
Q&A Section 7200

Partnerships

.09 Tax Accounting Considerations Under Partnership Audit Regime

Inquiry—The Bipartisan Budget Act of 2015 includes rules for audits of partnerships (IRS partnership audit regime) that allow the IRS to assess and collect underpayments of tax from the partnership rather than pursuing payment from the partners unless the partnership elects to pass the adjustments through to its partners.

The rules apply to all partnerships, except for qualifying partnerships that may elect out for a tax year. A partnership that does not (or cannot) elect out for a tax year may file a “push-out election.” Once a valid push-out election has been made, the partners for the tax year that was audited are required to report their share of the IRS adjustment.

How should a partnership account for amounts it pays to the IRS for previous underpayments of tax, interest, and penalties?¹ Said another way, does the underpayment represent an income tax of the partnership or the partners?

Reply—In accordance with paragraphs 226–229 of FASB ASC 740-10-55, if income taxes paid by the entity are attributable to the entity, they should be accounted for under the FASB ASC 740, *Income Taxes*, accounting model. If, however, the income taxes paid by the entity are attributable to the owners, they should be accounted for as a transaction with the owners. The determination of attribution should be made for each jurisdiction where the entity is subject to income taxes. Attribution is determined on the basis of laws and regulations of the jurisdiction.

In the case of the IRS partnership audit regime, the collection of tax from the partnership is merely an administrative convenience on the part of the government to collect the underpayment of

¹ This Technical Question and Answer does not address whether or, if so, when the partnership would recognize a liability.



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income taxes from the partners in previous periods. Accordingly, the income taxes on partnership income, regardless of when paid, should continue to be attributed to the partners and, therefore, the partnership would not apply the FASB ASC 740 accounting model to account for amounts it pays to the IRS for previous underpayments of tax, interest, and penalties. Rather, a payment made by the partnership under the IRS partnership audit regime should be treated as a distribution from the partnership to the partners in the financial statements of the partnership.

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