



November 20, 2019

Ms. Holly Porter
Associate Chief Counsel
Passthrough & Special Industries
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Ms. Holly Paz
Director
Pass Through Entities Practice Area
Internal Revenue Service
999 North Capitol Street, NE
Washington, DC 20003

Re: Suggestions on Draft Form 1065, U.S. Return of Partnership Income, Draft Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc., and **Related Instructions**

Dear Ms. Porter and Ms. Paz:

The American Institute of CPAs (AICPA) is pleased to submit suggestions on draft Form 1065, *U.S. Return of Partnership Income*, draft Schedule K-1 (Form 1065), *Partner's Share of Income, Deductions, Credits, etc.*, and related instructions. Our suggestions include comments and recommendations for your consideration as you work to update and finalize the 2019 Form 1065, Schedule K-1 (Form 1065) and instructions.

The AICPA is the world's largest member association representing the accounting profession, with more than 429,000 members in the United States and worldwide, and a history of serving the public interest since 1887. Our members advise clients on federal, state and international tax matters and prepare income and other tax returns for millions of Americans. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America's largest businesses.

We appreciate your consideration of our suggestions and welcome the opportunity to further discuss our comments. If you have any questions, please contact Sarah E. Allen-Anthony, Chair, AICPA Partnership Taxation Resource Panel, at (574) 235-6818, or Sarah.Allen-Anthony@crowe.com; Melanie Lauridsen, Senior Manager – AICPA Tax Policy & Advocacy, at 202-434-9235, or Melanie.Lauridsen@aicpa-cima.com; or me at (612) 397-3071, or Chris.Hesse@CLAconnect.com.

Sincerely,

A handwritten signature in blue ink that reads "Christopher W. Hesse".

Christopher W. Hesse, CPA
Chair, AICPA Tax Executive Committee

cc: Sam Starr, Special Counsel, Passthrough & Special Industries, Internal Revenue Service
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AMERICAN INSTITUTE OF CPAs

Suggestions on Draft Form 1065, Draft Schedule K-1 and Related Instructions

November 20, 2019

Tax Basis Capital Accounts

1. Delay reporting requirements for one year.
 - Allows resolution of many of the open definitional issues and enables taxpayers sufficient lead time to collect and calculate the required information.
 - The IRS would still receive the ending 2019 tax basis capital accounts reported as the beginning amounts on the 2020 tax year returns.
2. Provide a specific definition regarding what is required to be reported as tax basis capital.
 - For example, is tax basis capital intended to represent each partner's inside tax basis capital, or is it intended to be used in determining each partner's outside tax basis?
 - Provide specific examples – helpful to taxpayers, particularly in areas where it may be unclear (e.g., do we include section 734 or section 743 adjustments, transfers of partnership interests, etc.).
3. Provide a simplified alternative calculation to alleviate the need for taxpayers to look back through the history of the partnership to construct tax basis capital accounts.
 - Should allow a partnership to calculate tax basis capital accounts based on information known to the partnership itself.
 - For example, an approach similar to the previously taxed capital concept included in Treas. Reg. § 1.743-1(d) may be reasonable.

New Section 704(c) Reporting

4. Delay reporting requirements for one year.
 - The IRS would still receive the ending 2019 net unrecognized section 704(c) reported as the beginning amounts on the 2020 tax year returns.
5. Provide instructions for Item N of the draft Schedule K-1.
6. Provide further details in the instructions for Line 20AA, including further definition as to the meaning of “net section 704(c) adjustment.” This term is not defined in Treas. Reg. § 1.704-3.
7. Provide examples for the required reporting on Item N and Line 20AA.
 - Examples should show how a contributor and non-contributor would report the impact of section 704(c).
 - Examples should contemplate more than one layer as well as reverse section 704(c) layers.

New Disregarded Entity (DRE) Reporting

8. Provide clarification for situations in which a partner owns interests in a partnership through multiple DREs, or owns interests in a partnership both directly and indirectly through a DRE.
 - For example, clarify if the partnership should issue separate Schedules K-1 to each DRE, even though there is a single taxpayer.

Form 1065, Schedule B, Question 4

9. Increase dollar amounts to match the requirements for Schedule M-3 (Form 1065) (i.e., total assets of \$10 million or more or total receipts of \$35 million or more).
10. Clarify that if a partnership meets the stated requirements (total assets of \$10 million or more or total receipts of \$35 million or more), the partnership is also exempt from the new section 704(c) reporting requirements.
 - Update the instructions and Form 1065 to include Item N and Line 20AA and clarify that these items are not required for taxpayers meeting the requirements of Question 4.
 - Currently, the Form 1065 and instructions only list Schedules L, M-1 and M-2, item F on page 1 and item L on Schedule K-1.

Section 743(b) Reporting Requirements

11. Refine the instructions for Line 11F and Line 13V to show consistency.
 - Clarify if the current year taxable income impact of section 743(b) adjustments is reported item-by-item or in total.
 - Clarify if the intention is to report the positive and negative section 743(b) adjustment as a single net number on Line 11F or Line 13V.
 - Alternatively, should taxpayers report all of the positives on Line 11F and negatives on Line 13V?
 - Provide examples for the section 743(b) reporting, including how to report when there are multiple section 743(b) adjustments.
 - Currently, the instructions require a statement showing the assets to which the section 743(b) income or gain item relates and the computations of your net section 743(b) basis adjustment on line 20.
 - Clarify if the intention of the current requirement for a statement is to achieve consistency with the information required when a section 743(b) adjustment is calculated as outlined in Treas. Reg. § 1.743-1(k).
12. Provide details in the instructions for Line 20AH for the section 743(b) requirement referenced in the “What’s New” section of draft Form 1065 Instructions.
 - Clarify and provide examples of what information is required to be reported.
 - Clarify the meaning of “net section 743(b) adjustment.” This term is not defined in Treas. Reg. § 1.743.
 - Explain the requirement to include a statement showing how the net section 743(b) basis adjustment is computed.

13. Provide overall examples with multiple section 743(b) adjustments, both positive and negative, along with all required reporting on Lines 11F, 13V and 20AH.

Other Issues

14. Clarify the draft Schedule K-1 Instructions on page 1, under “Errors,” that instructs a partner to ask the partnership for corrected Schedules K-1, to indicate that this instruction is only if the partnership has elected out of the Bipartisan Budget Act of 2015 (BBA).
15. Update Form 1065 and Schedule K-1 to include a check box indicating that the partnership has elected out of the BBA for the year.
16. Clarify the instructions to Form 1065 to show that amended returns should only be filed by partnerships that have elected out of the BBA.
17. Update the instructions to Schedule M-2 to allow for GAAP basis reporting in order to tie to Schedule L in most circumstances.
 - Currently, the instructions require either tax basis or section 704(b) reporting.
 - If GAAP basis reporting is not allowed, a reconciliation is required to tie Schedule L, Schedule M-2 and partner capital (unless all items are reported on a tax basis).
18. Provide guidance for the appropriate manner to report when a partnership, within the same tax year, is considered to be continuing, however, obtains a new name and employer identification number (EIN).
 - For example, what is the proper reporting of the new name and EIN on Form 1065 with respect to the facts presented in CCA 201315026?