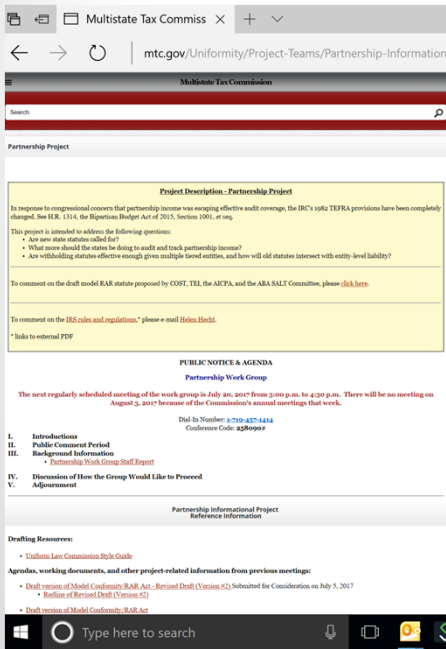


## **Report of the Partnership Work Group**

To the MTC Uniformity Committee  
Tuesday August 1, 2017

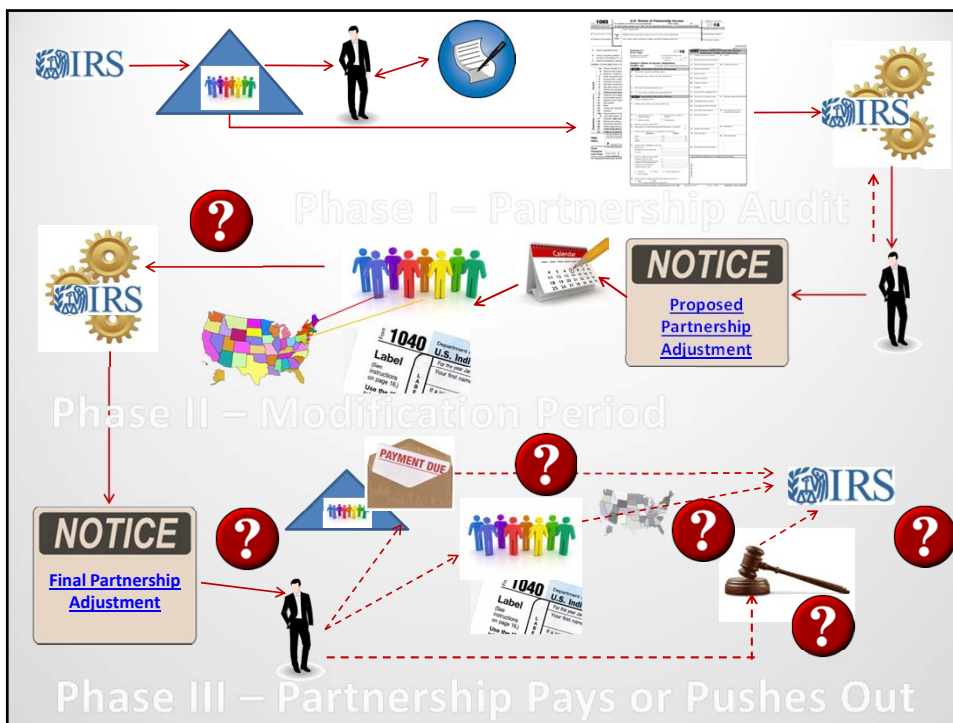
### **Partnership Work Group**

- How will states adapt to the federal partnership-level audit and adjustment regime?
- Are there issues related to partnership-level taxation that should be addressed?



## Project Information

Available on the MTC website at:  
<http://www.mtc.gov/Uniformity/Project-Teams/Partnership-Informational-Project>



## Adjustments Resulting in Tax

- Adjustment to partnership items – 1065 (increases in revenues, decreases in expenses, etc.) – netted
- Adjustment to allocation of items – Schedule K-1 (resulting in increased allocation to some partners, decreases to others) – not netted
- Times the highest applicable tax rate
- Less modifications (partner amended returns and rate adjustments, primarily)

## Possible Federal Audit Results

- All partners file amended returns during modification period.
- Some partners file amended returns and partnership pays remainder.
- Some partners file amended returns and partnership pushes out remainder.
- No partners file amended returns and partnership pays.
- No partners file amended returns and partnership pushes out.

## Push-Out Versus Pass-Through

- Push out happens in the year of adjustment.
- The push-out election will NOT result in amended Schedule K-1s for the reviewed year or a partner-level adjustment to that year.
- Instead the partnership will provide a new kind of report detailing the adjustments allocated to each partner and partners will report tax as “other” in the adjustment year.

2016 Form 1120 3 / 5

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Page **3**

**Schedule J Tax Computation and Payment** (see instructions)

**Part I—Tax Computation**

<b>1</b>	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120)). See instructions <input type="checkbox"/>				
<b>2</b>	Income tax. Check if a qualified personal service corporation. See instructions <input type="checkbox"/>		<b>2</b>		
<b>3</b>	Alternative minimum tax (attach Form 4626)		<b>3</b>		
<b>4</b>	Add lines 2 and 3		<b>4</b>		
<b>5a</b>	Foreign tax credit (attach Form 1118)	<b>5a</b>			
<b>b</b>	Credit from Form 8834 (see instructions)	<b>5b</b>			
<b>c</b>	General business credit (attach Form 3800)	<b>5c</b>			
<b>d</b>	Credit for prior year minimum tax (attach Form 8827)	<b>5d</b>			
<b>e</b>	Bond credits from Form 8912	<b>5e</b>			
<b>6</b>	<b>Total credits.</b> Add lines 5a through 5e		<b>6</b>		
<b>7</b>	Subtract line 6 from line 4		<b>7</b>		
<b>8</b>	Personal holding company tax (attach Schedule PH (Form 1120))		<b>8</b>		
<b>9a</b>	Recapture of investment credit (attach Form 4255)	<b>9a</b>			
<b>b</b>	Recapture of low-income housing credit (attach Form 8611)	<b>9b</b>			
<b>c</b>	Interest due under the look-back method—completed long-term contracts (attach Form 8697)	<b>9c</b>			
<b>d</b>	Interest due under the look-back method—income forecast method (attach Form 8866)	<b>9d</b>			
<b>e</b>	Alternative tax on qualifying shipping activities (attach Form 8902)	<b>9e</b>			
<b>f</b>	<b>Other (see instructions—attach statement)</b>	<b>9f</b>			
<b>10</b>	<b>Total.</b> Add lines 9a through 9f		<b>10</b>		
<b>11</b>	<b>Total tax.</b> Add lines 7, 8, and 10. Enter here and on page 1, line 31		<b>11</b>		

**Part II—Payments and Refundable Credits**

Form 1040 (2016) Page **2**

<b>38</b>	Amount from line 37 (adjusted gross income)	<b>38</b>	
<b>39a</b>	Check <input type="checkbox"/> You were born before January 2, 1952, <input type="checkbox"/> Blind. <input checked="" type="checkbox"/> Total boxes if: <input type="checkbox"/> Spouse was born before January 2, 1952, <input type="checkbox"/> Blind. <input checked="" type="checkbox"/> <b>39a</b>		
<b>b</b>	If your spouse itemizes on a separate return or you were a dual-status alien, check here <b>39b</b> <input type="checkbox"/>		
<b>40</b>	<b>Itemized deductions</b> (from Schedule A) or your <b>standard deduction</b> (see left margin)	<b>40</b>	
<b>41</b>	Subtract line 40 from line 38	<b>41</b>	
<b>42</b>	<b>Exemptions.</b> If line 38 is \$155,650 or less, multiply \$4,050 by the number on line 6d. Otherwise, see instructions	<b>42</b>	
<b>43</b>	<b>Taxable income.</b> Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	<b>43</b>	
<b>44</b>	<b>Tax</b> (see instructions). Check if any from: <b>a</b> <input type="checkbox"/> Form(s) 8814 <b>b</b> <input type="checkbox"/> Form 4972 <b>c</b> <input type="checkbox"/>	<b>44</b>	
<b>45</b>	<b>Alternative minimum tax</b> (see instructions). Attach Form 6251	<b>45</b>	
<b>46</b>	Excess advance premium tax credit repayment. Attach Form 8962	<b>46</b>	
<b>47</b>	Add lines 44, 45, and 46	<b>47</b>	
<b>48</b>	Foreign tax credit. Attach Form 1116 if required	<b>48</b>	
<b>49</b>	Credit for child and dependent care expenses. Attach Form 2441	<b>49</b>	
<b>50</b>	Education credits from Form 8863, line 19	<b>50</b>	
<b>51</b>	Retirement savings contributions credit. Attach Form 8880	<b>51</b>	
<b>52</b>	Child tax credit. Attach Schedule 8812, if required	<b>52</b>	
<b>53</b>	Residential energy credits. Attach Form 5695	<b>53</b>	
<b>54</b>	Other credits from Form: <b>a</b> <input type="checkbox"/> 3800 <b>b</b> <input type="checkbox"/> 8801 <b>c</b> <input type="checkbox"/>	<b>54</b>	
<b>55</b>	Add lines 48 through 54. These are your <b>total credits</b>	<b>55</b>	
<b>56</b>	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	<b>56</b>	
<b>57</b>	Self-employment tax. Attach Schedule SE	<b>57</b>	
<b>58</b>	Unreported social security and Medicare tax from Form: <b>a</b> <input type="checkbox"/> 4137 <b>b</b> <input type="checkbox"/> 8919	<b>58</b>	
<b>59</b>	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	<b>59</b>	
<b>60a</b>	Household employment taxes from Schedule H	<b>60a</b>	
<b>b</b>	First-time homebuyer credit repayment. Attach Form 5405 if required	<b>60b</b>	
<b>61</b>	Health care: individual responsibility (see instructions) Full-year coverage <input type="checkbox"/>	<b>61</b>	
<b>62</b>	<b>Taxes from:</b> <b>a</b> <input type="checkbox"/> Form 8959 <b>b</b> <input type="checkbox"/> Form 8960 <b>c</b> <input type="checkbox"/> Instructions; enter code(s)	<b>62</b>	
<b>63</b>	Add lines 56 through 62. This is your <b>total tax</b>	<b>63</b>	
<b>64</b>	Federal income tax withheld from Forms W-2 and 1099	<b>64</b>	
<b>65</b>	2016 estimated tax payments and amount applied from 2015 return	<b>65</b>	

**Standard Deduction for—**  
 • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions.  
 • All others:  
 Single or Married filing separately, \$6,300  
 Married filing jointly or Qualifying widower, \$12,600  
 Head of household, \$9,300

## State Effects

- Presumably, if partners file amended federal returns – they will be required to file amended state returns.
- *Otherwise*, for the remaining adjustments not reported on amended returns, there are several options.

## State Alternatives - Generally

- For the remaining final partnership adjustment (after modification)
  - Follow federal treatment – whether partnership pays or pushes-out
  - Allow or require partnership to pay – even if it opts to push out federal
  - Allow or require partnership to push-out – even if it opts to pay federal
  - Allow or require amended Schedule K-1s (pass-through) requiring amended state returns for reviewed year

## State-Level Issues – Partnership Pays

- No current statutory ability to impose tax on partnership
- Apportionment
- Providing proper credit to partners
- Intervening years? (Presumably may be subject to amendment.)

## State-Level Issues – Push-Out

- Will need to create a new state report.
- Because of need to extend time for state filing after federal filing requirements, state push out may be in a later year.
- At the federal level, partnership also pushes out the effect of the adjustments on intervening years.
- Would partners that have moved have to file an adjustment year return in old state of residence?

## Treatment of Tiers

- Bipartisan Budget Act appears not to permit push-out where there are multiple tiers.
- So an audited partnership in a lower tier of a multi-tiered partnership would have to pay rather than push out.
- IRS has asked for input as to how push-out might work in a multi-tiered structure.

## State-Level Issues – Pass-Through

- There will be no adjusted federal K-1 report for the state report to tie to (although there may be something similar).
- There is also the question of how multiple tiers would be treated.

## State Issues – “Decoupling”

- If states allow partnerships to pay at state level while pushing out at the federal level, states will have the final partnership adjustment report at the federal level to confirm the adjustments.
- But if states allow partnerships to push out or pass through at the state level while paying at the federal level, will there be a partner-specific federal report to key off of?



## Other Issues

- Treating adjustments for resident and nonresident partners differently (pass through for residents, partnership pays for nonresidents)
- State partnership representative
- Apportionment issues
- Partnership insolvency
- Composite returns