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by TERENCE FLOYD CUFF

Finding *the* PATH

New partnership audit rules to be enacted in 2018 provide important changes to existing regulations that need to be considered in drafting current partnership agreements

IN 2015, President Barack Obama signed into law the Protecting Americans From Tax Hikes Act, which replaces the consolidated partnership audit rules under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA).[1] This act sets forth certain corrections to the new partnership audit rules. These rules, which become effective for most partnerships beginning in 2018, impact not only audit procedures but the very essence of how partnerships are taxed. The delayed effective date provides existing partnerships and limited liability companies taxed as partnerships the opportunity to amend their organizational documents—namely their partnership or LLC agreements—in order to take the new partnership audit rules into account. Partnership and LLC agreement drafters should now take the new partnership audit rules into account in drafting new partnership and LLC agreements.[2]

The risks of a general partnership, limited partnership, or limited liability company being audited by the Internal Revenue Service are low. For example, in fiscal year 2015, only 19,212 partnerships were audited.[3] Moreover, IRS partnership audits are often superficial. The IRS has identified particular difficulty auditing partnerships with more than 100 partners.[4]

Reacting to the IRS's difficulty with auditing large partnerships, Congress passed the new partnership audit rules in November 2015.[5] However, these rules are not limited to large partnerships but apply to practically all partnerships. They grew out of a bill that languished in committee in Congress, but the impact of enforcing the new partnership audit rules had a large revenue estimate and they were attached to a budget bill, which passed quickly. Consequently, the new rules did not receive the benefit of extensive committee hearings, a written committee report, and extensive comments.

The new partnership audit rules are important for anyone who drafts partnership agreements or is a partner in a partnership (such as a law firm or accounting firm organized as a partnership). These rules generally go into effect in January 2018;[6] however, currently drafted partnership agreements should take the new partnership audit rules into account. Current audit rules (the TEFRA audit rules)[7] will remain in effect until the effectiveness of the new partnership audit rules.[8]

Three terms and three features are par-

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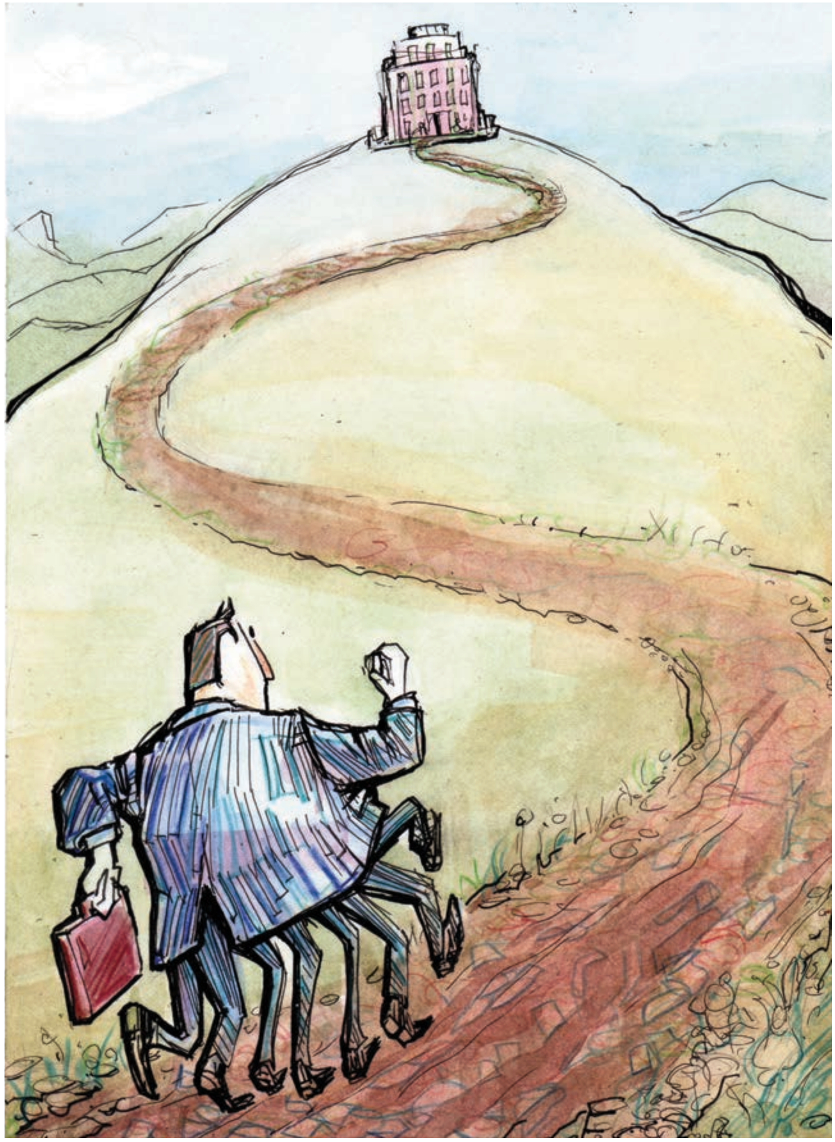

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ticularly important under the new partnership audit rules. The terms are: 1) a partnership representative is the person designated by the partnership to handle the partnership audit, 2) the reviewed year is the year under audit, and 3) the adjustment year is the year in which the IRS audit is concluded.

The first important feature of the new partnership audit rules is that they provide for an IRS audit of the partnership as an entity rather than for audits of partner operations at the individual partner level.[9] Partners are bound by the result of the partnership audit. The new rules, however, may result in fewer partnership audits as many more partnerships may elect out of the new partnership audit rules.

Second, the new partnership audit rules provide for a partnership representative.[10] The partnership representative is the tax audit czar. The partnership representative is the sole representative of the partnership in the IRS audit.[11] The partnership representative can agree to an audit settlement that binds the partnership and all the partners. The partnership representative is the only one who can agree to this settlement. Also, the partnership representative can extend the partnership's statute of limitations.[12] The partnership and every partner is bound by actions taken under the new partnership audit rules by the partnership acting through the partnership representative.[13] The partnership and every partner is bound by any final decision in a proceeding brought under the new partnership audit rules.[14]

Third, the IRS assesses any tax deficiency at the end of the audit—the imputed underpayment—against the partnership rather than against the partners.[15] This can transfer the burden of tax audit adjustments from reviewed-year partners to adjustment-year partners. Dealing with fairly apportioning this burden among the partners can be an important task for the partnership agreement drafter. The drafter should deal with the problem that the partnership may be paying taxes that in theory should be paid by the reviewed-year partners.

The new partnership audit rules create three classes of partnerships. Some partnerships will elect out of the new partnership audit rules.[16] Some partnerships rules will be subject to consolidated partnership audits, and the partnership will pay tax on account of audit adjustments.[17] Some partnerships will be subject to consolidated partnership audits, but these partnerships will push out adjustments to reviewed-year partners.[18] The reviewed-year partners will pay the resulting tax in the tax years in which they receive notice of the adjustments.

Under the new partnership audit rules, each partner is required to report partnership items on the partner's personal return in a manner that is consistent with the treatment of the item on the partnership return.[19] A partner nevertheless may report partnership items in a manner inconsistent with the partnership tax return and the partner's Schedule K-1.[20] The IRS then can use an expedited procedure to assess and collect a resulting underpayment from the partner as a math error.[21]

The IRS audits the partnership at the partnership level rather than auditing the partners individually on partnership matters.[22] The new rules provide that any audit adjustment must be made in a partnership audit.[23] The IRS assesses the deficiencies in tax, interest and penalties against the partnership rather than the partners.[24] Moreover, the IRS assesses the deficiency against the partnership at an assumed tax rate.[25]

The IRS assesses an underpayment of tax against the partnership in the adjustment year, not in the reviewed year.[26] This revolutionary development can result in adjustment-year partners bearing the tax effects of mistakes that the partnership made in the reviewed-year return. A skillfully drafted partnership agreement can require reviewed-year partners to reimburse the partnership for the tax that the IRS assesses against the partnership.

The new partnership audit rules calculate the imputed underpayment—the partnership's tax liability resulting from audit adjustments—at the highest individual or corporate tax rates.[27] The imputed underpayment can be reduced on account of tax-exempt partners and other adjustments.[28] The partnership may seek further to reduce the imputed underpayment amount 1) by providing information about the tax status of partners (such as tax-exempt partners) and about the nature and amount of items of income or gain, 2) by reviewed-year partners filing amended returns with payment of the adjusted tax, or 3) on the basis of other factors in future regulations or guidance.[29]

Future U.S. Treasury regulations will clarify the precise rules for calculating imputed underpayments. The rules may take into account types of persons who are partners and their maximum tax rates, tax-exempt partners, foreign partners, partners that are flow-through entities, character of income (tax-exempt, ordinary, capital gains), loss limitations of various types (at-risk, passive losses, and so forth), and other adjustments as provided in regulations.[30]

Many uncertainties still exist about how regulations will compute the imputed underpayment. One of the harsher rules for computing imputed underpayments applies when the IRS audit reallocates income or loss from one partner to another.[31] The reallocation does not result in a new income increase to the partnership. The imputed underpayment is based on the increased income (or decreased loss) allocation to the partner to whom income is reallocated and does not provide an offset for the decreased income (or increased loss) allocated to another partner.[32]

The new partnership audit rules also fail to clarify whether capital account adjustments for audit adjustments are made in the reviewed year or in the adjustment year. Audit adjustments presumably are usually allocated to partners in accordance with partners' interests in the partnership.[33] The new rules do not clarify whether audit adjustments to partners' bases in their partnership interests are made in the reviewed year or in the adjustment year. Furthermore, they do not clarify how to account for the partnership's payment of the imputed underpayment.

Election Out

Many partnerships with 100 or fewer qualifying partners will be able to elect out of the new partnership audit rules.[34] The election out can result in partnership activities being included as part of a partner audit. These audits will be conducted under the partner-level audit rules that applied to pre-TEFRA audits.

Many partners will prefer this IRS partner-level audit to a partnership-level audit. Election out will mean that the partnership will not be audited in a consolidated proceeding. The IRS then can audit partnership activities only as part of a partner-level audit. Auditing the partnership through separate partner audits is considerably more cumbersome for the IRS than a consolidated partnership audit; an IRS partner-level audit is not likely to include a comprehensive audit of partnership activities. Partners may look to the election out as a practical manner in which to escape effective IRS audit of partnership activities. Indeed, TEFRA was introduced in significant part on account of the difficulty that the IRS had in auditing partnerships through partner-level audits. The IRS indicated that it needed to audit partnerships on a consolidated basis.[35]

TEFRA provided for the exclusion of certain small partnerships from TEFRA-consolidated audit rules.[36] "Small partnerships" were defined as partnerships that passed two tests. First, the partnership must have 10 or fewer partners at all times during the tax year.[37] A married couple filing jointly and their estates are treated as one partner.[38] Second, all partners must be U.S. persons, resident aliens, C corporations (not an S corporation), or estates of deceased partners.[39]

The new partnership audit rules expand the class of partnerships that can elect out of the new partnership audit rules to include many partnerships with 100 or fewer qualifying partners.[40] The nonconsolidated IRS audit of this type of partnership creates great difficulties for the IRS.[41] No single person speaks for the partnership in a nonconsolidated audit.

The nonconsolidated IRS audit may pose difficulties for the partners and the partnership. An audited partner may believe that the partnership should contribute to funding the partner's audit expenses. Also, the partnership may fail to cooperate with the partner's information requests. The partnership may deny the partnership partners access to partnership records or employees. The partnership agreement drafter may appropriately address these issues.

A partnership of 100 or fewer qualifying partners[42] may elect out of the new partnership audit rules if each partner is an individual, a deceased partner's estate, a C corporation, a foreign entity that would be required to be treated as a C corporation if it were a domestic entity, or an S corporation.[43]

This list of permitted partners does not contain trusts or partnerships. Certain trusts, and perhaps some partnerships, may be permitted as qualifying partners under future regulations. The law has not yet resolved whether disregarded entities are qualifying partners.[44] Any partner who is not on this list and not permitted by future regulations may disqualify the partnership from electing out of the new partnership audit rules.

The election out of the new partnership audit rules must be made with a timely filed return for the taxable year.[45] Election out is made on a year-by-year basis. The partnership must include the name and taxpayer identification number of each partner of the partnership in the election out.[46]

A partnership agreement may impose transfer restrictions on partners to ensure that every transferee partner qualifies for the partnership to make the election out under the new partnership audit rules. These transfer restrictions may be an important part of a well-drafted partnership agreement.

An election out of the new partnership audit rules may give the partnership practical immunity from an effective IRS audit. The partnership activities technically can be audited as part of an individual partner audit. That audit is difficult for the IRS to undertake.

The IRS may try to audit all partners. An IRS audit of the partnership through separate individual audits of the partners may be practical if all partners live in the same IRS district. Then, IRS partner audits can be assigned to the same auditor. The IRS audit may proceed as a lead audit of a partner, with audits of other partners suspended until the lead audit is resolved. Coordinating IRS individual partner audits is more difficult if partners live in different IRS districts, which is often the case.

Each partner (or the partner's accountant or the partner's counsel) represents himself in the partner's individual IRS audit. Each partner may take the partner's own tax position on partnership tax issues. Each partner may make the partner's own arguments to the IRS. The IRS reaches a settlement on a partner-by-partner basis. Individual partner audits can lead to inconsistent audit results or inconsistent court decisions.

Election out of the new partnership audit rules will be the solution for many partnerships. However, the new partnership audit rules also permit the partnership to push out adjustments to the tax returns of reviewed-year partners for the year in which they receive statements of the adjustments. The reviewed-year partners then pay the additional tax resulting from the audit adjustments in the year in which the partners receive statements of the adjustments.[47]

The push-out election requires the partnership to be diligent. The partnership has 45 days after receiving the final notice of partnership adjustments within which to make the push-out election.[48] The partnership must issue a statement of adjustments to the reviewed-year partners showing their revised distributive shares as determined in the audit.[49] The reviewed-year partners then will include the audit adjustments in computing tax liability for their tax years in which they receive the statement of adjustments from the partnership.[50]

The election to push out adjustments is likely to be popular for partnerships that cannot elect out of the new partnership audit rules. Any partnership may make the push-out election. Under this alternative, the partnership furnishes each reviewed-year partner a statement of the reviewed-year partner's share of the audit adjustments—similar to Schedule K-1.[51] Each reviewed-year partner increases its tax on account of the pushed-out adjustments for the year in which the partner receives the statement of adjustments.[52]

Many questions linger concerning how the push-out election will work, particularly when a partner is in a tiered partnership. The first-tier partner may have to pay tax

MCLE Test No. 263

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1. The new partnership audit rules apply to all partnership audits for taxable years beginning after December 31, 2015.
True.
False.

2. The scope of the new partnership audit rules is limited to partnerships with more than 100 partners.
True.
False.

3. If a partnership elects out of the new partnership audit rules, the IRS audit must be conducted under the TEFRA audit rules.
True.
False.

4. Any partnership with 100 or fewer partners can elect out of the new partnership audit rules.
True.
False.

5. The new partnership audit rules provide for the partnership representative to receive reasonable compensation for his services in the partnership in the partnership audit.
True.
False.

6. The partnership's accountant or attorney can be selected as the partnership representative.
True.
False.

7. The new partnership audit rules provide that the general partner of a limited partnership has the right to remove the partnership representative.
True.
False.

8. The new partnership audit rules permit the partnership to elect to push out audit adjustments to adjustment-year partners, who then are required to pay tax on the audit adjustments.
True.
False.

9. The new partnership audit rules clarify that the partnership can push out audit adjustments to the ultimate taxpaying partners through tiers of partnerships that are partners in the audited partnership.
True.
False.

10. Under the new partnership audit rules, the IRS has the option of making adjustments in a partner's share of partnership items either in the audit of the partnership or in an audit of the partner.
True.
False.

11. In computing the imputed underpayment, income and losses are netted together without considering character and then are taxed at a specified tax rate that can be modified by the IRS.
True.
False.

12. If the partnership elects out of the new partnership audit rules, the partners must cooperate and agree on the tax arguments that they will make in audit.
True.
False.

13. If the partnership makes the push-out election, it must do so within 60 days of the partnership's receiving notice of institution of the partnership audit.
True.
False.

14. The partnership must inform reviewed-year partners of their partnership audit adjustments as a condition to the partnership making the push-out election.
True.
False.

15. Under the new partnership audit rules, an audit settlement agreement with the IRS must be approved by the partnership and the partnership representative.
True.
False.

16. TEFRA rules cease to apply to existing partnership audits after 2017.
True.
False.

17. The new partnership audit rules require that a partner report his partnership tax items in accordance with the treatment of those tax items on the partnership return.
True.
False.

18. The election out of the new partnership audit rules must be made within 30 days of notice of institution of an IRS audit.
True.
False.

19. The IRS can use an expedited procedure to assess a partner's tax liability as a math error if the partner reports an item in a manner inconsistent with the partnership return.
True.
False.

20. A partnership under audit under the new partnership audit rules may be able to reduce its imputed underpayment by reviewed-year partners filing amended returns with payment of the adjusted tax.
True.
False.

MCLE Answer Sheet #263

FINDING THE PATH

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ANSWERS

Mark your answers to the test by checking the appropriate boxes below. Each question has only one answer.

1.	☐ True	☐ False
2.	☐ True	☐ False
3.	☐ True	☐ False
4.	☐ True	☐ False
5.	☐ True	☐ False
6.	☐ True	☐ False
7.	☐ True	☐ False
8.	☐ True	☐ False
9.	☐ True	☐ False
10.	☐ True	☐ False
11.	☐ True	☐ False
12.	☐ True	☐ False
13.	☐ True	☐ False
14.	☐ True	☐ False
15.	☐ True	☐ False
16.	☐ True	☐ False
17.	☐ True	☐ False
18.	☐ True	☐ False
19.	☐ True	☐ False
20.	☐ True	☐ False

on account of pushed-out adjustments, or perhaps the first-tier partner may be able to push out the audit adjustments through successive tiers of partners that are partnerships. Also, a partnership or LLC agreement may bind the partnership to push out partnership adjustments to reviewed-year partners under the new partnership audit rules. These questions will have to wait for regulations for resolution.

The drafter of a partnership agreement for a partnership that plans to elect out of the new partnership audit rules should consider whether the partnership should make a financial contribution to audit defense and whether partners and the partnership should agree to cooperate with the audited partner in the audit.

A partnership agreement for a partnership that plans to make a push-out election should address: 1) how the partnership will approve the push-out election; 2) funding the audit (including funding after dissolution of the partnership); 3) appointing, removing, and replacing the partnership representative; 4) responsibilities of the partnership representative; 5) limitations and controls on the partnership representative; 6) expenses of the partnership representative; and 7) indemnification of the partnership representative. The partnership agreement also might require partner cooperation with the partnership audit.

Partnership Representative

The partnership acts through its partnership representative. The partnership representative has the sole authority to act on behalf of the partnership in the partnership audit, in particular to enter into agreements with the IRS in connection with the audit.[53] The settlement agreement between the partnership representative and the IRS binds the partnership and the partners.[54]

The partnership representative in theory may be anyone who has "a substantial presence in the United States."[55] While uncertainty exists concerning what this means, the concept presumably will be clarified in regulations. The partnership representative typically will be a managing partner, managing member, general partner, another partner or LLC member, or the LLC manager. The partnership representative also may be a partnership employee. Some partnerships will choose counsel or an accountant as a partnership representative. The partnership also may appoint a professional partnership representative.

The natural selection of partnership representative for many partnerships will be the general partner or managing member. However, passive investors should consider the possibility of conflicts that may develop between partners and the partnership representative. Thus, the general partner or managing member is not necessarily the best choice for partnership representative, although the general partner or managing member should be a common choice.

An LLC manager, an officer, or an employee could serve as the partnership representative. If so, the partnership agreement should impose reasonable controls over the partnership representative so that he or she truly serves the interests of the partnership.

The professional partnership representative may emerge from within the ranks of the partnership. For example, accountants or attorneys may serve as partnership representatives. Serving as partnership representative will create new challenges for accountants and attorneys.

The Internal Revenue Code provides the partnership representative with broad decision-making power.[56] Moreover, the partnership representative is not necessarily a simple agent of the partnership.[57] Yet, for these reasons a partnership representative should confirm that his or her errors and omissions policy will cover the activities performed in this role.

The partnership representative should be someone with integrity who can interact in a professional manner with the IRS and understand the tax laws or should at least have the capacity to learn enough about the tax laws to direct the audit intelligently. The partnership representative also should be someone who will follow directions from the partnership management. In general, because the partnership representative has broad discretion in the partnership audit and subsequent court proceedings, the partnership should select someone who is reliable and able to direct partnership tax litigation as well as possesses the temperament and knowledge to be a successful leader in an audit.

Finally, since partnership audits and subsequent administrative and judicial proceedings can take many years to resolve, the partnership representative should be someone young enough that he or she will be effective through the term of the audit.

A partnership agreement for a partnership that may be subject to IRS audits under the new partnership audit rules should contain provisions that specifically address the partnership representative. In addition to stating the partnership representative's qualifications, these provisions may address rules for the position, including the partnership representative's selection, resignation, removal, and replacement; compensation;[58] powers and limitations on these powers; and the relationship between the partnership representative and partnership management. The partnership agreement also might address management approval of decisions of the partnership representative, preparation and approval of a litigation budget, engagement and supervision of accountants and counsel for the IRS audit, and indemnification of the partnership representative.

Drafters of partnership agreements should also consider a provision that requires the partnership representative to propose audit and litigation strategy guidelines for approval in advance by the partnership management and to undertake the audit and litigation in accordance with those audit and litigation strategy guidelines. The partnership agreement could also provide that the partnership representative must make written filings with the IRS or with a court only after seeking prior review and approval by partnership management.

In addition, the partnership agreement could require that the partnership representative give partnership management prior notice of meetings with or appearances before the IRS or other governmental authorities, court appearances, and filing dates. The partnership agreement could require that the partnership representative make regular and as-needed written and oral reports to partnership management and written reports to the partners on audit status, trial status, legal research, expert reports, witnesses, depositions, electrically stored information issues, discovery assessment, discovery disputes, motions, answers, opening and closing statements, jury instructions, proposed facts and conclusions or law, proposed orders, conduct of the trial or audit, settlement negotiations, settlement conferences, and appeal activity.

The partnership agreement should address how to fund the audit, including after a liquidation of the partnership. The partnership agreement could allocate partnership audit expenses among both reviewed-year partners and adjustment-year partners, and address how the partnership will fund audit expenses and any imputed underpayment. Also important is partner cooperation with partnership audits. A partner otherwise may fail to provide needed information to the partnership during an audit.

A partnership agreement could merely provide that the partnership will elect out of the new partnership audit rules. The partnership agreement also may restrict transfers of partnership interests to qualifying partners who will permit an election out of the new partnership audit rules. Further, this agreement may provide for a partnership call on a transfer of a partnership interest not complying with requirements for permitted transferees, and even provide for forfeiture of the partnership interest transferred in defiance of partnership transfer restrictions. The partnership agreement should also require the partnership and the partner to cooperate with a partner under audit.

The proposed regulations on the new partnership audit rules may not appear for months. However, enough information is currently available that partnership agreement drafters can address partnership agreement provisions to govern partnership audits. Agreeing to these provisions well in advance of 2018 may make it easier for the partners to reach agreement than waiting until an IRS audit has been instituted. ■

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[1] *See* Bipartisan Budget Act, Pub. L. No. 114-74, §1101, 129 Stat. 584 (2015). Section 1101 repeals the current rules governing partnership audits with a new centralized partnership audit regime that, in general, assesses and collects tax at the partnership level. On the new audit provisions generally, *see* New York State Bar Association, Tax Section, Report No. 1347, "Report on the Partnership Audit Rules of the Bipartisan Budget Act of 2015" (May 25, 2016). The prior audit rules are contained in I.R.C. §§6221–55.

[2] References herein to partnerships include LLCs treated as partnerships for federal income tax purposes.

[3] *See* Treas. Inspector Gen'l for Tax Admin., Trends in Compliance Activities Through Fiscal Year 2015, No. 2016-30-073 (Sept. 8, 2015). One in every 196 partnership returns was examined in fiscal year 2015. This table shows the IRS's rate of audit of partnership tax returns:

Fiscal Year	Number of Returns	Percentage of Partnership Audited
2011	13,770	0.42%
2012	16,691	0.48%
2013	14,870	0.42%
2014	15,779	0.36%
2015	19,212	0.40%

[4] *See* Statement of James R. White, Director, Strategic Issues, Government Accounting Office, Large Partnerships: Growing Population and Complexity Hinder Effective Internal Revenue Service Audits, GAO-14-746T, 2014 TNT 141-30 (Jul. 22, 2014); Government Accountability Office, Large Partnerships: With Growing Number of Partnerships, IRS Needs to Improve Audit Efficiency, GAO-14-732, at 19, 2014 TNT 182-27 (Sept. 18, 2014); Government Accountability Office, Partnerships and S Corporations: IRS Needs to Improve Information to Address Tax Noncompliance, GAO-14-453, 2014 TNT 115-47 (May 2014); letter, dated March 19, 2014, from James R. White, Director, Tax Issues, Strategic Issues, Government Accountability Office, to The Honorable Ron Wyden, Chairman, Committee on Finance, United States Senate, The Honorable Carl Levin, Chairman, The Honorable John McCain, Ranking Member, Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, United States Senate, re: Large Partnerships: Characteristics of Population and IRS Audits, GAO-14-379R, 2014 TNT 75-13 (Mar. 19, 2014); written testimony of IRS Commissioner John A. Koskinen before the Senate Finance Committee on IRS Budget and Current Operations, 2016 TNT 28 (Feb. 3, 2015); Department of the Treasury, General Explanations of the Administration's Fiscal Year 2015 Revenue Proposals (Mar. 2014).

[5] These rules are contained in I.R.C. §§6221–35. These provisions were passed as part of the Bipartisan Budget Act of 2015 (H.R. 1315). These rules are based on earlier proposals by Ways and Means Committee Chair Dave Camp included in the Tax Reform Act of 2014 (H.R. 1) and Senator Carl Levin included in the Partnership Auditing Fairness Act (S. 3018). Partnership audit reform proposals were included in the Partnership Audit Simplification Act (H.R. 2821) proposed by Representatives James B. Renacci (R-Ohio) and Ron Kind (D-Wisconsin).

[6] Bipartisan Budget Act of 2015 (Pub. L. No. 114-74) §1101(g) (2015). While the new partnership audit rules generally go into effect in January 2018, the Treasury has published regulations that permit a partnership to elect into the new partnership audit rules prior to the normal effective date in 2018. T.D. 9780, 81 Fed. Reg. 51795-51798 (Aug. 5, 2016).

[7] TEFRA rules are found at I.R.C. §6221-55.

[8] The new partnership audit rules, found in I.R.C. §§6221-35, replace the prior rules under TEFRA found in I.R.C. §§6221-55. Citation to these I.R.C. sections are to the new partnership audit rules except as stated otherwise.

[9] I.R.C. §6221(a).

[10] I.R.C. §6223.

[11] *Id.*

[12] *Id.*

[13] I.R.C. §6223(b)(1).

[14] I.R.C. §6223(b)(2).

[15] I.R.C. §6225.

[16] I.R.C. §6221(b).

[17] I.R.C. §§6221, 6225.

[18] I.R.C. §§6221, 6225, 6226.

[19] I.R.C. §6222(a).

[20] The partner's Schedule K-1 is an information return that the partnership gives the partner each year to report the partner's distributive share of partnership income and loss.

[21] I.R.C. §6222(b).

[22] I.R.C. §6221(c).

[23] I.R.C. §6221(a).

[24] *Id.*

[25] I.R.C. §6225.

[26] I.R.C. §§6225, 6232.

[27] I.R.C. §6225.

[28] I.R.C. §6225(c).

[29] *Id.*

[30] *See id.*

[31] I.R.C. §6225(b)(2).

[32] *Id.*

[33] Treas. Reg. §1.704-1(b)(2)(iv), (3).

[34] I.R.C. §6221(b).

[35] *See* Joint Committee on Taxation, General Explanation of the Revenue Provisions of the Tax Equity and Fiscal Responsibility Act of 1982 (JCS-38-82), at 268 (Dec. 31, 1982).

[36] I.R.C. §6231 (under TEFRA).

[37] I.R.C. §6231(a)(1)(B)(i) (under TEFRA).

[38] Treas. Reg. §301.6231(a)(1)-1(a)(1) (under TEFRA).

[39] I.R.C. §6231(a)(1)(B)(i) (under TEFRA).

[40] I.R.C. §6221(b)(1)(B).

[41] *See* Joint Committee on Taxation, General Explanation of the Revenue Provisions of the Tax Equity and Fiscal Responsibility Act of 1982 (JCS-38-82), at 268 (Dec. 31, 1982).

[42] The partnership is required to furnish 100 or fewer statements under Section 6031(b) to its partners.

[43] I.R.C. §6221(b)(1)(C).

[44] *See* I.R.C. §6221(b)(2)(C).

[45] I.R.C. §6221(b)(1)(D)

[46] *Id.*

[47] *See* I.R.C. §6226.

[48] I.R.C. §6226(a)(1).

[49] I.R.C. §6226(a)(2).

[50] I.R.C. §6226(b)(1).

[51] I.R.C. §6226(a)(2).

[52] I.R.C. §6226(b).

[53] I.R.C. §6223.

[54] *Id.*

[55] I.R.C. §6223(a).

[56] I.R.C. §6223(b)(1).

[57] *See id.*

[58] The new partnership audit rules do not address compensation of the partnership agreement.