



TaxNewsFlash

United States



No. 2023-401
November 13, 2023

KPMG report: Adjusting closed-year partnership-related items

Congress in 2015 enacted new partnership audit rules in the “Bipartisan Budget Act” (BBA) that apply to all partnerships that file a Form 1065, “U.S. Return of Partnership Income,” and that cannot, or do not, elect out of the BBA. Under section 6235, generally, no adjustment may be made under the BBA for a partnership tax year more than three years after the filing of the original return for that year. Similarly, under section 6227, a partnership generally only has three years from the filing of the original return to file a request for an administrative adjustment (AAR) of a partnership-related item for that tax year.

What if more than three years have passed since the filing of the partnership return, and the IRS or the partnership (or one of its partners) discovers an error or omission on that return? Is the IRS forever barred from adjusting partnership-related items for that partnership tax year? Are the partnership and its partners similarly precluded from adjusting any items for that year? What happens if an item from that year (now closed to IRS adjustment or an AAR) affects a current-year item such as basis in partnership property, a partner’s basis in its partnership interest, or a loss or credit carryforward reported at the partner level?

Read an [October 2023 report](#)¹ [PDF 2.9 MB] prepared by KPMG LLP tax professionals that explores those questions and analyzes the IRS’s authority to adjust a partnership-related item for a tax year for which the period under section 6235 has expired.

¹ This article appears in *Tax Notes Federal* (October 30, 2023) and is provided with permission.

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