

TaxNewsFlash

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IRS releases FAQs as reporting guidance for "carried interests"

The IRS today released a set of "frequently asked questions" (FAQs) providing detailed reporting directions for certain passthrough entities and taxpayers reporting partnership interests held in connection with the performance of services—often referred to as "carried interests."

Read the [FAQs](#) (posted November 3, 2021)

According to a related IRS release—[IR-2021-215](#)—the FAQs contain:

- Sample worksheets that certain passthrough entities and taxpayers may be required to use in reporting "carried interests" for tax returns filed after December 31, 2021, in which a passthrough entity applies the final regulations
- Additional instructions for certain passthrough entities and taxpayers who, though not required to file the sample worksheets, must provide similar information and must disclose whether the information was determined under the proposed regulations or another method for tax returns filed after December 31, 2021, for a tax year beginning before January 19, 2021

Background

A change in the 2017 tax law, often referred to as the "Tax Cuts and Jobs Act" (TCJA) recharacterized certain net long-term capital gains of a partnership that holds one or more applicable partnership interest as short-term capital gains. The provision generally requires that a capital asset be held for more than three years for capital gains allocated with respect to any applicable partnership interest to be treated as a long-term capital gain.

Final regulations (T.D. 9945) under section 1061—the "carried interest" provision, added to the Code by the 2017 U.S. tax law—were published in the Federal Register on January 19, 2021. Read a [January](#)

[**2021 report**](#) [PDF 323 KB] that provides a discussion and observations about the final carried interest regulations: *What's News in Tax: Final Regulations on Carried Interest*

Purpose of FAQs

Today's IRS release states that the purpose of the FAQs is to provide guidance relating to both passthrough entity filing and reporting requirements and owner taxpayer filing requirements in accordance with the final regulations.

The IRS stated that this updated reporting guidance will also be added to the next revision of Publication 541, *Partnerships*, to be released in 2022.

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