Planning for Revised Partnership Audit Procedures

Effective for partnership tax years beginning after 2017, the current partnership audit procedures will be replaced with a single centralized audit system. While some partnerships may elect out of the new regime, most partnerships will be subject to the new rules. Under the new system, the IRS will examine a partnership's items of income, gain, loss, deduction, credit and partners' distributive shares for a particular year of the partnership (i.e., the reviewed year). Any adjustments are taken into account by the partnership, and not the individual partners, in the year that the audit or any judicial review is completed (i.e., the adjustment year). Thus, it's possible for current year partners to be liable for mistakes or errors committed in prior years when they were not partners. The new rules provide certain exceptions that can allow current year partners to escape such liability, including an election that must be made no later than 45 days after the date of a notice of final partnership adjustment. The bottom line is that partnership agreements should be reviewed and revised to take into account the new audit rules, and that is best done sooner rather than later.

Please contact at your convenience so we can set up an appointment and discuss your business's tax situation before year end.

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