



Private equity

New centralized IRS partnership audit regime begins January 1, 2018

New proposed regulations issued June 14, 2017 apply to all partnerships required to file a U.S. tax return. IRS focus on pass-thru entities continues to increase.

Potential impact of the new regime

Effective tax years beginning January 1, 2018, a centralized IRS partnership audit regime will significantly transform partnership audits and the assessment and collection of tax from partnerships. The new regime:

- Applies to all partnerships regardless of the number of partners
- Imposes an entity level tax at a potential 39.6% tax rate
- Replaces the Tax Matters Partner (TMP) with a Partnership Representative who has exclusive broad-ranging authority over the partnership and its partners.

Significance to our clients today

By subjecting partnerships to a potential 39.6% tax rate, entities may be in a worse position under the new regime than if taxes were paid at the investor level. The new regime potentially impacts:

- The ability to attract investors
- An entity's cash management position
- Capital accounts, special allocations, and basis and valuation determinations

Elimination of the TMP for a Partnership Representative with sole authority to bind the partnership and its partners makes updates to partnership agreements a critical component of client readiness for the new centralized regime.

How KPMG can help



Identification & pre-regime planning

- Evaluate tax positions in open tax years. Consider potential impact to capital accounts, special allocations, inside and outside basis and valuation determinations
- Assist with updating partnership agreements to designate a Partnership Representative and define regime protocol
- Establish a document management system to assist with Imputed Underpayment Amount (IUA) modification requests
- Consider potential financial reporting & state tax return implications



Beginning January 1, 2018

- Is the partnership eligible to elect out of the new regime?
 - Timely election, disclosure of partner information to IRS, and partner notification
- IRS exam representation & planning consultation
- Modeling—Partnership “Pay” vs “Push” scenarios (including calculation of additional 2% interest toll)
 - If Partnership Pays—prepare timely IUA modification requests
 - If Partnership Pushes—prepare timely election and related statements for both reviewed year partners and IRS
- Amendments to partnership returns (AARs) including IUA modification requests and preparation of timely push out elections and related statements

KPMG is a market leader, providing professional services to 90% of the top ten private equity firms in the U.S.¹



Of the top ten private equity firms, we provide¹:

Audit services to

20%

Advisory services to

90%

Tax services to

90%

Professional services to

90%

¹ Private Equity International Magazine, May 2016, Ranked by: PEI 300 Five-Year Fundraising

Why KPMG?

- KPMG's Private Equity practice is a cross functional team of 1,500 professionals, including 250 partners, focused on serving private equity firms and their portfolio companies. Through rigorous strategic analysis, ongoing discussions with clients, and frequent dialogue with regulators and policy boards, we stay well informed of the dynamic nature of the private equity industry and its enormous growth potential.
- KPMG's Tax Controversy Services practice is comprised of a team of experienced tax controversy specialists, including former IRS Chief Counsel litigators, U.S. Tax Court clerks and law firm professionals, with expertise in proactively addressing issues that may impact the private equity industry.
- Our Washington National Tax team consists of attorneys with both private sector and government experience.

Contact us



Miri Forster
Principal, Tax Controversy Services
T: 973-315-2631
E: mcforster@kpmg.com



Harve Lewis
Director, Practice, Procedure & Administration, Washington National Tax
T: 202-533-6024
E: harvelewis@kpmg.com



Debbie Fields
Partner-in-Charge, Passthroughs Group, Washington National Tax
T: 201-307-7713
E: dafields@kpmg.com



Ossie Borosh
Principal, Passthroughs Group, Washington National Tax
T: 202-533-5648
E: oborosh@kpmg.com

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