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KPMG reports: Application of BBA centralized partnership audit regime

As the IRS continues to ramp up its enforcement efforts against partnerships, more and more partnerships will enter the tax procedure thicket that is known as the centralized partnership audit regime (CPAR). Enacted almost 10 years ago as part of the Bipartisan Budget Act of 2015 (BBA), CPAR (also known as the BBA rules) empowers the IRS to pursue the partnership itself for any tax resulting from an adjustment to the partnership return, rather than seeking out and collecting tax from each of the partnership's partners. Although CPAR governs partnership returns filed for the past handful of tax years, we have yet to see a court weigh in on the thorny application of the BBA rules, until now.

The U.S. Tax Court in May 2024 held, in a case of first impression, that the IRS should have followed the BBA procedures in conducting an exam of the partnership's 2016 tax year. *SN Worthington Holdings LLC v. Commissioner*, 162 T.C. No. 10 (2024). Because the IRS incorrectly applied the 1982 Tax Equity and Fiscal Responsibility Act (TEFRA) procedures to that exam, the Tax Court found the notice of final partnership administrative adjustment (FPAA) issued by the IRS was invalid and ordered the case dismissed for lack of jurisdiction. At the heart of the dispute was the partnership's ability, or lack thereof, to pay a potential partnership-level liability determined under the BBA.

KPMG LLP has prepared two articles* that summarize the facts that led to the dispute between the IRS and the partnership, discuss the Tax Court's holdings, and offer some observations on the opinion, including how the court's opinion fits within the BBA context more broadly.

- Part 1: "*SN Worthington*: Electing Into the Centralized Partnership Audit Regime"
- Part 2: "Lessons from *SN Worthington*"

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