

MEMO# 29193

July 24, 2015

Conference Call to Discuss Partnership Audit Reform Bill -- July 30 at 2:00 p.m. ET

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TO: TAX COMMITTEE No. 27-15 RE: CONFERENCE CALL TO DISCUSS PARTNERSHIP AUDIT REFORM BILL - JULY 30 AT 2:00 P.M. ET

A bill recently was introduced in the House of Representatives that would reform the rules for auditing partnerships. [H.R. 2821](#), "The Partnership Audit Simplification Act of 2015," would repeal the TEFRA partnership audit rules in Chapter 63 and the Electing Large Partnership rules in Subchapter K and replace them with a single, simplified regime. [\[1\]](#) In essence, any adjustments for a partnership tax year would be taken into account by the partnership (not the individual partners) in the year that the audit was completed.

H.R. 2821 would make two significant changes to current law that could affect mutual funds that invest in master limited partnerships ("MLPs") or other partnerships. First, because the bill would hold the partnership liable for any tax adjustments in the year of audit, any partners in the partnership at that time would be liable for the adjustments, regardless of whether a partner was in the partnership in the year to which the tax liabilities relate. Thus, a mutual fund that is a partner in a partnership could be liable for taxes that arose from a prior year in which the fund was not a partner.

Second, the bill would provide for joint and several liability for all of the partners in the partnership for any assessed amounts. This provision thus would allow the Internal Revenue Service ("IRS") to hold a fund liable for all of the partnership tax liability, not just the fund's proportionate share.

H.R. 2821 would allow for partnerships with 100 or fewer partners to elect out of this new regime. To qualify for this election, all of the partners must be individuals or C corporations other than regulated investment companies ("RICs") or real estate investment trusts ("REITs"). Thus, if a RIC is a partner in a partnership with 100 or fewer partners, the partnership would not be able to opt out of the new audit regime.

We will have a conference call on Thursday, July 30, 2015, at 2:00 p.m. ET, to discuss the bill and its ramifications for mutual funds. The dial-in number for the call is 800-369-2022

and the passcode is 44047. Ezella Wynn will send a calendar invitation for the call; if you wish to participate in the call, simply accept the invitation. If you do not receive the invitation, please contact Ms. Wynn directly (202-218-3560 or ewynn@ici.org).

Karen Lau Gibian
Associate General Counsel

endnotes

[1] Similar provisions also were included in Chairman Dave Camp's tax reform bill that was introduced last year ([section 3622](#) of the bill; the Joint Committee on Taxation's explanation can be found [here](#) at page 388) and in the [Administration's Budget Proposal for Fiscal Year 2016](#) (page 234).

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