



TaxNewsFlash

United States

No. 2018-043
February 1, 2018

Proposed regulations: Adjusting tax attributes under centralized partnership audit regime

The U.S. Treasury Department and IRS today released for publication in the Federal Register proposed regulations (REG-118067-17) containing rules addressing how partnerships and their partners adjust tax attributes to take into account partnership adjustments under the centralized partnership.

Read the 15-page [proposed regulations](#) [PDF 286 KB]

Comments and requests for a public hearing about the proposed regulations must be received within 90 days after the proposed regulations are published in the Federal Register (which is scheduled for February 2, 2018).

Background

Proposed regulations in June 2017 addressed various issues concerning the scope and process of the new centralized partnership audit regime. The June 2017 proposed regulations included, among other things: rules relating to partnership adjustments, including the computation of the imputed underpayment, modification of the imputed underpayment, the treatment of adjustments that do not result in an imputed underpayment, and rules relating to the election by a partnership to have its reviewed year partners take into account the partnership adjustments in lieu of paying the imputed underpayment.

Proposed regulations in November 2017 set forth rules regarding international provisions under the centralized partnership audit regime.

Proposed regulations in December 2017 included rules allowing tiered partnerships to push out audit adjustments through to the ultimate taxpayers and provided rules implementing the procedural and administrative aspects of the partnership audit regime.

Current proposed regulations—how partnerships and their partners adjust tax attributes to take into account partnership adjustments

The preamble to today's proposed regulations includes rules addressing how and when partnerships and their partners adjust tax attributes to take into account partnership adjustments under both sections 6225 and 6226. With regard to section 6225 (under which a partnership takes adjustments into account and pays an imputed underpayment), today's proposed regulations provide for adjustment to a partner's basis in its interest, and certain other tax attributes that are interdependent with basis under subchapter K, to prevent effective double taxation or other distortions. Specifically, the rules provide that when there is a partnership adjustment, the partnership and its adjustment year partners generally must adjust their "specified tax attributes." Specified tax attributes are the tax basis and book value of a partnership's property, amounts determined under section 704(c), adjustment year partners' bases in their partnership interests, and adjustment year partners' capital accounts determined and maintained in accordance with Reg. section 1.704-1(b)(2).

The proposed regulations prevent double taxation by allocating notional items to reviewed year partners or their successors in order to make appropriate adjustments to specified assets. The preamble explains that notional items are considered notional because their sole purpose is to affect partner-level specified tax attributes, and they are not considered to be items for purposes of adjusting other tax attributes.

The preamble explains that the allocation of notional items cannot have substantial economic effect because the allocation relates to two different years—they are determined with respect to the reviewed year, but taken into account in the adjustment year. To address this issue, the proposed regulations provide that the allocation will be deemed to be in accordance with the partners' interests in the partnership if the allocation of a notional item of income or gain, or expense or loss, is made in the manner in which the corresponding actual item would have been allocated in the reviewed year under the section 704 regulations. Additionally, the allocation of a notional item of expense or loss or a notional item of income or gain must be allocated to the reviewed year partners that were originally allocated that excess item in the reviewed year (or their successors). These rules require treating successors as reviewed year partners.

A reviewed year partner's successor is generally defined as either a transferee that succeeds to the transferor partner's capital account or, in the case of a complete liquidation of a partner's interest, as the remaining partners to the extent their interests increased as a result of the liquidated partner's departure.

Today's proposed regulations also include a rule pertaining to the allocation of the nondeductible imputed underpayment paid under section 6225 (or a payment by a passthrough partner under section 6226 that chooses to pay the tax rather than to push out the adjustments to its partners). Specifically, the proposed regulations provide that an allocation of the nondeductible expenditure will be considered to be

substantial only if the partnership allocates the expenditure to the reviewed year partner (or its successor) in proportion to the allocation of the notional item to which it relates, taking into account modifications to the imputed underpayment that are attributable to that partner. The preamble explains that absent this substantiality rule, partnerships could inappropriately allocate expenses to partners in the adjustment year in a manner inconsistent with the underlying economic arrangement of the partners.

With respect to adjustments taken into account under section 6226 (when the partnership pushes out the adjustment to its partners instead of paying the underpayment itself), the proposed regulations provide that the reviewed year partners or affected partners must take into account items of income, gain, loss, deduction or credit with respect to their share of the partnership adjustments as reflected on the statement of pushed-out items in the reporting year. Partnerships adjust tax attributes affected by reason of a pushed-out item in the adjustment year, but these adjustments are calculated with respect to each year beginning with the reviewed year followed by any subsequent tax years, concluding with the adjustment year. For this purpose, all tax attributes are adjusted, not just specified tax attributes.

Today's regulations also include special rules for outside basis in certain cases and reallocation adjustments, among other guidance.

The information contained in TaxNewsFlash is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230, as the content of this document is issued for general informational purposes only, is intended to enhance the reader's knowledge on the matters addressed therein, and is not intended to be applied to any specific reader's particular set of facts. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

KPMG International is a Swiss cooperative that serves as a coordinating entity for a network of independent member firms. KPMG International provides no audit or other client services. Such services are provided solely by member firms in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any member firm in any manner whatsoever.

Direct comments, including requests for subscriptions, to [Washington National Tax](#). For more information, contact KPMG's Federal Tax Legislative and Regulatory Services Group at + 1 202.533.4366, 1801 K Street NW, Washington, DC 20006-1301.

To unsubscribe from TaxNewsFlash-United States, reply to [Washington National Tax](#).

[Privacy](#) | [Legal](#)