

## Centralized Partnership Audit Regime

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The Bipartisan Budget Act of 2015 ([Public Law No. 114-74](#)) (BBA) was signed into law on November 2, 2015. The BBA was amended by the Protecting Americans from Tax Hikes Act of 2015, Public Law 114-113, div Q (PATH Act), and sections 201 through 207 of the Tax Technical Corrections Act of 2018, contained in Title II of Division U of the Consolidated Appropriations Act of 2018, Public Law 115-141 (TTCA). In part, the law replaced the auditing and tax collection procedures for partnerships under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and the electing large partnership rules with the centralized partnership audit regime. The centralized partnership audit regime, also referred to as BBA or PBBA, is generally effective for tax years beginning January 2018.

Partnerships that file returns for tax years starting January 2018 must follow rules under the BBA. Partnerships under the BBA must follow certain filing requirements including designating a partnership representative or, if eligible, elect out of the regime on a timely filed return. Under the BBA, the IRS generally assesses and collects any understatement of tax (called an imputed underpayment or IU) at the partnership level. Partnerships may request to modify the IU and may elect to push out the adjustments underlying the IU instead of paying.

## Filing Requirements

Partnerships under the BBA centralized partnership audit regime must take certain actions when filing or making changes to a return. These include:

- [Designating a Partnership Representative \(PR\)](#)
- [Option to elect out of the centralized partnership audit regime, if eligible](#)
- [Filing an Administrative Adjustment Request to change a prior return](#)

## **BBA Partnership Audit**

Notices to expect from the IRS and actions to take during a [BBA partnership audit](#), also called an examination.

## **Regulations and Interim Guidance**

Regulations under Internal Revenue Code sections 6221 to 6241 (after 2017) and [Interim Guidance](#) for the BBA centralized partnership audit regime.

### **Regulations**

[Centralized Partnership Audit Regime, Proposed regulations \(REG-136118-15, REG-119337-17; REG-118067-17; REG-120232-17 and REG-120233-17\)](#) [PDF](#)

[Centralized Partnership Audit Regime, Final regulation \(TD 9844\)](#)

[Election Out of the Centralized Partnership Audit Regime, Final regulation \(TD 9829\)](#)

[Centralized Partnership Audit Regime: Adjusting Tax Attributes, Proposed regulation \(REG-118067-17\)](#)

[Partnership Representative Under the Centralized Partnership Audit Regime and Election To Apply the Centralized Partnership Audit Regime, Final regulation \(TD 9839\)](#)

[Guidance on Special Enforcement Matters Under the Centralized Partnership Audit Regime \(Notice 2019-06\)](#) [PDF](#)

[Centralized Partnership Audit Regime, Final regulations on treatment of special enforcement matters \(TD 9969\)](#)

### **Internal Revenue Manual**

[IRM 4.31.9](#)

<b>Partnership Procedures</b>	<b>TEFRA</b>	<b>BBA</b>
Partnership point of contact for examination	Tax Matters Partner	Partnership Representative
Partner participation rights during examination	Partners have the ability to participate in the examination and challenge partnership adjustments	Partners have no participation right to challenge partnership adjustment
Partner consistency of reporting	Partners must report items consistently with the partnership	Partners must report items consistently with the partnership
Notice requirements	Notice requirements (NBAP, FPAA)	Notice requirements (NAP, NOPPA, FPA)
Items adjusted during examination	Partnership item/Affected item	Partnership related item (PRI)
Where adjustments/assessments occur	Adjustments at the partnership level/tax assessment at the partner level	Adjustment and assessment at the partnership level (imputed underpayment)
Distinct phases of examination	Field examination	Field examination phase
	Not applicable	Modification phase (optional)
	FPAA phase	FPA phase
	Not applicable	Push-out phase (optional)

<b>Term</b>	<b>Description</b>
<b>Administrative Adjustment Request (AAR)</b>	An Administrative Adjustment Request (AAR) is a request to correct errors on a partnership return for a prior year. Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request, or Form 1065X, Amended Return or Administrative Adjustment Request, is used to file the AAR. Only the partnership representative may file a BBA AAR on behalf of the partnership.
<b>Audit Control Number (ACN)</b>	A unique 10-digit number assigned to a BBA partnership under examination. The Audit Control Number (ACN) consists of the year and month of the reviewed year return (YMMM), followed by a six-digit serial number. Only BBA partnerships will be assigned an ACN, and it will be a required entry on all forms filed by direct and indirect partners that include their share of partnership examination adjustments.
<b>Adjustment Year</b>	An Adjustment Year is the partnership taxable year in which a decision of a court becomes final (if a petition is filed under Section 6234), or, in any other case, when a Notice of Final Partnership Adjustment (FPA) is mailed (or if the partnership waives its right to an FPA, the year the waiver is executed by the Service).
<b>Adjustment Year Partner</b>	Adjustment Year Partner means any person who held an interest in a partnership at any time during the adjustment year.
<b>Alternative Procedure</b>	Alternative Procedure (Pull-In) is an alternative to filing amended returns in modification. The Secretary determines the partnership's imputed underpayment as reduced by the portion of the adjustments to partnership-related items that direct and indirect reviewed-year partners take into account and with respect to which those partners pay the tax due, but the partners are not required to file amended returns.

<b>Term</b>	<b>Description</b>
<b>BBA Elect Out (BEO)</b>	Partnership returns that elect out of BBA for partnership taxable years beginning on or after January 1, 2018.
<b>Bipartisan Budget Act of 2015 (BBA)</b>	The act that adopted the centralized partnership audit regime. This regime generally provides for determination of adjustments, assessment, and collection of tax attributable to such adjustments, at the partnership level. BBA replaced TEFRA and ELP rules for tax periods beginning January 1, 2018. All partnerships are subject to the BBA rules unless they elect out of BBA on their timely filed tax return.
<b>Elect-In</b>	A partnership may early elect-in to the BBA centralized partnership audit regime for partnership returns filed for tax periods beginning after November 2, 2015 and before January 1, 2018.
<b>Elect-Out</b>	In certain circumstances, a partnership may make an election out of the BBA centralized partnership audit regime on the partnership's timely filed return, including extensions, for the taxable year to which the election applies, and, once made cannot be revoked without the consent of the Service.
<b>Imputed Underpayment (IU)</b>	Imputed Underpayment (IU) is the computed amount of partnership-level tax assessed against and collected from the partnership. IU is computed by netting audit adjustments, applying the applicable rate, and then adjusting for any credits.

## Terms/Definitions/Acronyms

- (1) The following tables list commonly used terms and acronyms:

### Terms

Term	Definition
BBA regime or PBBA regime	Examination subject to the Bipartisan Budget Act of 2015 (BBA or PBBA). This term is used interchangeably with "centralized partnership audit regime".
Reviewed year	Partnership tax year under exam or to which a partnership adjustment relates.
Adjustment year	Partnership tax year in which: <ul style="list-style-type: none"><li>• The decision of a court becomes final in a proceeding brought under IRC 6234;</li><li>• An administrative adjustment request is filed under IRC 6227 or;</li><li>• In any other case, a notice of final partnership adjustment is mailed under IRC 6231 or a waiver is executed to waive the restrictions under IRC 6232(b).</li></ul>
Partnership	Any partnership required to file a return under IRC 6031(a).
Partnership adjustment	Any adjustment to a partnership-related item as defined in IRC 6241.
Pass-through partner	Any pass-through entity that holds an interest in a partnership.
Push Out	An election to push out adjustments to partners under IRC 6226 instead of paying the imputed underpayment.

## Acronyms

<b>Acronym</b>	<b>Definition</b>
AAR	Administrative Adjustment Request
ATDNR	Adjustments That Do Not Result
BBA	Bipartisan Budget Act of 2015
BEO	BBA Elect Out
CAP	Compliance Assurance Process
CCP	Centralized Case Processing
CH 2/2A	Chapters 2 and/or 2A of the IRC
DI	Designated Individual
ECI	Effectively Connected Income
EPR	Entity Partnership Representative
ESBT	Electing Small Business Trust
FDAP	Fixed, Determinable, Annual or Periodical Income
FPA	Notice of Final Partnership Adjustment (Some IRS systems use a 3-character acronym)
ILSC	Investor Level Statute Control
IPR	Individual Partnership Representative
IU	Imputed Underpayment
IUA	Imputed Underpayment Amount
LEP	LB&I Examination Process
NAP	Notice of Administrative Proceeding
NIIT	Net Investment Income Tax
NOPPA	Notice of Proposed Partnership Adjustment
PBBA	Partnership Bipartisan Budget Act
PCS	Partnership Control System
POA	Power of Attorney
POC	Point of Contact

## Acronyms

Acronyms	Definition
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Acronyms	Definition
PPA	Notice of Proposed Partnership Adjustment (Some IRS systems use a 3-character acronym for NOPPA)
PR	Partnership Representative
PRI	Partnership-Related Item
PTE/PTEPA	Pass-Through Entities Practice Area (Some IRS systems use a 3-character acronym for PTEPA)
PTP	Pass-Through Partner
PTPP	Pass-Through Partnership Partner
QSST	Qualified Subchapter S Trust
SECA	Self-Employment Contributions Act
SFR	Substitute for Return
SND	Statutory Notice of Deficiency
SRS	Specialist Referral System
TC	Transaction Code
TCS	Tax Computation Specialist
TEFRA	Tax Equity and Fiscal Responsibility Act of 1982
TIN	Taxpayer Identification Number
TNPA	Total Netted Partnership Adjustment
TS	Technical Services
TSPC	Technical Service Pass-Through Coordinator

## File an Administrative Adjustment Request for a BBA Partnership

To correct errors to partnership-related items, partnerships under the Bipartisan Budget Act (BBA) of 2015 must file an administrative adjustment request (AAR) instead of an amended return.

This applies to partnerships for taxable years beginning after 2017 and partnerships that elect into the BBA regime for taxable years beginning after November 2, 2015 and before January 1, 2018.

Partnerships cannot file an AAR to only change a partnership representative (PR) designation.

## Who files and signs an AAR

Only the reviewed year partnership representative (PR) or designated individual (DI) if the PR is an entity, can file and sign an AAR on behalf of the partnership. A partner can only file and sign an AAR on behalf of the partnership if they are also the PR.

The PR/DI is designated/appointed on the originally filed return or with a validly filed AAR. If no PR designation is in effect, including because of a failure to designate a PR on the originally filed Form 1065, the partnership (through an authorized person for the tax year) may submit Form 8979 to designate a PR. If the Form 8979 is submitted with an administrative adjustment request (AAR), the designation is treated as occurring prior to the filing of the AAR and effective on the date the AAR is filed.

You can [designate or change a partnership representative](#) when you file an AAR. The designation or change is effective on the date the AAR is filed.

## How to file an AAR

- For electronically filed returns, file the following:
  - [Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request \(AAR\)](#)
  - [Form 1065, U.S. Return of Partnership Income](#), check box G(5) 'Amended return' section [required for transmission purposes]
  - If making a Push Out Election OR if the AAR contains adjustments that do not result in an IU, also include the following forms with the AAR submission (links to forms and instructions):
    - [Form 8985, Pass-Through Statement – Transmittal/Partnership Adjustment Tracking Report \(Required under Sections 6226 and 6227\)](#)
    - [Forms 8986, Partner's Share of Adjustments\(s\) to Partnership-Related Items \(Required Under Sections 6226 and 6227\)](#)

If a BBA partnership files an AAR and it needs to make its partners aware of their allocable share of adjustments, it will furnish to each partner of the partnership for the reviewed year a Form 8986 reflecting the partner's share of the adjustments (and should not provide amended Schedules K-1 or K-3). The partnership is also required to file with the AAR any Forms 8986 required to be furnished to partners along with Form 8985. See links above for Forms 8985 and 8986 and related instructions.

**Note:** Currently certain tax software requires two Schedules K-1 to be transmitted electronically with any Form 1065. These Schedules K-1 are for electronic submission only and are not to be taken into account by the partnership's partners or by the Service.

- We recommend that you complete the following fields:
  - Schedule K-1 Part I - Information about the Partnership
  - Schedule K-1 Part II Line E – Enter all zeros
  - Schedule K-1 Part II Line F – Enter "Required eFile K-1 for transmission purposes only" and use the partnership's address, city, state, and ZIP
  - Schedule K-1 Part II Line H1 – Check "Domestic partner" checkbox
  - Schedule K-1 Part II Line I1 – Enter "Corporation"
  - Schedule K-1 Part II Line M – Select "No"
- For Paper Filed Returns, file the following:
  - [Form 1065-X, Amended Return or Administrative Adjustment Request \(AAR\)](#)
  - If making a Push Out Election OR if the AAR contains adjustments that do not result in an IU, also include the following forms with the AAR submission (links to forms and instructions):
    - [Form 8985, Pass-Through Statement – Transmittal/Partnership Adjustment Tracking Report \(Required under Sections 6226 and 6227\)](#)
    - [Forms 8986, Partner's Share of Adjustments\(s\) to Partnership-Related Items \(Required Under Sections 6226 and 6227\)](#)

## Filing deadline

The deadline to file an AAR is within 3 years of the later of:

- The date the partnership return was filed **or**
- The last day for filing the partnership return. ("Due date" not including extensions.)

**Exception:** A partnership may not file an AAR after a Notice of Administrative Proceeding has been issued.

## Figure and report an imputed underpayment (IU)

A BBA partnership must always include a computation of the IU, even when the IU is zero or less than zero, or the adjustments don't result in an IU.

The partnership should include documentation with the AAR that supports the computation.

If the calculated IU amount results in an amount greater than zero and the partnership doesn't elect to push out, it must report and pay the IU.

[How to make an AAR push out election](#)

[How to figure an imputed underpayment](#)

### **If there is an IU**

A partnership must either:

- Make a payment on adjustments that result in an IU and push out adjustments that do not result in an IU to the reviewed-year partners **or**
- Push out all adjustments to the reviewed-year partners by making an AAR push out election.

### **If there is not an IU**

A partnership must push out all adjustments for the reviewed year partners to take into account.

## **Pay an imputed underpayment**

A partnership must pay an IU and any applicable interest or penalties at the same time the AAR is filed.

- Pay by [EFTPS](#) or [debit or credit card](#). (Direct Pay is not available for this payment.)
  - Select **BBA AAR Imputed Underpayment** from the list of payment types.
  - Apply payment to: Form 1065.
- Pay by check or money order.
  - Make payable to "United States Treasury."
  - Include the following information: the name of the partnership, Form 1065, the tax identification number of the partnership, the tax year, and "BBA AAR Imputed Underpayment."

## **How to make an AAR push out election**

If the partnership elects AAR push out **or** the AAR contains adjustments that do not result in an IU, it must include Form 8985 and Forms 8986 with the AAR submission. The Forms 8986 must also be furnished to the partners on the date the AAR is filed with the IRS. The partnership should not provide amended Schedules K-1 or K-3 with an AAR. Following are the relevant forms:

- AAR filing forms – Refer to instructions for [Forms 1065-X](#) or [Form 8082](#) for details on how to elect push out on an AAR. If filing Form 8082 electronically with push out election by checking

Part 1 Line b C, the form must be manually signed on Part 1 Line b D, and the signature page filed with the 1065 as a PDF attachment.

- [Form 8985, Pass-Through Statement – Transmittal/Partnership Adjustment Tracking Report \(Required under Sections 6226 and 6227\)](#) – Should be included with the AAR submission.
- [Forms 8986, Partner's Share of Adjustments\(s\) to Partnership-Related Items \(Required Under Sections 6226 and 6227\)](#) – Should be included with the AAR submission AND furnished to the partners.

## How to report modification of imputed underpayment in an AAR

A partnership that does not make an AAR push out election can request certain modifications to the IU amount. Complete and attach to the AAR [Form 8980-Partnership Request for Modification of Imputed Underpayments Under IRC Section 6225\(c\)](#) [PDF](#) and any related forms that apply. See [Publication 5346, Instructions for Form 8980](#) [PDF](#).

If a partnership makes an AAR push out election instead of paying an IU, any potential modifications that may have applied to the IU are disregarded.

## When a partner receives Form 8986 as a result of an AAR

Individuals and C corporations (non pass-through partners)

Non pass-through partners (generally those who file Forms 1040, 1120 or 990T) who receive a Form 8986 as a result of an AAR will:

- Use [Form 8978, Partner's Additional Reporting Year Tax](#) to calculate and report their tax impact of adjustments pushed out to them.
- File Form 8978 with their income tax return that includes the date the partnership furnished Forms 8986 to its direct partners (reporting year return).
- The non pass-through partner 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.
    - Apply payment to: Forms 1040, 1120 (except 1120S) or 990T.

Partnerships, S corporations, and trusts (pass-through partner entities) NOT individuals or C corporations

Pass-through partner entities (generally those who file Forms 1041, 1065, or 1120S) who receive Form 8986 as a result of an AAR will take one of the two actions:

1. [Figure and pay the IU amount](#)
2. [Push out all adjustments to its partners, shareholders or beneficiaries \(collectively referred to as partners\)](#)

**Note:** Whether or not an IU is paid, adjustments that do not result in an IU must be pushed out to partners.

1. Figure and pay the IU amount based on the adjustments from the F8986 received as a result of an AAR

- Complete [Form 8985, Pass-Through —Statement Transmittal/Partnership Adjustment Tracking Report \(Required under Sections 6226 and 6227\)](#) to report the calculation and amount paid.
- Pay by [EFTPS, debit or credit card](#). (Direct Pay is not available for this payment.)
  - Select **BBA AAR Push Out (as reported on F8985)** as payment type.
  - Apply payment to: Forms 1041, 1065, or 1120S.
- Pay by check or money order.
  - Make payable to "United States Treasury."
  - Include the following information: the name of the pass-through partner, form number (1065, 1120S, or 1041), the tax identification number of the pass-through partner, the tax year, and "BBA AAR Push Out".
  - Complete [Form 8985-V, Tax Payment by a Pass-Through Partner](#) [PDF](#): Select '**BBA AAR push out**' as payment type on the form. Caution: Do not use Form 8985-V if filing Forms 1040, 1120, OR 990T. See instructions for Form 8978 above instead.
  - Mail check or money order with the completed Form 8985-V to:

Department of the Treasury Internal Revenue Service, Ogden, UT 84201-0011

- Submit Form 8985 and, if applicable, Forms 8986 (only required for adjustments that do not result in an IU), to the IRS, as shown below:

If the submission is	Then
100 pages or less*	Fax to 888-981-6982
More than 100 pages	Mail to: Ogden - Internal Revenue Submission Processing Center M/S 4705 1973 N Rulon White Blvd. Ogden, UT 84201

\* Do not batch submissions using multiple 8985s for the same source partnership and reviewed tax year. For example, Source Partnership files an AAR and furnishes Form 8986 to Pass-Through Partner. Pass-Through Partner prepares Form 8985 and Forms 8986 to further

push out the adjustments to its 35 partners. Pass-Through Partner has a total submission of 109 pages (1 cover sheet, 1 Form 8985 and 35 Forms 8986). Because the total submission is over 100 pages, Pass-Through Partner cannot separate the 35 Forms 8986 into smaller batches and attached to multiple 8985s to satisfy the 100 page threshold for faxing.

**Important note:** The above fax number is not for general use; use only for submitting Forms 8985/8986. Faxes containing more than 100 pages, unreadable or other submissions received at this fax number will not be processed.

2. Further push out all adjustments to its partners

- Furnish a [Form 8986](#) to each reviewed year partner of the pass-through partner.
- Submit [Form 8985](#) and all Forms 8986 to the IRS as shown below:

If the submission is	Then
100 pages or less*	Fax to 888-981-6982
More than 100 pages	Mail to: Ogden - Internal Revenue Submission Processing Center M/S 4705 1973 N Rulon White Blvd. Ogden, UT 84201

\* Do not batch submissions using multiple 8985s for the same source partnership and tax year. For example, Source Partnership files an AAR and furnishes Form 8986 to Pass-Through Partner. Pass-Through Partner prepares Form 8985 and Forms 8986 to further push out the adjustments to its 35 partners. Pass-Through Partner has a total submission of 109 pages (1 cover sheet, 1 Form 8985 and 35 Forms 8986). Because the total submission is over 100 pages, Pass-Through Partner cannot separate the 35 Forms 8986 into smaller batches and attached to multiple 8985s to satisfy the 100 page threshold for faxing.

**Important note:** The above fax number is not for general use; use only for submitting Forms 8985/8986). Faxes containing more than 100 pages, unreadable or other submissions received at this fax number will not be processed.

Be sure to only submit the Forms 8985/8986 to the IRS. Copies of other attachments provided to the partners should not be submitted to the IRS.