Table of Contents

TAB 1: Introduction 1

Items to Note 1

General Partnerships 2

Limited Partnerships 2

Limited Liability Partnerships (LLP) 2

Limited Liability Company (LLC) 3

OLD IRS Audit Guide for Partnerships Issues 4

Limited Liability Company (LLC) 4

Common Characteristics of LLCs and Corporations 5

Common Characteristics of LLCs and Partnerships 7

Unique LLC Characteristics 7

Relief for LLCs electing to be taxed as corporations 10

Chart: Relief for Late S Corp & Entity Classification Elections for Same Entity 11

Summary of LLC Electing to be an S Corporation 14

Operations 15

COD income exclusions are applied at partner level not at partnership level 15

PPP Forgiveness (Rev. Proc. 2021-48) 15

TAB 2: Operation 17

Partnership/LLC Formation-General Rules 17

Initial Basis 19

Holding Period & Basis 20

Traditional method 24

Traditional method with curative allocations 26

Remedial allocation method 27

Disguised Sale Rules 29

Transfers in Exchange for Services 33

Member Compensation 37

1997 SE Tax Imposition Proposed Regulations 44

Example Partnership Agreement for UPEs 52

Consequences of Disproportionate Distributions 66

Form 8082 70

Tax Year and Operational Issues 71

Transfers of Partnership or LLC Ownership Interests 76

Terminating the Partnership 79

Converting to LLC from Other Entities 80

Exclusion from the Partnership Rules 81

Tax Return Issues 82

TAB 3: Audit Rules 84

Partnership Audit Rules 84

Partnership audit rules before 2018 84

Current partnership audit rules 85

Small partnership “opt-out” exception 85

Qualifying/Non-Qualifying Owners for “Opt-Out” Small Partnership Audit Rules 86

Schedule B-2 (Form 1065) 88

CPAR rules for everyone else 89

Partnership Representative (PR) 89

Audit results 91

Push Out election 93

Partnerships – Superseding, Adjusting & Amending Partnership Returns 95

Changes to originally filed partnership returns 95

Non-BBA small partnership returns 97

Form 8082 97

BBA partnership returns 98

Partnership Amended Return Summary 98

Form 1065-X 99

Partnership Elections Grid 103

TAB 4: Basis 105

Partner’s Tax Basis 105

Chart: Summary of Partnership Equity Account Meanings 105

Introduction 105

Loss Net Basis Pictorial Summary-All Items Give Net Loss Basis 106

Debt 106

Recourse Debt 106

Qualified Non-Recourse Debt 106

Non-Recourse Debt 106

Capital Accounts 107

Beginning Capital Account Balance 108

Basis for the Partner’s Interest (or Outside Basis) 110

Liabilities and Basis 114

At-risk Rules 120

TAB 5: Schedules K-2 and K-3 126

Initial Guidance for 2021 returns 126

IRS Guidance for 2022 tax returns 127

Domestic Filing Exception 127

Foreign Activity that Requires a K-2 and K-3 128

Form 1116 Filing Exception 130

Filing Requirement Summary 131

Specific Schedule K-2/K-3 Filing Requirements 132

Schedule K-2 specific guidance for businesses without foreign activity/owners 133

If the K-2/K-3 is required 133

Where Does it Go When you must prepare the K-2? 134

Sourcing Foreign Income 134

Compensation 134

Property 135

Sourcing Foreign Deductions 135

TAB 6: Step-Up Basis Election 136

Overview 136 Who Can Make the 754 Election 136

Pros and Cons of the 754 Election 137

Section 754 Allocation Among Underlying Assets 139

Mandatory Basis Adjustments 140

The Actual §754 Election 142

Section 743(b) Step-Up Adjustment 143

Section 734(b) Adjustment 145

Section 755 Allocation of the Step-up 148

Step-Up Basis Example for a Common §743 Transaction 149

Relevant Code Section Summary 150

Impact of a §754 Election on Other Partners 151

Late Elections 153

Revoking the Election 154

Form 15254 155

Comprehensive Example 157

TAB 7: Comprehensive Case Study 159

Operating Information 159

Form 1065 161

Federal Statements 187