



has your partnership or llc agreement been updated to comply with the new tax rules?

January 17, 2018

The new partnership audit rules substantially change the audit procedures for partnerships (including multi-member LLCs) and may require that you update certain provisions within your partnership or LLC agreement to maintain compliance.

In partnership audits, the IRS has historically adjusted the returns of partners, rather than the partnership, because partnerships do not actually pay an entity level tax but pass through their income and losses to the partners. The Bipartisan Budget Act of 2015 (the "Act") substantially changed these rules for partnerships with tax years beginning after December 31, 2017.

Under the Act, the IRS will examine partnerships and make any adjustments at the partnership level in the year that the audit is completed rather than the year under review. The partnership will pay the tax, interest and penalties on any underpayments at the highest statutory rate for each partner's distributive share of the underpayment (i.e., the highest corporate rate for corporate partners and the highest individual rate for individuals). This change in the rule shifts the cost of the adjustment to the partners holding a partnership interest at the time of the audit rather than those partners who held a partnership interest in the year of underpayment.

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