



# TaxNewsFlash

## United States

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### **SECA tax audits underway as part of IRS compliance campaigns**

The IRS Large Business & International (LB&I) division continues to expand its list of compliance campaigns, with 40 campaigns identified and selected to date. An increase in IRS activity related to the Self-Employment Contributions Act (SECA) tax campaign has been observed.

#### **KPMG observation**

Tax professionals have observed an increase in IRS activity related to the Self-Employment Contributions Act (SECA) tax campaign. Specifically, several taxpayers have received various forms of communication from the IRS indicating that the examiners are initiating requests for information related to whether partners have subjected their distributive share of income from a partnership to self-employment tax under section 1402. The requests were generated within the last month, so it is still too early in the process to know how the IRS will address the issue or how taxpayers will respond.

Taxpayers that have been contacted by the IRS with respect to an audit that may involve the SECA tax issue need to consider appropriate action steps including consulting with a tax professional.

#### **Background**

Campaigns represent the IRS's shift from entity-based to issue-based examinations, with a focus on those issues that have been determined to present a risk of noncompliance. The IRS's stated goal with its campaign initiative is to improve tax return and issue selection and make the greatest use of limited IRS resources. Each campaign is addressed using one or more "treatment streams" that include issue-based examinations, soft letters encouraging voluntary self-correction, and stakeholder outreach.

Read the full list of the [LB&I campaigns](#)

## Recent campaigns affecting pass-through entities

Three recent campaigns that are of particular interest to pass-through entities are summarized by the IRS as follows (read the [IRS release](#) (March 13, 2018)):

- **SECA tax campaign:** Partners report income passed through from their partnerships. Unless an individual partner qualifies as a “limited partner” for self-employment tax purposes, the partner’s distributive share is subject to self-employment tax under SECA. Some individual partners—including service partners in service partnerships organized as state-law limited liability partnerships, limited partnerships, and limited liability companies—have inappropriately claimed to qualify as “limited partners” not subject to SECA tax.
- **Partnership stop filer campaign:** Partners report income, loss, and other items passed through from their partnership. Partnerships may stop filing tax returns for various reasons but still have economic transactions that are not being reported to their partners. That activity is likely not being reported by the partners.
- **Sale of partnership interest campaign:** Generally, the sale of a partnership interest results in capital gain or loss. If the partner held the interest for more than one year, the long-term capital gain tax rate is usually 15%. If the partnership depreciated real property or has appreciated collectibles at the time of the sale or exchange, higher capital gain rates may apply. If the partnership has inventory items or unrealized receivables at the time of the sale or exchange, a portion of the gain or loss will be ordinary gain or loss. This campaign will address taxpayers who do not report the sale or do not report the gain or loss correctly. Incorrect reporting may include the gain or loss amount or reporting the entire gain as long-term capital gain (usually 15%). Often, a portion of the gain is ordinary gain or taxed at the 25% or 28% long-term capital gain rates.

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