

ID: CCA_2023071909112214

[Third Party Communication:

UILC: 6225.01-00

Date of Communication: Month DD, YYYY]

Number: **202444004**

Release Date: 11/1/2024

From: [REDACTED]

Sent: Wednesday, July 19, 2023 9:11:23 AM

To: [REDACTED]

Cc: [REDACTED]

Bcc: [REDACTED]

Subject: RE: - BBA Adjustment vs. Push-Out Adjustment

Hi [REDACTED],

My response to your question is below. Please let me know if you have any questions.

Issue

Whether a deemed distribution resulting from a partnership level adjustment is a BBA adjustment.

Facts

is a BBA partnership with two 50/50 partners, Partner A and Partner B. The year under audit is 2020. The partnership has approximately \$5M in loans that it allocated 50/50 between the two partners on the Form 1065 and the Schedule K-1s. This loan originated as money lent by Partner A to the partnership. There is no documentation for the loan. Exam wants to reallocate this loan 100% to Partner A, which under section 752(b), would result in a deemed distribution to Partner B.

Law

Section 6241(2)(A) defines a partnership adjustment as any adjustment to a partnership-related item (PRI). A PRI is any item or amount with respect to the partnership that is relevant in determining the tax liability of any person under chapter 1 and any partner's distributive share. IRC § 6241(2)(B); Treas. Reg. § 301.6241-1(a)(6)(v). There are two types of adjustments to PRIs: negative and positive. Treas. Reg. § 301.6225-1(d)(2). Adjustments to non-income items (e.g., assets and liabilities) are positive adjustments. Treas. Reg. § 301.6225-1(d)(2)(iii). A net positive adjustment results in an imputed underpayment (IU). See Treas. Reg. § 301.6225-1(c)(4). Solely for purposes of calculating the IU, the IRS may treat an adjustment as zero, if the effect of the adjustment is already reflected in one or more other adjustments. See Treas. Reg. § 301.6225-1(b)(4). Any adjustment that allocates or reallocates a PRI to and from a particular partner or partners is a reallocation adjustment. Treas. Reg. § 301.6225-1(c)(2).

Conclusion

The deemed distribution attributable to Partner B is not a PRI (i.e., it is not an amount that would be reported on the Form 1065). Therefore, it is not an adjustment under BBA and not included in the IU calculation. However, Exam may make the reallocation adjustment so that the \$5M loan is allocated 100% to Partner A. The reallocation results in two adjustments of \$2,500,000 (see table below). Because the adjustments are to non-income items (i.e., a loan), both adjustments are positive adjustments. This results in an IU of \$1,850,000 (applying the highest tax rate in tax year 2020). If the IRS were to treat one of the adjustments as zero, the IU would be \$925,000 (adjustment of 2,500,000 multiplied by the highest tax rate of 37%).

\$5M Loan	Partner A	Partner B
2020 Return	2,500,000	2,500,000
Reallocation Adjustments	2,500,000	(2,500,000)
2020 Adjusted Return	5,000,000	0

Imputed Underpayment Calculation	
Partner A's Adjustment	2,500,000
Partner B's Adjustment	2,500,000
Total Adjustment	5,000,000
Highest Tax Rate	37%
Imputed Underpayment	\$1,850,000

Thanks,
Nikki

Nikki S. Bossert (she/her)
Attorney, CC:PA:7
(202) 317-5185
Nikki.S.Bossert@irs.counsel.treas.gov