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Penalties are determined at the partnership level but the underpayment is not. See [Stobie Creek](#). We just determine in the TEFRA proceeding that the penalty applies to the partners based on the partnership's negligence, overvaluation of a partnership asset, etc. No actual computation of the penalty is done at the partnership level. Id. The TEFRA decision just states that the penalty shall apply to any underpayment of tax attributable to the partnership item adjustments. The penalty is then computed by the Service after the partnership proceeding is completed and assessed against the partner as a computational adjustment. See the recent 7th Circuit opinion on this issue in [Desmet/Domuliewicz](#). Call me if you want to discuss.