



Partnership compliance: Getting ready for tax year 2023

Factors to consider for the upcoming filing
season

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Today's panel



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Learning objectives

- Demonstrate the value of estimates.
- Review allocation documentation.
- Identify considerations lower-tier partnerships need to be aware of.
- Identify the impact of recent developments and updated forms.
- Demonstrate the need and demand for preparedness and technology due to new form requirements.
- Explain the cost of getting tax compliance planning wrong, especially with the IRS targeting partnerships through artificial intelligence.

Create your compliance timeline

- Review your documents
- Bring in all service providers to the discussion
- Know your filing obligations early
- Communication is key



Get ahead of form changes and reporting requirements

- Schedule K-3s continue to be burdensome
- New Schedule K-1 changes
 - Are liabilities subject to guarantees or other payment obligations
 - Disclosure of payment obligations including guarantees and deficit obligations
 - More detailed coding for other income and other expense items (Lines 11 and 13)
 - New partner level reporting for certain property distributions
 - Reporting on sale or exchange of partnership interests
- Bonus depreciation reduction to 80 percent
- Future congressional changes?

Preparing for the use of estimates

- Complex structures create compression issues
- Consider impacts of delays, late filings
 - Elections, late filing penalties, international filings, state filings
- Know the reporting requirements when using estimates
- AICPA rules limit tax advisors' ability to create estimated inputs



New audit rules allow IRS to focus on partnerships



IRS will use AI to help target partnerships and high net worth individuals

Sharp drop in audit rates for certain taxpayers spurs new enforcement effort

IRS announces sweeping effort to restore fairness to tax system with Inflation Reduction Act funding; new compliance efforts focused on increasing scrutiny on high-income, partnerships, corporations and promoters abusing tax rules on the books

Greater focus on partnership issues through compliance letters. The IRS has identified ongoing discrepancies on balance sheets involving partnerships with over \$10 million in assets, which is an indicator of potential non-compliance. Taxpayers filing partnership returns are showing discrepancies in the millions of dollars between end-of-year balances compared to the beginning balances the following year. The number of such discrepancies has been increasing over the years. Many of these taxpayers are not attaching required statements explaining the difference. This effort will focus on high-risk large partnerships to quickly address the balance sheet discrepancy. Prior to the IRA, the IRS did not have the resources needed to follow up and engage with all the large partnerships with such discrepancies. However, the IRS will soon have the resources and plan in place to ramp up this effort. It will begin in early October when the IRS will start mailing around 500 partnerships. Depending on the response, the IRS will add these to the audit stream for additional work.

IRS will see a greater return from audit efforts

Old 'TEFRA' rules

- After audit, the IRS would need to determine which partners owe additional tax.
- Each individual partner could individually contest audit, including opposing positions.
- Essentially created a process where IRS had to collect from each individual partner.

New 'BBA' rules

- The IRS assesses tax on the partnership, often well in excess of actual tax that would be imposed at partner level.
- The partnership can choose to compute and 'push out' adjustments to partners.
- Time limits to push out in tiers. If missed, upper tier must pay tax.
- Partners are bound to follow the treatment at partnership level.

Dramatic uptick in data requests



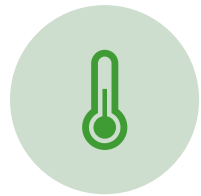
Reporting of tax capital amounts



Schedule K-2 and K-3



At-risk and passive activities



Hot asset reporting



DRO and Guarantee reporting



Section 743 and Section 704(c) details

Are you prepared for an audit?



Documentation of transactions and tax positions



Support for special allocation methods

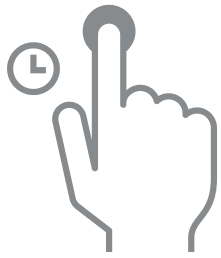


Reconciliation of K-1s from lower tiers



Clear records of capital accounts, section 704(c) attributes, tax basis in assets held, etc.

Manual tax process is a risk



Tax professionals manually transforming data



Ever increasing reporting requirements



Leveraging tax systems not purpose built for data and automation

A modern tax compliance process workflow

EXTRACTING

INTERPRETING

REVIEW

DISTRIBUTION

TAX PROCESS
AUTOMATION

TAX
SYSTEM
INTEGRATION

Business Apps



ERPs



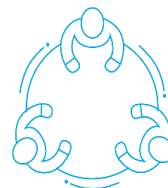
Databases



Working Papers



Tax Team



Tax Calculators
& Applications



Deliverables



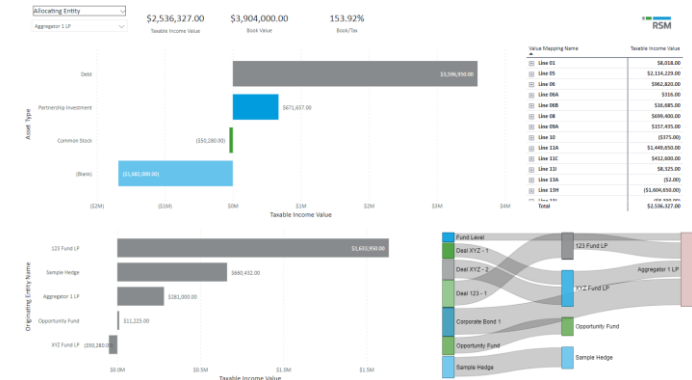
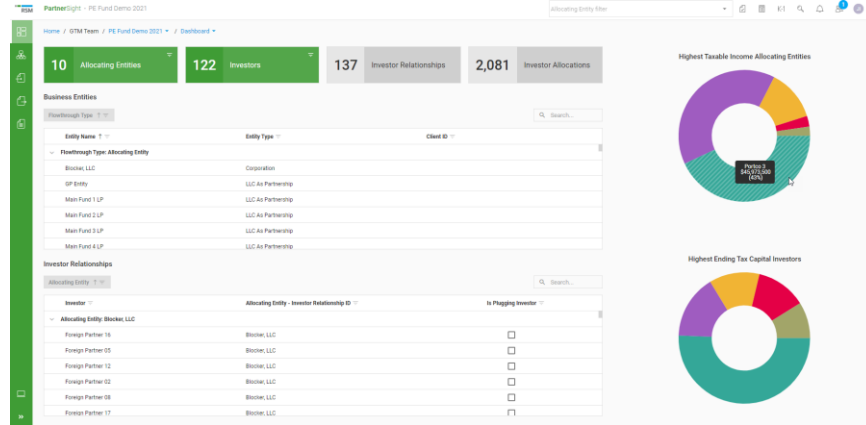
Communicate



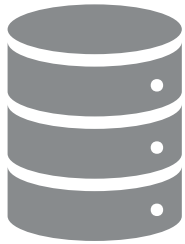
TAX ANALYTICS

TAX PROCESS TRANSFORMATION

Tax data journey – digitally transformed



Build an infrastructure to enable long-term growth



Leverage technology as much as possible; ERP system is an asset for tax



Make the time investment to understand data points and build an integrated technology infrastructure



Purpose-built tax technology solutions are essentially tax ERPs

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