovalick at the 2010 IRS Research Conference; Drew Lyon at PricewaterhouseCoopers LLP, our discussant at the June 29 conference; Don McPartland, John Davidson, Jim Clarkson, Darla Riggan, Fredericka Bunting, John Miller, Donald Lee, Lois Petzing, Ellen Legel, Bill Wilson, Mark Silva, Cary Russ, and Robert Adams at LMSB; and Petro Lisowsky at the University of Illinois at Urbana-Champaign.

Partnerships offer incredible flexibility as building blocks in complex organizations. They can be arranged in tiers and used as substitutes for corporate subsidiaries. The authors analyze tax year 2007 SOI data for partnerships effectively controlled by other partnerships or by corporations. We focus on partnerships with a reportable entity partner (REP) as defined in the tax year 2007 instructions for Form 1065 and Form 1120 Schedules M-3. We find that the 63,847 partnerships with a REP (2.1 percent of approximately 3 million partnerships in 2007) reported \$4.6 trillion in total partnership assets (22.7 percent of \$20.4 trillion for all partnerships).

The opinions expressed are those of the authors and do not necessarily reflect positions of the IRS or Treasury.

Copyright 2010 Charles E. Boynton and Barbara A. Livingston.
All rights reserved.

Table of Contents

Introduction: Effectively Controlled Partnerships	949
Schedule M-3 and Partnerships With REPs	950
Steps in Identifying REP Data	951
The 2007 Partnership Population: Tables 1-3	952
Analysis of the REP Population: Tables 4-9	953
Closing Observations	955
References	958

Introduction: Effectively Controlled Partnerships

Partnerships offer incredible flexibility as building blocks in complex organizations. They can be arranged in tiers and used as substitutes for corporate subsidiaries. Each partnership within an organization requires its own tax return. Multiple partnerships, and thus multiple tax returns, within an organization create the possibility that the details of a given transaction may be distributed across several tax returns. Multiple tax returns within a single economic organization potentially decrease transparency to tax authorities as to the true nature of the economic transactions.

Partnerships are an important and growing component of the U.S. tax system. For example, in 2005, more than 2.7 million partnerships filed tax returns, steadily

Schedule M-3 Status	Returns	Assets \$	Returns %	Assets %
Not Required Not Present	2,882,188	\$1,942,739	93.1%	9.5%
Not Required but Present	16,536	29,828	0.5%	0.1%
Required but Not Present	6,900	354,084	0.2%	1.7%
Subtotal Not Required or Not Present	2,905,623	2,326,651	93.8%	11.4%
No REP	120,637	12,231,250	3.9%	60.0%
REP Identified	63,847	4,626,270	2.1%	22.7%
REP Not Identified	6,226	1,201,964	0.2%	5.9%
Subtotal Required and Present	190,711	18,059,483	6.2%	88.6%
Total All Returns	3,096,334	20,386,134	100.0%	100.0%

Note: M-3 is treated as "Not Present" if both book income and tax income are zero.

increasing in 2006 to 2.9 million, then in 2007 to almost 3.1 million. Empirical research on structures employing partnerships is limited.¹

We focus on partnerships effectively controlled by other partnerships or by corporations as an interesting subsample of the partnership population. We ask whether partnerships effectively controlled by a corporation are different from partnerships effectively controlled by another partnership. We look at the relationship between the asset size of the controlling entity and the asset size of the effectively controlled partnership. Further, we look at the relationship between the industry of the controlling entity and the industry of the controlled partnerships.

To do so, this report uses tax year 2007 partnership data made available by the IRS Statistics of Income Division. We believe this report is the first publicly available descriptive study using tax data of partnerships effectively controlled by other entities.

This report is organized as follows. We first provide technical background on the U.S. tax reporting requirements for partnerships during tax year 2007. Next, we outline the steps in identifying reportable entity partners (REPs) in the SOI data. Third, we give a descriptive overview of the partnership population, followed by an analysis of REPs. The last section of the report provides concluding observations.

Schedule M-3 and Partnerships With REPs

The IRS introduced the Form 1120 Schedule M-3 in 2004 to reconcile corporation financial statement income with corporation taxable income for corporations with assets of \$10 million or more at the end of the tax year.² In 2006 the IRS introduced Form 1065 Schedule M-3 to

¹For an excellent review of the 2007 partnership population, see Wheeler and Shumofsky (2009). For a study of the growth in partnership business receipts from 1980 to 2002, see Petska, Parisi, Luttrell, Davitian, and Scoffie (2005). For a recent study of bankruptcy risks for individual and corporate partners selecting to do business in the increasingly popular limited liability company form, see Levy and Hofheimer (2010).

²For discussions relating to the development of Schedule M-3, see Mills and Plesko (2003); Boynton and Mills (2004); Boynton and Wilson (2006); and Boynton, DeFilippes, and Legel (2006, 2008). For a summary of research on book-tax differences

(Footnote continued in next column.)

reconcile partnership financial statement income with partnership taxable income. The Form 1065 Schedule M-3 is required for all partnerships with assets of \$10 million or more at the end of the tax year.

The Form 1065 Schedule M-3 is also required for any smaller partnership if it had any of the following: adjusted total assets of \$10 million or more for the tax year, total receipts of \$35 million or more for the tax year, or a REP on any day of the tax year.³

As of 2006, the instructions for the Form 1065 and Form 1120 Schedules M-3 define a REP. A REP for a partnership is a corporation or partnership that owns, directly or, under the Schedule M-3 instructions, indirectly, 50 percent or more of the partnership's profit, loss, or capital on any day of the tax year, and that itself was required to file Schedule M-3 on its most recently filed U.S. tax return filed before that day.

A corporation or partnership that becomes a REP for a partnership must inform the partnership within 30 days of its name, employer identification number, and maximum (direct and indirect) ownership interest.

A partnership with a REP must file Schedule M-3 even if it is not otherwise required to do so, and it must report

and Schedules M-1 and M-3 through 2007, see Weiner (2007). For a discussion of the relationship between financial accounting current federal income tax expense on SEC Form 10K (and now on Schedule M-3) and Form 1120 tax liability, see Lisowsky (2009). Research using Schedule M-3 data has developed further as data have become available. For example, Lisowsky, Robinson, and Schmidt (2010) discuss the relation between uncertain tax positions, tax shelters, and reportable transaction amounts reported on Schedule M-3; Dunbar, Phillips, and Plesko (2009) examine public versus private firms' book-tax reporting and tax planning before and after rules were passed for more public disclosures of tax reserves; and Blouin, DeBacker, and Sikes (2010) examine the relationship between temporary and permanent book-tax differences on Schedule M-3 for public versus private firms.

³For technical details on Schedule M-3 filing requirements, including the definition of adjusted total assets and reportable entity partner, see the current instructions for Forms 1065 and 1120 Schedules M-3. Go to <http://www.irs.gov>, click on "Forms and Publications," click on "Form and instruction number (PDF)," insert 1065 or 1120, and click on "Schedule M-3 instructions."

Table 2. All Partnerships: Total Returns and Tax Income by Schedule M-3 Status, 2007 (\$ millions)

Schedule M-3 Status	Negative Tax Income				Positive Tax Income			
	Returns	Sum	Returns %	Sum %	Returns	Sum	Returns %	Sum %
Not Required Not Present	1,257,279	(\$98,444)	92.8%	28.5%	1,624,909	\$326,976	93.3%	17.6%
Not Required but Present	9,262	(4,955)	0.7%	1.4%	7,274	8,064	0.4%	0.4%
Required but Not Present	3,164	(2,535)	0.2%	0.7%	3,736	22,166	0.2%	1.2%
Subtotal Not Required or Not Present	1,269,705	(105,934)	93.7%	30.7%	1,635,919	357,206	93.9%	19.2%
No REP	45,245	(142,073)	3.3%	41.1%	75,392	1,115,849	4.3%	60.1%
REP Identified	37,104	(90,435)	2.7%	26.2%	26,744	311,756	1.5%	16.8%
REP Not Identified	2,517	(7,073)	0.2%	2.0%	3,709	72,308	0.2%	3.9%
Subtotal Required and Present	84,865	(239,581)	6.3%	69.3%	105,845	1,499,913	6.1%	80.8%
Total All Returns	1,354,570	(345,515)	100.0%	100.0%	1,741,764	1,857,119	100.0%	100.0%

Note: Zero tax income returns reported in negative tax income column.
M-3 is treated as "Not Present" if both book income and tax income are zero.*
* Add weighted return row totals for negative and positive amounts to obtain weighted return row totals in Table 1 (subject to rounding).

the REP name, EIN, and maximum ownership interest on the partnership's own Schedule M-3. If the partnership has two or more REPs for the year, it reports the two with the maximum ownership interest.

The indirect ownership provisions for REPs follow an effective control model, testing for 50 percent or more ownership at each link.⁴ In general, an entity owning 50 percent or more of another entity is deemed to own all the corporate and partnership interests of the owned entity.⁵

In particular, the parent corporation of a tax consolidated corporate group is deemed to own all the corporate and partnership interests owned by any subsidiary. For example, if two subsidiaries each own 50 percent of a partnership, the parent corporation is deemed to own 100 percent of the partnership.

⁴For comments strongly opposing the Schedule M-3 REP indirect ownership attribution rules, see Hennig, Everett, and Raabe (2009). For an earlier discussion, see Everett, Hennig, and Raabe (2007), questions 32 through 36.

⁵Section 267(c) provides an alternative attribution model for corporate stock ownership based on proportional allocation. Section 707(b)(3) makes section 267(c) applicable to attribution of interest in partnership profits, loss, and capital. In 2008 partnership tax return Form 1065 Schedule B ownership questions 3 and 4 and corporation tax return Form 1120 Schedule K ownership questions 4 and 5 were added and use section 267(c) attribution, but with a limit on family attribution among individuals. See the current instructions for Form 1065 Schedule B and Form 1120 Schedule K. For frequently asked questions (FAQs) on the 2008 ownership questions, go to <http://www.irs.gov>, click on "businesses," click on "partnerships," click on "2008 Changes to Form 1065 — Frequently Asked Questions." For comments on the 2008 ownership questions and the Web-based FAQs, see Banoff (2009a, 2009b). Banoff (2009b), in text before and following his footnote 64, comments on Hennig, Everett, and Raabe (2009) cited in note 4, *supra*.

Steps in Identifying REP Data

This section outlines the steps we took to identify the REPs within the SOI data. The 2007 SOI partnership file is a weighted sample research file statistically designed to describe the population of all partnerships filing a Form 1065 in tax year 2007 (processing year 2008). We assume that the tax characteristics of a REP reported in the 2007 partnership file for a record weighted to represent more than one partnership in the population represent the tax characteristics of a REP for each of the partnerships in the population represented by that weighted record.

- We extract all REP EINs reported in the 2007 SOI partnership file.
- We treat an EIN of 000000000 or 999999999 as well as names listed without EINs as reported but not identifiable.
- We search for the REP EIN in the IRS corporation and partnership files for forms subject to Schedule M-3 (and therefore subject to REP reporting).
- The order of the files searched within a year was forms 1065, 1065-B, 1120-S, 1120, 1120-PC, 1120-L, 1120-C, and 1120-F.
- Searching stopped when an EIN was identified.
- The Form 851 file of tax consolidated corporate subsidiaries and parents was searched if the general search did not identify the REP tax return to determine if the reported REP EIN is that of a corporate subsidiary.
- If the Form 851 file identified the reported EIN for a REP as that of a subsidiary, the EIN and name of the parent of the subsidiary were substituted as the actual REP for this research.
- We extract income-tax-return form type, tax period, total assets, and industry North American Industry Classification System (NAICS) code for the identified REP after any Form 851 file substitutions.
- We replace the REP's NAICS code as extracted from the IRS file with the SOI NAICS code from the 2007 SOI corporation and partnership files if different. The SOI NAICS code is edited for consistency across

Table 3. All Partnerships: Total Returns and Book-Tax Difference by Schedule M-3 Status, 2007 (\$ millions)

Schedule M-3 Status	Negative Book-Tax Difference*				Positive Book-Tax Difference			
	Returns	Sum	Returns %	Sum %	Returns	Sum	Returns %	Sum %
Not Required Not Present	2,882,188	*	95.5%	*	*	*	0.0%	0.0%
Not Required but Present	9,083	(\$1,195)	0.3%	0.3%	7,453	\$2,717	9.3%	0.8%
Required but Not Present	6,900	*	0.2%	*	*	*	0.0%	0.0%
Subtotal Not Required or Not Present	2,898,170	(1,195)	96.1%	0.3%	7,453	2,717	9.3%	0.8%
No REP	73,135	(301,112)	2.4%	73.9%	47,502	266,643	59.5%	74.9%
REP Identified	41,733	(89,924)	1.4%	22.1%	22,114	72,790	27.7%	20.5%
REP Not Identified	3,517	(15,241)	0.1%	3.7%	2,709	13,654	3.4%	3.8%
Subtotal Required and Present	118,385	(406,277)	3.9%	99.7%	72,325	353,087	90.7%	99.2%
Total All Returns	3,016,555	(407,472)	100.0%	100.0%	79,779	355,805	100.0%	100.0%

Note: Zero Book-Tax Difference (BTD) returns reported in negative BTD column. M-3 is treated as "Not Present" if both book income and tax income are zero. Asterisk (*) indicates M-3 data not present.†
 † Add weighted return row totals for negative and positive amounts to obtain weighted return row totals in Table 1 (subject to rounding).

years. The IRS NAICS code is as-filed and is not subject to any consistency check.

- If two REPs are reported and identified, we choose the REP with the largest total assets as the REP for this research.
- REPs reported but not identified (6,226 cases) include:
 - REPs reported with no EIN or an EIN of 000000000 or 999999999 (955 or about 15 percent of the not identified cases); or
 - REPs reported with a plausible EIN (5,271 or about 85 percent of the not identified cases) not identified for this report either because:
 - The EIN is reported with error (we estimate in perhaps 5 percent of the not identified cases); or
 - the EIN based on name inspection is the EIN of an entity not required to file Schedule M-3 and therefore not subject to the REP provisions of Schedule M-3 (we estimate in about 80 percent of the not identified cases). These entities include regulated investment companies, real estate investment trusts, personal trusts, and governmental units. We do not extract or analyze data for these entities for this report, because voluntary reporting is inherently incomplete.

The 2007 Partnership Population: Tables 1-3

In tables 1 through 3 we report partnership assets, tax income, and book-tax difference for the entire population of 2007 partnerships (3,096,334 partnerships) and subdivide by whether Schedule M-3 is required and is present. We subdivide partnerships with Schedule M-3 both required and present (190,711 partnerships) by whether a REP is reported and, if reported, by whether we are able to identify the REP by EIN in the IRS return files for return forms subject to Schedule M-3. We are particularly interested in the 63,847 partnerships with a REP reported and identified.

In Table 1, the 190,711 partnerships with Schedule M-3 required and present (6.2 percent of 3,096,334) report \$18.1 trillion in assets (88.6 percent of \$20.4 trillion in assets reported by all partnerships). The 63,847 partnerships with a REP identified (2.1 percent of all partnerships) report \$4.6 trillion in total partnership assets (22.7 percent of \$20.4 trillion for all partnerships). Stated differently, partnerships with a REP represent one-third of the partnerships with Schedule M-3 required and present, and they report a quarter of the Schedule M-3 partnership population's assets.

Table 1 indicates that 16,536 partnerships not required to file Schedule M-3 in fact do so *voluntarily* rather than file the older Schedule M-1. These voluntary filers are smaller, less complex partnerships with total assets and adjusted total assets of less than \$10 million, total receipts of less than \$35 million, and no REP. Such a large number of voluntary filers among smaller partnerships suggests:

- Schedule M-3 is not a burden for smaller partnerships;
- smaller partnerships or their tax practitioners have access to accounting computer software packages featuring Schedule M-3; and
- an amendment to section 6011(e) to expand mandated electronic filing by partnerships with \$10 million or more in assets and by some smaller partnerships filing Schedule M-3 would probably not impose a burden on the smaller partnerships, because in general those smaller partnerships and their tax practitioners have access to accounting software packages to facilitate electronic filing.⁶

Table 1 also indicates that the 6,900 partnerships required to file Schedule M-3 either did not have a Schedule M-3 present or anomalously filed the form but reported zero for both total book income and total tax

⁶For a proposal to require electronic tax return filing of all corporations and partnerships filing Schedule M-3, see U.S. Department of the Treasury (2010) at 103.

**Table 4. Partnerships With REP: 2007 Total Returns (% All) and Assets (% All):
Partnership Asset Size by REP Asset Size**

Partnership Assets Size	REP Asset Size							
	Under \$10M		\$10M < \$5B		\$5B and up		Total	
	Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets
Under \$10M	14.5%	0.4%	44.7%	1.6%	13.8%	0.3%	73.0%	2.3%
\$10M < \$250M	3.2%	1.6%	16.6%	10.8%	4.5%	3.7%	24.3%	16.0%
\$250M and up	0.2%	3.3%	1.4%	21.3%	1.2%	57.1%	2.8%	81.7%
Total	17.8%	5.2%	62.7%	33.7%	19.5%	61.1%	100.0%	100.0%

Partnership With REP: 2007 Total Returns and Assets (\$ millions): Partnership Asset Size by REP Asset Size Totals for Table 4								
Partnership Assets Size	REP Asset Size							
	Under \$10M		\$10M < \$5B		\$5B and up		Total	
	Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets
Under \$10M	9,251	\$17,957	28,524	\$75,744	8,817	\$12,382	46,591	\$106,083
\$10M < \$250M	2,018	73,063	10,581	498,585	2,895	169,875	15,494	741,523
\$250M and up	119	150,539	902	985,989	742	2,642,136	1,762	3,778,664
Total	11,387	241,559	40,006	1,560,318	12,453	2,824,393	63,847	4,626,270

income. We treat any such anomalous Schedule M-3 as in fact not present. Tax year 2007 was the second year for the partnership Form 1065 Schedule M-3. Based on experience with the corporate Form 1120 Schedule M-3 introduced in 2004, we expect better partnership compliance with the partnership Schedule M-3 in its third and later years (tax years 2008 and later).

Tables 2 and 3 separately tabulate returns by negative and positive tax income amounts and book-tax difference amounts. Returns with a zero amount are tabulated with the returns with negative amounts. In tables 2 and 3, the sum of the row totals for the number of returns with negative amounts and the number with positive amounts equal the return totals for the row in Table 1 (subject to rounding).

Table 2 indicates that partnerships with Schedule M-3 required and present report 69.3 percent of the negative tax income and 80.8 percent of the positive tax income of all partnerships. Positive tax income of approximately \$1.5 trillion is about six times negative tax income of approximately (\$240 billion) for these partnerships.

Partnerships with a REP identified report 26.2 percent of the negative tax income and 16.8 percent of the positive tax income of all partnerships. Positive tax income of approximately \$312 billion is about three and a half times negative tax income of approximately (\$90 billion). Proportionately, partnerships with a REP have more negative tax income than the Schedule M-3 partnership population in general.

Table 3 reports Schedule M-3 book-tax difference (BTD) for partnerships. For Schedule M-3, BTD is tax income minus book income. Negative BTD means book income exceeds tax income. Only Schedule M-3 BTD is reported in Table 3. BTD reported on Schedule M-1 by partnerships not filing Schedule M-3 is not included in Table 3. Total negative BTD is (\$407 billion) and total positive BTD is \$356 billion. These BTD amounts are the same order of magnitude as the BTD amounts for the corporate population filing the 2005 Form 1120 Schedule M-3 (total negative BTD of (\$436 billion) and total

positive BTD of \$421 billion).⁷ The partnership BTD amounts are substantial. The partnerships with a REP identified report 22.1 percent of the negative BTD and 20.5 percent of the positive BTD.

Analysis of the REP Population: Tables 4-9

In discussing tables 4 through 9, we often refer to partnerships with a REP simply as controlled partnerships. We identify how the distribution of the number of partnerships and the distribution of partnerships' assets are affected. We use characteristics of the controlling REP to define the columns and characteristics of the controlled partnership to define the rows. In all cases the total number of partnerships is 63,847, and the total asset amount is \$4.6 trillion. In other words, both the number of partnerships and the amount of assets are fixed in tables 4 through 9, but we change the criteria along which we partition the data.

The first row of Table 4 shows that 73 percent of all controlled partnerships report less than \$10 million in assets and collectively report only 2.3 percent of the assets reported by controlled partnerships. Reading down the third column, we see that REPs reporting \$5 billion or more in assets effectively control 19.5 percent of controlled partnerships, which collectively report 61.1 percent of the assets of controlled partnerships. REPs reporting \$5 billion or more in assets effectively control many partnerships with less than \$10 million in assets (13.8 percent of controlled partnerships), but the smaller number of controlled partnerships with \$250 million or more in assets (1.2 percent) and a REP with \$5 billion or more in assets collectively report 57.1 percent of the assets reported by controlled partnerships.

Interestingly, as reported in the first column third row of Table 4, a small number of REPs (119) reporting less than \$10 million in assets effectively control partnerships

⁷See Boynton, DeFilippes, and Legel (2008).

Table 5. Partnerships With REP: 2007 Total Returns (% All) and Assets (% All): Partnership Asset Size by REP Return Type

Partnership Asset Size	REP Return Type							
	Form 1065		Form 1120		Form 1120S		Total	
	Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets
Under \$10M	41.7%	1.5%	24.9%	0.6%	6.4%	0.2%	73.0%	2.3%
\$10M < \$250M	15.3%	9.5%	7.7%	5.8%	1.3%	0.8%	24.3%	16.0%
\$250M and up	1.3%	32.8%	1.4%	47.3%	0.1%	1.6%	2.8%	81.7%
Total	58.3%	43.7%	34.0%	53.7%	7.8%	2.6%	100.0%	100.0%

Partnerships With REP: 2007 Total Returns and Assets (\$ millions): Partnership Asset Size by REP Return Type Totals for Table 5								
Partnership Asset Size	REP Return Type							
	Form 1065		Form 1120		Form 1120S		Total	
	Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets
Under \$10M	26,607	\$67,490	15,907	\$27,908	4,076	\$10,684	46,591	\$106,083
\$10M < \$250M	9,760	437,277	4,893	267,709	841	36,537	15,494	741,523
\$250M and up	831	1,517,927	879	2,187,891	52	72,846	1,762	3,778,664
Total	37,198	2,022,694	21,680	2,483,508	4,969	120,067	63,847	4,626,270

with \$250 million or more in assets. Many of these REPs report zero or negative assets. The IRS is well aware that many corporations and partnerships, both large and purportedly small, fail to present a proper balance sheet as part of the tax return.⁸ Since 2006 the IRS has been working to correct balance sheet reporting through changes to the tax return instructions.

In Table 5, we group together as “Form 1120” all corporate return types requiring Schedule M-3 other than Form 1120-S for S corporations. “Form 1120” includes forms 1120, 1120-C, 1120-F, 1120-L, and 1120-PC. In Table 5, the bottom line of the second column indicates that REPs filing a corporate Form 1120 effectively control 34 percent of controlled partnerships and that these partnerships collectively report 53.7 percent of the assets reported by controlled partnerships. The first column of Table 5 indicates that 58.3 percent of controlled partnerships are effectively controlled by partnerships filing Form 1065 and these partnerships collectively report 43.7 percent of the assets reported by controlled partnerships. In other words, a majority of controlled partnerships are controlled by partnerships, but a majority of controlled partnership assets are controlled by Form 1120 corporations.

In Table 6, the first column indicates that REPs in the finance/holding industry effectively control 29.8 percent of controlled partnerships and that they collectively report 55.8 percent of the assets reported by controlled partnerships. In Table 6, the third row of the first column indicates that partnerships with \$250 million or more in assets and a REP in finance/holding are only 1.2 percent of controlled partnerships but that they report 49.3 percent of all assets reported by controlled partnerships.

⁸For a discussion of balance sheet and other consolidation anomalies of large corporations, see Boynton, DeFilippes, Lisowsky, and Mills (2004).

Table 6 indicates that REPs in real estate/rental effectively control 44.9 percent of controlled partnerships but that these partnerships collectively report only 11.7 percent of assets reported by controlled partnerships. Stated differently, real estate REPs dominate in terms of numbers of partnerships controlled, but finance REPs dominate in terms of dollars of partnership assets controlled.

The assets effectively controlled by REPs in manufacturing (10.6 percent), information (10.4 percent), and other industries (11.5 percent) are comparable to those effectively controlled by real estate/rental REPs (11.7 percent). Note that small controlled partnerships (less than \$10 million in assets) with a REP in the information industry anomalously report collective negative total assets of (\$9,304) million. Forms 1065 and 1120 instructions since 2006 have stated that negative total assets may not be reported.

In Table 7, the first row indicates that partnerships in the finance/holding industry that have a REP are 15.1 percent of all controlled partnerships with a REP but that they collectively report 57.1 percent of assets reported by controlled partnerships. In particular, the partnerships in the finance/holding industry that have a REP with \$5 billion or more in assets (5 percent) collectively report 37.9 percent of assets reported by controlled partnerships. In Table 7, the second row indicates that partnerships in the real estate/rental industry that have a REP are 58.9 percent of all partnerships with a REP but that they collectively report only 14.9 percent of assets reported by partnerships with a REP. At the controlled partnership level, just as at the controlling REP level, real estate dominates in terms of numbers but finance dominates in terms of dollars.

Partnerships in the real estate industry with a REP generally have a REP with \$10 million to \$5 billion in assets. Those partnerships (36.7 percent) report 9.5 percent of assets reported by partnerships with a REP. Partnerships in the real estate industry account for about two-thirds of the controlled partnerships with a REP

Table 6. Partnerships With REP: 2007 Total Returns (% All) and Assets (% All): Partnership Asset Size by REP Industry													
Partnership Asset Size		REP Industry											
		Finance/Holding		Real Estate/Rental		Manufacturing		Information		Other		Total	
		Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets
Under \$10M	21.3%	0.8%	33.8%	1.2%	2.2%	0.1%	1.1%	-0.20%	14.6%	0.4%	73.0%	2.3%	
\$10M < \$250M	7.3%	5.8%	10.6%	5.7%	1.3%	1.1%	0.7%	0.4%	4.3%	3.0%	24.3%	16.0%	
\$250M and up	1.2%	49.3%	0.4%	4.8%	0.4%	9.4%	0.2%	10.2%	0.5%	8.1%	2.8%	81.7%	
Total	29.8%	55.8%	44.9%	11.7%	3.9%	10.6%	1.9%	10.4%	19.5%	11.5%	100.0%	100.0%	

Partnerships With REP: 2007 Total Returns and Assets (\$ millions): Partnership Asset Size by REP Industry Totals for Table 6													
Partnership Asset Size		REP Industry											
		Finance/Holding		Real Estate/Rental		Manufacturing		Information		Other		Total	
		Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets
Under \$10M	13,576	\$35,747	21,598	\$55,939	1,423	\$3,713	676	(\$9,304)	9,318	\$19,987	46,591	\$106,083	
\$10M < \$250M	4,692	266,628	6,768	264,590	828	50,336	444	20,114	2,763	139,854	15,494	741,523	
\$250M and up	776	2,279,007	286	220,118	240	436,112	122	470,127	338	373,301	1,762	3,778,664	
Total	19,044	2,581,382	28,652	540,648	2,491	490,161	1,242	480,936	12,418	533,143	63,847	4,626,270	

reporting less than \$10 million in assets (12 percent compared with 17.8 percent).

Controlled partnerships in the information industry generally have a REP with \$5 billion or more in assets. Those partnerships (1.2 percent) report 9.3 percent of assets reported by controlled partnerships.

In Table 8, the first row indicates that partnerships in the finance/holding industry that have a REP that is a Form 1065 partnership (9.2 percent) report 28.7 percent of assets reported by controlled partnerships, while those with a Form 1120 corporation as a REP (5.6 percent) report 27.1 percent.

In Table 9, we see that REPs in general stay close to their own industry in terms of the industries of the partnerships they control. The exception is finance/holding, which seems to be comfortable controlling partnerships in all industries, with a preference for controlling finance and real estate partnerships. Partnerships in the finance/holding industry with a REP in the finance/holding industry (12.7 percent) report 50.9 percent of assets reported by controlled partnerships. Partnerships in the real estate/rental industry with a REP in the real estate/rental industry (40 percent) report only 10.6 percent of assets reported by controlled partnerships.

Paraphrasing our comment on Table 6, in Table 9 real estate REPs controlling real estate partnerships dominate in terms of numbers of partnerships controlled, but finance REPs controlling finance partnerships dominate in terms of dollars of partnership assets controlled.

Closing Observations

At the REP level, the general story about effective control of controlled partnership assets is the importance of:

- large REPs (\$5 billion or more in assets);
- REPs that are Form 1120 corporations; and
- REPs that are in finance/holding.

At the controlled partnership level, the story about controlled partnership assets is the importance of:

- large controlled partnerships (\$250 million or more in assets); and
- controlled partnerships that are in finance/holding.

We look forward to doing further research into effectively controlled partnerships. When we move forward to tax year 2008 data, we will have a broad set of ownership data added to the Form 1065 and Form 1120 tax returns, including information on entity owners that are U.S. or foreign partnerships, corporations, or trusts. That set of controlling entity owners is far broader than the Schedule M-3 REP population.

(Text continued on p. 958.)

Table 7. Partnerships With REP: 2007 Total Returns (% All) and Assets (% All): Partnership Industry by REP Asset Size

Partnership Industry	REP Asset Size							
	Under \$10M		≤ \$10M < \$5B		\$5B and Up		Total	
	Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets
Finance/Holding	2.1%	3.2%	8.1%	16.0%	5.0%	37.9%	15.1%	57.1%
Real Estate/Rental	12.0%	1.2%	36.7%	9.5%	10.3%	4.2%	58.9%	14.9%
Manufacturing	0.1%	0.2%	1.3%	2.1%	0.3%	3.9%	1.8%	6.1%
Information	0.8%	0.1%	0.4%	0.4%	1.2%	9.3%	2.4%	9.8%
Construction	0.6%	0.1%	5.1%	0.8%	0.3%	0.7%	6.0%	1.5%
Retail/Wholesale	0.2%	0.1%	1.5%	0.8%	0.2%	0.9%	2.0%	1.8%
All Other	2.0%	0.4%	9.6%	4.1%	2.3%	4.2%	13.9%	8.7%
Total	17.8%	5.2%	62.7%	33.7%	19.5%	61.1%	100.0%	100.0%

Partnerships With REP: 2007 Total Returns and Assets (\$ millions): Partnership Industry by REP Asset Size Totals for Table 7

Partnership Industry	REP Asset Size							
	Under \$10M		≤ \$10M < \$5B		\$5B and Up		Total	
	Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets
Finance/Holding	1,329	\$146,969	5,149	\$741,385	3,162	\$1,753,389	9,639	\$2,641,743
Real Estate/Rental	7,631	56,161	23,428	439,398	6,548	192,090	37,607	687,649
Manufacturing	91	7,413	820	96,884	210	179,435	1,121	283,733
Information	508	4,107	264	18,879	752	431,325	1,524	454,311
Construction	370	4,470	3,245	36,083	205	30,210	3,820	70,763
Retail/Wholesale	155	2,994	958	38,588	138	42,838	1,251	84,420
All Other	1,304	19,444	6,142	189,100	1,439	195,106	8,885	403,650
Total	11,388	241,559	40,006	1,560,318	12,453	2,824,393	63,847	4,626,270

Table 8. Partnerships With REP: 2007 Total Returns (% All) and Assets (% All): Partnership Industry by REP Return Type

Partnership Industry	REP Return Type							
	Form 1065		Form 1120		Form 1120S		Total	
	Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets
Finance/Holding	9.2%	28.7%	5.6%	27.1%	0.3%	1.3%	15.1%	57.1%
Real Estate/Rental	39.7%	10.2%	15.5%	4.3%	3.7%	0.3%	58.9%	14.9%
Manufacturing	0.4%	1.0%	0.9%	4.9%	0.4%	0.2%	1.8%	6.1%
Information	0.8%	0.2%	1.5%	9.5%	0.1%	0.1%	2.4%	9.8%
Construction	3.3%	0.4%	1.6%	0.9%	1.0%	0.2%	6.0%	1.5%
Retail/Wholesale	0.4%	0.6%	0.9%	1.0%	0.6%	0.2%	2.0%	1.8%
All Other	4.4%	2.6%	8.0%	5.9%	1.5%	0.2%	13.9%	8.7%
Total	58.3%	43.7%	34.0%	53.7%	7.8%	2.6%	100.0%	100.0%

Partnerships With REP: 2007 Total Returns and Assets (\$ millions): Partnership Industry by REP Return Totals for Table 8

Partnership Industry	REP Return Type							
	Form 1065		Form 1120		Form 1120S		Total	
	Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets
Finance/Holding	5,856	\$1,326,763	3,572	\$1,253,396	212	\$61,584	9,639	\$2,641,743
Real Estate/Rental	25,371	473,097	9,878	199,871	2,358	14,681	37,607	687,649
Manufacturing	254	45,578	590	228,480	277	9,675	1,121	283,733
Information	497	10,796	949	438,518	78	4,997	1,524	454,311
Construction	2,137	20,232	1,019	41,794	664	8,736	3,820	70,763
Retail/Wholesale	286	28,211	571	46,610	393	9,599	1,251	84,420
All Other	2,799	118,017	5,100	274,839	986	10,795	8,885	403,650
Total	37,198	2,022,694	21,680	2,483,508	4,969	120,067	63,847	4,626,270

© Tax Analysts 2010. All rights reserved. Tax Analysts does not claim copyright in any public domain or third party content.

Table 9. Partnerships With REP: 2007 Total Returns (% All) and Assets (% All): Partnership Industry by REP Industry

Partnership Industry	REP Industry											
	Finance/Holding		Real Estate/Rental		Manufacturing		Information		Other		Total	
	Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets
Finance/Holding	12.7%	50.9%	0.7%	0.4%	0.4%	2.9%	0.0%	0.5%	1.4%	2.3%	15.1%	57.1%
Real Estate/Rental	13.4%	2.3%	40.0%	10.6%	1.1%	0.7%	0.1%	0.3%	4.3%	0.9%	58.9%	14.9%
Manufacturing	0.2%	0.8%	*	*	1.1%	4.6%	*	*	0.3%	0.7%	1.8%	6.1%
Information	0.8%	0.2%	*	*	*	*	1.6%	9.2%	0.0%	0.2%	2.4%	9.8%
Construction	0.7%	0.1%	2.0%	0.3%	*	*	*	*	3.3%	1.2%	6.0%	1.5%
Retail/Wholesale	0.4%	0.2%	0.1%	0.0%	0.4%	0.3%	0.0%	0.0%	1.0%	1.3%	2.0%	1.8%
All Other	1.6%	1.4%	2.1%	0.4%	0.8%	1.7%	0.2%	0.3%	9.2%	5.0%	13.9%	8.7%
Total	29.8%	55.8%	44.9%	11.7%	3.9%	10.6%	1.9%	10.4%	19.5%	11.5%	100.0%	100.0%

Partnerships With REP: 2007 Total Returns and Assets (\$ millions); Partnership Industry by REP Industry Totals for Table 9

Partnership Industry	REP Industry											
	Finance/Holding		Real Estate/Rental		Manufacturing		Information		Other		Total	
	Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets	Returns	Assets
Finance/Holding	8,091	\$2,355,080	419	\$17,748	224	\$135,990	26	\$25,074	880	\$107,851	9,639	\$2,641,743
Real Estate/Rental	8,533	107,545	25,531	490,433	709	31,210	89	14,860	2,745	43,601	37,607	687,649
Manufacturing	152	37,479	*	*	717	214,722	*	*	200	30,426	1,121	283,733
Information	493	7,015	*	*	*	*	991	425,921	18	7,890	1,524	454,311
Construction	449	2,969	1,265	12,183	*	*	*	*	2,087	53,525	3,820	70,763
Retail/Wholesale	275	7,830	43	343	286	16,117	7	834	640	59,296	1,251	84,420
All Other	1,050	63,464	1,343	18,252	521	78,129	121	13,251	5,850	230,555	8,885	403,650
Total	19,044	2,581,382	28,652	540,648	2,491	490,161	1,242	480,936	12,418	533,143	63,847	4,626,270

Note: Asterisk (*) indicates data suppressed to preserve taxpayer confidentiality. One or more of the suppressed cells involves a return count of 1 or 2.

References

- Banoff, Shelton, "FAQ-Filled Guidance on Computing a Partner's Interest in Profits, Losses, and Capital — Part 1," *Journal of Taxation*, Apr. 2009 (2009a).
- Banoff, Shelton, "FAQ-Filled Guidance on Computing a Partner's Interest in Profits, Losses, and Capital — Part 2," *Journal of Taxation*, May 2009 (2009b).
- Blouin, Jennifer, Jason DeBacker, and Stephanie Sikes, "Temporary and Permanent Book-Tax Differences: Complements or Substitutes?" University of Pennsylvania working paper, 2010.
- Boynton, Charles, Portia DeFilippes, and Ellen Legel, "A First Look at 2004 Schedule M-3 Reporting by Large Corporations" *Tax Notes*, Sept. 11, 2006, p. 943, *Doc 2006-15859*, 2006 TNT 176-135.
- Boynton, Charles, Portia DeFilippes, and Ellen Legel, "A First Look at 2005 Schedule M-3 Corporate Reporting" *Tax Notes*, Nov. 3, 2008, p. 563, *Doc 2008-22309*, 2008 TNT 214-23, available at <http://www.irs.gov/busineses/corporations/article/0,,id=163246,00.html>.
- Boynton, Charles, Portia DeFilippes, Petro Lisowsky, and Lillian Mills, "Consolidation Anomalies in Form 1120 Corporation Tax Return Data," *Tax Notes*, July 26, 2004, p. 405, *Doc 2004-13689*, 2004 TNT 144-32, available at <http://www.irs.gov/businesses/corporations/article/0,,id=163246,00.html>.
- Boynton, Charles, and Lillian Mills, "The Evolving Schedule M-3: A New Era of Corporate Show and Tell?" *National Tax Journal* 57, no. 3 (Sept. 2004): 757-772.
- Boynton, Charles, and William Wilson, "A Review of Schedule M-3, the Internal Revenue Service's New Book-Tax Reconciliation Tool," *Petroleum Accounting and Financial Management Journal* 25, no. 1 (Spring 2006): 1-6, available at <http://www.irs.gov/businesses/corporations/article/0,,id=163246,00.html>.
- Dunbar, Amy, John Phillips, and George Plesko, "The Effect of FIN 48 on Firms' Tax Reporting Behavior," University of Connecticut working paper, 2009.
- Everett, John, Cherie Hennig, and William Raabe, "The Schedule M-3 Compliance Maze: Unanswered Questions," *Tax Notes*, Mar. 19, 2007, p. 1103, *Doc 2007-5053*, 2007 TNT 54-51.
- Hennig, Cherie, John Everett, and William Raabe, "Reportable Entity Partner Attribution Rules Lack Authority," *Tax Notes*, Apr. 6, 2009, p. 86, *Doc 2009-4131*, 2009 TNT 64-12.
- Levy, David and Matthew J. Hofheimer, "Bankrupt Partnerships and Disregarded Entities," *Tax Notes*, June 7, 2010, p. 1103, *Doc 2010-8045*, 2010 TNT 109-5.
- Lisowsky, Petro, "Inferring U.S. Tax Liability from Financial Statement Information," *Journal of the American Taxation Association* 2009, vol. 31, no. 1, pp. 29-63.
- Lisowsky, Petro, Leslie Robinson, and Andrew Schmidt, "Do Publicly Disclosed Tax Reserves Tell Us About Privately Disclosed Tax Shelters?" University of Illinois at Urbana-Champaign working paper, 2010.
- Mills, Lillian, and George Plesko, "Bridging the Gap: A Proposal for More Informative Reconciling of Book and Tax Income," *National Tax Journal* 56, no. 4 (Dec. 2003): 865-893.
- Petska, Tom, Michael Parisi, Kelley Luttrell, Lucy Davitian, and Matt Scoffie, "An Analysis of Business Organizational Structure and Activity from Tax Data" in *Special Studies in Federal Tax Statistics* (IRS 2005): 9-44, available at http://www.irs.gov/pub/irs-soi/05_petska.pdf.
- U.S. Department of the Treasury, "General Explanation of the Administration's Fiscal Year 2011 Revenue Proposals," Feb. 2010: 103, *Doc 2010-2363*, 2010 TNT 21-20, available at <http://www.treas.gov/offices/tax-policy/library/greenbk10.pdf>.
- Weiner, Joann M., "Closing the Other Tax Gap: The Book-Tax Income Gap," *Tax Notes*, May 28, 2007, p. 849, *Doc 2007-11679*, 2007 TNT 104-46.
- Wheeler, Tim, and Nina Shumofsky, "Partnership Returns, 2007," *Statistics of Income Bulletin*, Fall 2009, vol. 29, no. 2: 70-159, available at <http://www.irs.gov/pub/irs-soi/09fallbulpartret.pdf>.