

Instructions for Form 1065-X



Department of the Treasury
Internal Revenue Service

(Rev. December 2022)

Amended Return or Administrative Adjustment Request (AAR)

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Section references are to the Internal Revenue Code unless otherwise noted.

What's New

For tax years beginning on or after January 1, 2021, use the most recent version of the Form 1065-X. For tax years beginning prior to January 1, 2021, use the September 2018 version of the Form 1065-X available at [IRS.gov/pub/irs-prior/f1065x--2018.pdf](https://www.irs.gov/pub/irs-prior/f1065x--2018.pdf).

For tax years beginning on or after January 1, 2021, filers of Form 1065-X may need to include amended Schedules K-2 and K-3 (Form 1065). See [Amended Schedules K-2 and K-3 for Tax Years Beginning on or After January 1, 2021](#), later.

Future Developments

For the latest information about developments related to Form 1065-X and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form1065X](https://www.irs.gov/Form1065X).

Reminders

The Bipartisan Budget Act of 2015 (BBA) created a new centralized partnership audit regime generally effective for partnership tax years beginning after 2017.

The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) generally applied to tax years beginning before 2018. BBA repealed TEFRA and the electing large partnership (ELP)

rules. Consequently, former ELPs are now treated as other partnerships under the BBA regime.

Election into BBA for tax years beginning before 2018. A partnership may make an election into the centralized partnership audit regime for tax years that begin after November 2, 2015, and before January 1, 2018, by filing an AAR. Refer to Regulations section 301.9100-22 for detailed information. If the AAR is filed on paper, the partnership uses Form 1065-X and must make the election in accordance with section 1101(g)(4) of BBA.

Note. An AAR filed with respect to a 2018 short tax period return by a partnership that is subject to the centralized partnership audit regime must meet the requirements under section 6227.

Making the election for eligible tax years on an AAR filed on paper. To make the election, the partnership must write across the top of Form 1065-X used to file the AAR, "Election under Section 1101(g)(4)" and attach a statement to the AAR. For the statement requirement, the partnership can use Form 7036, Election Under Section 1101(g)(4) of the Bipartisan Budget Act of 2015. If Form 7036 is not used, the partnership may prepare its own statement with the following information.

- The partnership's name, taxpayer identification number (TIN), and the partnership tax year for which the election is being made.
- The name, TIN, address, and daytime telephone number of the individual who signs the statement.
- Language indicating that the partnership is electing application of section 1101(c) of BBA for the partnership return for the eligible tax year.
- The information required to properly designate the partnership representative, as defined by section 6223, which must include the name, TIN, address, and daytime telephone number of the partnership representative (PR).

The following representations must be made with regard to the statement attached to the election.

- The partnership is not insolvent and does not reasonably anticipate becoming insolvent before resolution of any adjustment with respect to the partnership tax year for which the election is being made.
- The partnership has not voluntarily filed, and does not reasonably anticipate filing, a petition for relief under title 11 of the United States Code.
- The partnership is not subject to, and does not reasonably anticipate becoming subject to, an involuntary petition for relief under title 11 of the United States Code.
- The partnership has sufficient assets, and reasonably anticipates having sufficient assets, to pay a potential imputed underpayment (IU) with respect to the partnership tax year that may be determined under subchapter C of chapter 63 of the Internal Revenue Code, as amended by BBA.
- A representation, signed under penalties of perjury, that the individual signing the statement is duly authorized to make the election described in Regulations section 301.9100-22 and that, to the best of the individual's knowledge and belief, all of the information contained in the statement is true, correct, and complete.

The statement must be signed and dated by the tax matters partner, as defined under section 6231(a)(7) (prior to amendment by BBA), and the applicable regulations, or an

individual who has the authority to sign the partnership return for the tax year. The fact that an individual dates and signs the statement making the election shall be prima facie evidence that the individual is authorized to make the election on behalf of the partnership.

Increased research credit reported by a BBA partnership.

If an increased research credit is reported by a BBA partnership, the BBA partnership does not file an amended return. Instead, the BBA partnership must file an AAR and attach the following five items of information to that AAR.

1. Identify all the business components to which the section 41 research credit relates for that tax year.
2. For each business component, identify all research activities performed.
3. Name the individuals who performed each research activity.
4. The information each individual sought to discover.
5. The total qualified employee wage expenses, total qualified supply expenses, and total qualified contract research expenses for the claim year. This may be done using Form 6765, Credit for Increasing Research Activities.

As part of the AAR process, the BBA partnership will also submit Forms 8985 and 8986 to the IRS and send Forms 8986 to its partners. The BBA partnership is not required to provide the five items of information again on the Forms 8985 and 8986. The BBA partners do not need to attach the five items of information to their original returns to which their Forms 8986 are attached. For more information, see Research Credit Claims (Section 41) on Amended Returns Frequently Asked Questions at [IRS.gov/businesses/corporations/research-credit-claims-section-41FAQ](https://www.irs.gov/businesses/corporations/research-credit-claims-section-41FAQ).

Note. Unless otherwise noted, references to sections 6221 through 6241 are to Internal Revenue Code sections, as amended by BBA.

Purpose of Form

Use Form 1065-X, if you are not filing electronically, to:

- Correct items on a previously filed Form 1065, Form 1065-B, or Form 1066;
- Make an AAR for a previously filed Form 1065, Form 1065-B, or Form 1066; or
- File an amended return by a partnership-partner of a BBA partnership as part of the modification process of a BBA proceeding with respect to that BBA partnership.

Form 1065-X cannot be used to file a notice of inconsistent treatment under section 6222 (TEFRA or BBA) or a partner-level AAR under section 6227(d) (under TEFRA proceedings). For a definition of TEFRA proceedings, see *Definitions*, later. Continue to use Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR), to make those changes.

Bipartisan Budget Act (BBA). All partnerships with tax years beginning after 2017 are subject to the centralized partnership audit regime unless eligible partnerships elect out by making a valid election under section 6221(b). For purposes of these instructions (unless otherwise noted), the centralized partnership audit regime proceedings under sections 6221 through 6241 will be referred to as “BBA proceedings.”

If you are a nonTEFRA partnership (see *Definitions* and items B and C in Part I, Section 1, later) or a nonBBA partnership (defined under *Definitions*, later) filing an amended return electronically, use Form 1065 and see the related instructions. If you are not filing electronically, use Form 1065-X.

Form 1065-X should only be used to make a paper filing. For electronic filing, use Form 8082 in conjunction with Form 1065 or 1065-B, as applicable.

Generally, the criteria used to determine whether the original Form 1065 or Form 1065-B is required to be filed electronically are also used to determine if the amended return or AAR must be filed electronically.

For information regarding when Form 1065 is required to be filed electronically, and how to electronically file an amended return or AAR for a partnership, see the Instructions for Form 1065.

For information regarding when Form 1065-B is required to be filed electronically, and how to file an AAR for an ELP, see the Instructions for Form 1065-B.

Who Must File

Amended return. Partnerships and real estate mortgage investment conduits (REMICs) that become aware of incorrect items of income, deductions, etc., use Form 1065-X to correct their previously filed partnership or REMIC return. See [Specific Instructions](#), later, for information on completing Form 1065-X as an amended return.

AAR-Partnerships (except ELPs). Partnerships that are subject to either BBA or TEFRA proceedings use Form 1065-X to file for an AAR. See [Specific Instructions](#), later, for information on completing Form 1065-X as an AAR.

Protective TEFRA AARs. Generally, a protective AAR is a request for credit or refund based on current litigation or expected changes in tax law or other legislation. The tax matters partner (TMP) or partner with authority (PWA) files a protective AAR when the right to a refund is contingent on future events and may not be determinable until after the period for filing an AAR has expired. Protective AARs are subject to AAR statutes set forth in sections 6227, 6228, and 6229 (prior to amendment by BBA). If you are a TMP filing on behalf of the partnership, the petition period described in section 6228 (prior to amendment by BBA) can be extended by using Form 9248, Agreement to Extend the Time to File a Petition for Adjustment by the Tax Matters Partner With Respect to Partnership Items. A protective AAR must clearly state that it is a protective AAR, alert the IRS to the essential nature of the adjustment, and specify the line item to be protected.

AAR under BBA. File Form 1065-X if you are the PR or designated individual (DI) requesting an administrative adjustment to correct a previously filed partnership return on behalf of the BBA partnership.

AAR-ELPs. ELPs that are not required to electronically file Form 1065-B and need to correct errors on a previously filed Form 1065-B use Form 1065-X to file for an AAR. See [Specific Instructions](#), later, for information on completing Form 1065-X as an AAR.

AAR-REMICs. REMICs that do not meet the small REMIC exception under sections 860F(e) and 6231 (prior to amendment by BBA), and related regulations, or make the election described in section 6231(a)(1)(B)(ii) (prior to amendment by BBA) not to be treated as a small REMIC, use Form 1065-X to file for an AAR. See [Specific Instructions](#), later, for information on completing Form 1065-X as an AAR.



When a partnership's or REMIC's federal return is changed for any reason, it may affect its state return. For more information, contact the state tax agency with which the state return is filed.

When To File

Generally, a pass-through entity may file an amended return or AAR to change items on its return:

- Within 3 years after the later of the date on which the partnership return for that year is filed, or the last day for filing the partnership return for that year (excluding extensions); and
- In the case of a TEFRA partnership or REMIC, before a notice of final partnership administrative adjustment for that year is mailed to the TMP or Tax Matters Person, or, in the case of an ELP, before the mailing to the partnership of a notice of partnership administrative adjustment with respect to that year;
- In the case of a BBA partnership, before a notice of an administrative proceeding with respect to the tax year is mailed under section 6231; or
- In the case of a partnership that is a partner in a BBA partnership which is filing an amended return for purposes of BBA partnership modification under section 6225(c)(2), in the time period specified under section 6225(c).

What To Attach

If the corrected amount involves an item that must be supported with a schedule, statement, or form, attach the appropriate schedule, statement, or form to Form 1065-X. Include the entity's name and employer identification number (EIN) on any attachments. See the instructions for Form 1065, 1065-B, or 1066 (as applicable) for a list of forms that may be required.

If the attachments needed to support the corrected amount include copies of forms or schedules from previously filed tax returns, write at the top of each previously filed form or schedule, "Copy Only—Do Not Process."

A BBA partnership must attach a schedule to Form 1065-X that supports the position(s) reported. If the partnership does not make the election under section 6227(b)(2) to have the adjustments taken into account by the reviewed year partners and would like to modify per section 6227(b)(1), it must attach Form 8980, Partnership Request for Modification of Imputed Underpayments Under IRC Section 6225(c), to support any modifications made to the IU, as described in sections 6225(b) and 6225(c), and as applied to a BBA AAR under section 6227(b)(1). See *Modifications to an Imputed Underpayment Included in an Administrative Adjustment Request* in the Instructions for Form 8980, (Pub. 5346).

In addition, if the ELP or REMIC requests that the IRS electronically deposit a refund of \$1 million or more, attach Form 8302, Electronic Deposit of Tax Refund of \$1 Million or More.

Who Must Sign

NonTEFRA and nonBBA partnerships. Any partner or limited liability company (LLC) member must sign the return. Form 1065-X is not considered to be a return unless it is signed. When a return is made for a partnership by a receiver, trustee, or assignee, the fiduciary must sign the return instead of the partner or LLC member. Returns and forms signed by a receiver or trustee in bankruptcy on behalf of a partnership must be accompanied by a copy of the order or instructions of the court authorizing the signing of the return or form.

BBA partnerships. The PR or DI, if applicable, must sign the Form 1065-X. See [Partnership representative \(PR\)](#), later, for the definition of a PR.

TEFRA partnerships. The TMP must sign the Form 1065-X. See [Tax matters partner \(TMP\)](#), later, for the definition of a TMP.

ELPs. The PWA must sign the Form 1065-X. See [Partner with authority \(PWA\)](#), later, for the definition of a PWA.

REMICs with a startup day after November 9, 1988. For these REMICs, Form 1065-X may be signed by any person who

could sign the return of the entity in the absence of the REMIC election. Thus, the return of a REMIC that is a corporation or trust would be signed by a corporate officer or a trustee, respectively. For REMICs with only segregated pools of assets, the return would be signed by any person who could sign the return of the entity owning the assets of the REMIC under applicable state law.

REMICs with a startup day before November 10, 1988.

These REMICs may elect to apply the rules for REMICs with a startup day after November 9, 1988 (as described in Regulations section 1.860F-4(c)(2)(iii)). Otherwise, Form 1066 must be signed by a residual interest holder or, as provided in section 6903, by a fiduciary, as defined in section 7701(a)(6), who is acting for the REMIC and who has furnished adequate notice, as described in Regulations section 301.6903-1(b).

In the prior paragraph, the term "startup day" means any day selected by a REMIC that is on or before the first day on which interests in such REMIC are issued. Otherwise, the startup day is the day on which the REMIC issued all of its regular and residual interests. However, a sponsor may contribute property to a REMIC in exchange for regular and residual interests over any period of 10 consecutive days and the REMIC may designate any one of those 10 days as the startup day. The day so designated is then the startup day, and all interests are treated as issued on that day.

Where To File

Form 1065-X must be filed with the service center where the original return was filed.

Definitions

TEFRA partnership. The consolidated audit proceedings of sections 6221 through 6234 (prior to amendment by BBA) are "TEFRA proceedings" and partnerships that are subject to TEFRA proceedings are "TEFRA partnerships." An AAR filed by the TMP of the TEFRA partnership is a TEFRA AAR. Any partner in a TEFRA partnership may file an AAR using Form 8082. TEFRA proceedings will not apply to partnerships with tax years beginning after 2017. A partnership with a tax year beginning before 2018 that is not subject to TEFRA proceedings is a "nonTEFRA partnership."

Pass-through entity. A partnership (including an ELP), S corporation, estate, trust, or REMIC.

Item. Any item of a partnership, S corporation, estate, trust, or REMIC required to be taken into account for the pass-through entity's tax year by the partners, shareholders, beneficiaries, owners, or residual interest holders of that pass-through entity.

Tax matters partner (TMP). If the partnership is subject to the TEFRA procedures, it can designate a partner as the TMP for the tax year for which the return is filed. The TMP is a general partner (in most cases, the TMP must also be a U.S. person) designated by the partnership to represent the partners in the consolidated audit and litigation proceedings under sections 6221 through 6234 prior to amendment by BBA ("TEFRA proceedings"). The designation is made by completing the *Designation of Tax Matters Partner* section of Form 1065 used for tax years beginning before 2018. Additionally, a REMIC may designate a tax matters person in the same manner in which a partnership may designate a TMP under Regulations section 301.6231(a)(7)-1. When applying that section, treat all holders of a residual interest in the REMIC as general partners. The designation may be made by completing the *Designation of Tax Matters Person* section of Form 1066 for tax years beginning before 2018.

For an LLC, a member of the LLC is treated as a partner and a member-manager is treated as a general partner. A member-manager is any owner of an interest in the LLC who,

alone or together with others, has continuing exclusive authority to make the management decisions necessary to conduct the business for which the LLC was formed. If there are no elected or designated member-managers, each owner is treated as a member-manager. For details, see Regulations section 301.6231(a)(7)-2.

BBA partnership. A partnership that is subject to the centralized partnership audit regime is a “BBA partnership.” All partnerships with tax years beginning after 2017 are BBA partnerships unless they make a valid election out of the centralized partnership audit regime. A partner in a BBA partnership is a “BBA partner.” An AAR filed by a BBA partnership is a “BBA AAR” and must be filed by the PR.

Partnership representative (PR). If the partnership is subject to the centralized partnership audit regime, section 6223 provides that the partnership must designate a partner or other person with a substantial presence in the United States as the PR who shall have the sole authority to act on behalf of the partnership. If the PR is an entity, the partnership must also appoint a DI to act on behalf of the entity PR. The partnership and all partners are bound by the actions of the PR in dealings with the IRS under BBA.

Partner with authority (PWA). Each ELP must designate a partner (or other person) as the PWA who shall have the sole authority to act on behalf of the partnership. See section 6255(b) (1) (prior to amendment by BBA). If the partnership fails to designate a PWA, the IRS can select any partner to serve as the partner with such authority. The PWA has the authority to file an AAR on behalf of the partnership. The PWA does this by filing Form 1065-X.

NonBBA partnership. Under BBA, certain partnerships with 100 or fewer eligible partners for the tax year can elect out of the centralized partnership audit regime. Additional details regarding the election out of the centralized partnership audit regime can be found in the Instructions for Form 1065. A partnership that elects out of the centralized partnership audit regime is a “nonBBA partnership.”

Partnership-related item (PRI). For BBA partnerships, under section 6241(2)(B), a PRI is any item or amount with respect to the partnership that is relevant in determining the income tax liability of any person, without regard to whether the item or amount appears on the partnership's return. This includes an IU and an item or amount relating to any transaction with, basis in, or liability of the partnership.

Adjustment year. For BBA partnerships, the adjustment year is the partnership tax year in which:

- In the case of an adjustment pursuant to the decision of a court in a proceeding brought under section 6234, such decision becomes final;
- In the case of an AAR under section 6227, such AAR is filed; or
- In any other case, a notice of final partnership adjustment is mailed under section 6231 or, if the partnership waives the restrictions under section 6232(b) (regarding limitations on assessments), the waiver is executed by the IRS.

Reviewed year. For BBA partnerships, the reviewed year is the partnership's tax year to which a partnership adjustment relates.

Reviewed year pass-through partner. For purposes of these instructions, under BBA, a reviewed year pass-through partner is a pass-through entity that held an interest in a BBA partnership at any time during the reviewed year, which is the partnership tax year to which the partnership adjustment relates. For example, if the BBA AAR is filed to make an adjustment to income for the 2022 tax year, 2022 is the reviewed year.

Schedule K-1. Schedule K-1 is the annual schedule reporting the partner's, shareholder's, or beneficiary's share of income, deductions, credits, etc., from a partnership, S corporation, estate, or domestic trust.

Schedule K-2. An extension of Schedule K of Form 1065 used to report items of international tax relevance from the operation of a partnership.

Schedule K-3. An extension of Schedule K-1 of Form 1065 generally used to report to partners their share of the items reported on Schedule K-2.

Schedule Q. Schedule Q is the quarterly schedule reporting the residual interest holder's share of taxable income or net loss from the REMIC.

Paid Preparer's Information

If a partner or an employee of the partnership or REMIC completes Form 1065-X, the “Paid Preparer Use Only” section should remain blank. In addition, anyone who prepares Form 1065-X but does not charge the partnership or REMIC should not complete this section.

Generally, anyone who is paid to prepare Form 1065-X must do the following.

- Sign the return in the space provided for the preparer's signature.
- Fill in the other blanks in the “Paid Preparer Use Only” area of the return. A paid preparer cannot use a social security number in the “Paid Preparer Use Only” box. The paid preparer must use a preparer tax identification number (PTIN).
- Give the partnership or REMIC a copy of the return in addition to the copy to be filed with the IRS.

Note. A paid preparer may sign original or amended returns by rubber stamp, mechanical device, or computer software program.

Interest and Penalties

Interest. Generally, interest is charged on taxes not paid by the due date, even if an extension of time to file is granted. Interest is also charged on penalties imposed for negligence, fraud, substantial valuation misstatements, substantial understatements of tax, and reportable transaction understatements. The interest is charged from the due date (including extensions) to the date of payment. The interest charge is figured at a rate determined under section 6621.

Late payment penalty. The penalty for not paying the tax when due is usually $\frac{1}{2}$ of 1% of the unpaid tax for each month or part of a month that the tax remains unpaid. The penalty cannot exceed 25% of the unpaid tax.

Other penalties. Penalties can also be imposed for negligence, substantial understatements of tax, reportable transaction understatements, and fraud. See sections 6662, 6662A, and 6663.

Interest and penalties applicable to IU. Except when the partnership elects to have its partners take into account the adjustments, BBA partnership interest and penalties are the following.

- The interest figured with respect to any IU is the interest which would be determined under chapter 67 for the period beginning on the day after the return due date for the reviewed year and ending on the return due date for the adjustment year, as defined under section 6225(d)(2) or, if earlier, the date the IU is paid.
- Any penalty, addition to tax, or additional amount shall be determined at the partnership level and is applied as if such BBA partnership had been an individual subject to tax under

chapter 1 for the reviewed year and the IU were an actual underpayment (or understatement) for such year for purposes of part II of subchapter A or chapter 68.

Election to apply the alternative to payment of the IU. If the partners must take into account the adjustments because the BBA partnership filed an AAR and there are adjustments that do not result in an IU, or if a BBA partnership elects the alternative to payment of the IU under sections 6227(b)(2) and 6226(c), interest shall be determined:

- At the partner level;
- From the due date of the return for the tax year to which the increase is attributable (determined by taking into account any increases attributable to a change in tax attributes for a tax year under section 6226(b)(2)), until the date of payment; and
- At the section 6621(a)(2) underpayment rate.

Judicial review of an AAR (for returns subject to the TEFRA procedures or ELPs). If the IRS fails to act on an AAR, the TMP or PWA may file a petition for judicial review with the U.S. Tax Court, U.S. Court of Federal Claims, or U.S. District Court. The TMP or PWA must file the petition before the date that is 2 years after the date the TMP or PWA filed the AAR, but not until after the date that is 6 months from the date of such filing. The 2-year period may be extended if the IRS and the TMP or PWA agree in writing. For more details, see sections 6228 (prior to amendment by BBA) and 6252.

Specific Instructions

If, after reading the instructions, you are unable to complete an item in Part I or Part II, enter “See Part V” in the entry space for that item and provide the information there.

Name and Identifying Number

Print or type the legal name of the entity and identifying number on the appropriate lines. Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and the entity has a P.O. box, show the box number instead.

If the entity receives its mail in care of a third party (such as an accountant or attorney), enter on the street address line “C/O” followed by the third party’s name and street address or P.O. box.

If the entity’s address is outside the United States, or its possessions or territories, enter the information on the line for “City or town, state, and ZIP code” in the following order: city, province or state, and foreign country. Follow the foreign country’s practice in placing the postal code in the address. Do not abbreviate the country name.

Part I. Check the Appropriate Box

An AAR can be filed by a partnership subject to TEFRA proceedings (TEFRA AAR), a partnership subject to BBA proceedings (BBA AAR), an ELP, and a REMIC.

If you are a BBA partnership that has received a notice of administrative proceeding, you may not file an AAR. Also, a partner may not file an AAR on behalf of the BBA partnership in which it is a partner unless doing so in its capacity as the PR for that partnership.

An AAR can also be filed by the following partners.

- Partners of a TEFRA partnership.
- Residual interest holders.
- Partnerships (but only for purposes of providing notice of inconsistent treatment with the AAR). See Regulations section 301.6227-1(a), referring to Regulations section 301.6222-1. See *Part II*, later.

For partnership tax years beginning before January 1, 2018 (unless electing into BBA).

TEFRA AAR. The consolidated audit proceedings of sections 6221 through 6234 (prior to amendment by BBA) are “TEFRA proceedings” and partnerships that are subject to TEFRA proceedings are “TEFRA partnerships.” An AAR filed by the TMP of the TEFRA partnership is a TEFRA AAR. Form 8082 is also used by any partner in a TEFRA partnership filing an AAR. TEFRA proceedings will not apply to partnerships with tax years beginning after 2017. A partnership with a tax year beginning before 2018 that is not subject to TEFRA proceedings is a “nonTEFRA partnership.”

ELP AAR. The ELP procedures were repealed for tax years beginning after 2017. However, ELPs filing a non-e-filed AAR for a tax year that began before 2018 will use Form 1065-X.

For partnership tax years beginning after 2017 and partnerships electing into BBA for tax years beginning after November 2, 2015, and before January 1, 2018.

BBA AAR. All partnerships with tax years beginning after 2017 are subject to the centralized partnership audit regime unless an eligible partnership makes a valid election under section 6221(b) to elect out of the centralized partnership audit regime. Partnerships electing into BBA for tax years beginning after November 2, 2015, and before January 1, 2018, are also subject to the centralized partnership audit regime. Partnerships that are subject to the centralized partnership audit procedures of sections 6221 through 6241 are “BBA partnerships.” A partnership with a tax year beginning after 2017 that is not subject to BBA proceedings because it has made a valid election under section 6221(b) is a nonBBA partnership. An AAR filed by a BBA partnership is a BBA AAR.

Partnership-partner amended return related to modification of another partnership’s IU. If a partner that is itself a partnership (partnership-partner) is filing an amended return as part of modification of the IU under section 6225(c)(2), check this box.

Section 1—TEFRA/NonTEFRA Determination

Item A

If the answer to item A is “Yes,” the partnership return is not subject to the TEFRA proceedings. You should proceed to item E and check the “Not subject to TEFRA” box.

Items B Through E

These items are used to determine if the partnership is subject to the rules for consolidated audit procedures (TEFRA procedures).

Consolidated REMIC proceedings. Generally, the tax treatment of REMIC items is determined at the REMIC level in a consolidated REMIC proceeding, rather than in separate proceedings with individual residual interest holders. A REMIC subject to consolidated REMIC procedures will have checked the box on item G on page 3 of its original Form 1066 (for tax years beginning before January 1, 2018).

Items B and C

All partnerships with tax years beginning before 2018 (except ELPs) and REMICs **ARE** subject to TEFRA partnership audit procedures unless the partnership or REMIC is subject to the small partnership exception. See section 6231(a)(1)(B) (prior to amendment by BBA).

A small partnership is a partnership with 10 or fewer partners at all times during the year. All partners must be U.S. individuals and their estates, resident alien individuals, or C corporations.

Note. For making the small partnership determination, a husband and wife each having their own partnership interest are

considered one partner. An individual who has passed away during the year and their estate are considered one partner.

Item D

A partnership defined as a small partnership can elect to be treated as a TEFRA partnership for tax years beginning before 2018. The partnership elects TEFRA treatment by attaching a statement to the tax return for the first year they wish the election to be effective. This statement must be signed by all partners. See Regulations section 301.6231(a)(1)-1(b). Form 8893, Election of Partnership Level Tax Treatment, is the statement that can be used to make this election. If you answer "Yes" to item D, also enter the tax year of the filing of this election in the space provided.

Item E

If, at any time during the tax year, there are more than 10 partners or any of the following are partners in the partnership, then the partnership is not a small partnership.

- Another partnership.
- An LLC which files as a partnership or is treated as a disregarded entity.
- Any type of trust, including a grantor trust.
- A nominee.
- A nonresident alien.
- An S corporation.

Table for Determining Which Box To Check in Item E		
IF in item...	The box checked is...	THEN in item E, check...
B	No	Subject to TEFRA.
C	No	Subject to TEFRA.
D	Yes	Subject to TEFRA.
B and C	Yes	Not subject to TEFRA.
D	No	Not subject to TEFRA.

Item F

Check the box to indicate whether you are filing an amended return or an AAR.

Amended Return. Check this box if you checked the "Not subject to TEFRA" box in item E, and you are not an ELP. This means that you are filing a request to correct a previously filed nonTEFRA partnership return or REMIC return.

If your partnership or REMIC return meets the exception under section 860F(e) or section 6231 (prior to amendment by BBA), and does not file an election to be treated as a TEFRA partnership under section 6231(a)(1)(B)(ii) (prior to amendment by BBA), and related regulations, and you received a corrected Form 1099 or are making changes to income, deductions, or credits, but there are no flow-through changes from a TEFRA partnership, then you are filing an amended return. Check the "Amended Return" box.

Administrative Adjustment Request (AAR). Check this box if you are filing a request to correct a previously filed partnership or REMIC return and you are one of the following.

- The TMP of the TEFRA partnership or REMIC. The REMIC must be subject to consolidated REMIC proceedings. For more information on consolidated REMIC proceedings, see the Instructions for Form 1066.
- An ELP correcting a previously filed return.

Item G

A substituted return requests that the treatment of an item shown on the AAR be substituted for the treatment of the item on the pass-through entity's return. If the IRS allows substituted return treatment, the changes shown on the amended return will be treated as corrections of mathematical or clerical errors, and the IRS may assess any resulting tax to the partners or residual interest holders without a deficiency or entity level proceeding. In this case, partners or residual interest holders may file amended returns requesting refunds. See section 6227(c)(1) (prior to amendment by BBA).

If the request is not treated as a substituted return, the partners or residual interest holders may file amended returns requesting refunds. The IRS may conduct an examination of the pass-through entity's return, or take no action on the request. When a request is not treated as a substituted return, the IRS cannot assess tax without a deficiency or entity level proceeding. See section 6227(c)(2) (prior to amendment by BBA).

ELPs. An ELP cannot request substituted treatment. See section 6251(b) (prior to amendment by BBA).

Section 2—BBA AAR

Item A

If the "Yes" box is checked, complete Form 8979 and attach it to the AAR. See the Instructions for Form 8979, Partnership Representative Revocation, Designation, and Resignation, for more information.

Note. If you are a BBA partnership, you may not file an AAR solely for the purpose of changing the PR.

Item B

BBA partnerships filing an AAR will need to determine if the partnership adjustments result in an IU. See [Figuring the Imputed Underpayment \(IU\)](#), later, for information as to how to figure the IU. The BBA partnership should consider all available guidance issued by the IRS in making a determination of whether or not the AAR results in an IU. Also, see [Part IV Imputed Underpayment Under the Centralized Partnership Audit Regime](#), later, for discussion of the IU.

Note. An IU calculation must always be made and presented on the AAR even if that IU results in zero or less than zero, or the adjustments do not result in an IU. For additional information, see [Figuring the Imputed Underpayment \(IU\)](#), later.

Item C

If the adjustments contained in the BBA AAR result in a positive IU, the partnership generally takes the adjustments into account and pays the IU at the time that the AAR is filed. However, under section 6227(b)(2), the partnership can elect to have its reviewed year partners take the adjustments into account. This is an election to push out the adjustments to the partners as an alternative to payment of the IU. See section 6226(a)(2) for details. If this valid election is made, the partnership is no longer liable for the IU, and no payment from the partnership is to be made for the IU. If the adjustments contained in the BBA AAR do not result in a positive IU or the BBA partnership makes a valid election under section 6227(b)(2), the partnership must furnish to each partner of the partnership for the reviewed year a Form 8986, Partner's Share of Adjustment(s) to Partnership-Related Item(s), reflecting the partner's share of the adjustments. The partnership is also required to file with the AAR all Forms 8986 furnished to partners and Form 8985, Pass-Through Statement—Transmittal/Partnership Adjustment Tracking

Report. See the instructions for these forms for further information.

Item D

Each reviewed year partner is required to take into account its share of adjustments requested in a BBA AAR if the partnership adjustments result in an IU and the partnership makes the alternative to payment election discussed under *Item C*, earlier. Additionally, each reviewed year partner is required to take into account its share of any adjustments requested in a BBA AAR that do not result in an IU. The determination of whether or not an adjustment results in an IU amount is discussed under *Item B*, earlier.

The partnership is required to furnish each reviewed year partner with a Form 8986 with its share of the BBA AAR adjustments. The PR must attest to the partnership's compliance with this requirement. The PR will sign the Form 1065-X under item D to declare, under penalties of perjury, that all statements have been provided to the reviewed year partners, as required by these instructions.

Item E

Under section 6227(b)(1), the partnership may modify the IU resulting from adjustments reported in a BBA AAR in accordance with the provisions under section 6225(c), disregarding the provisions under paragraphs (2), (7), and (9). Any modification made to the IU under section 6227(b)(1) must be disclosed and fully explained on Form 8980 included with the AAR.

Note. If the partnership makes an election to push out the adjustments to the partners as an alternative to payment of the IU, the modifications to the IU are disregarded and are not included on the statements provided to the partners.

Section 3—Partnership-Partner Amended Return Filed as Part of Modification of the Imputed Underpayment (IU) During a BBA Audit

Section 6225(c)(2) allows a BBA partnership under examination to request specific types of modifications of an IU proposed by the IRS. One type of modification applies when a partner or indirect partner, including partnership-partners, file an amended return for the tax year of the partner which includes the end of the reviewed year of the BBA partnership under examination. See Part I of Form 8980 and the related instructions.

A BBA partnership under examination will be assigned a unique audit control number. A partnership-partner using a Form 1065-X to file an amended return as part of a modification under section 6225(c)(2) must include in Section 3 of Form 1065-X the name, EIN, reviewed year, and audit control number of the BBA partnership under examination to which the amended return relates. In addition, if the partnership-partner should not furnish amended Schedules K-1/K-3 to its partners, but instead must pay an amount computed like an IU on the adjustments allocable to it, plus any penalties and interest, see [Part IV Imputed Underpayment Under the Centralized Partnership Audit Regime](#), later, for payment instructions.

Part II—Amended or Administrative Adjustment Request (AAR) Items for Partnerships Filing Form 1065 Only (ELPs and REMICs Use Part III)

For information on income, deductions, credits, etc., see the instructions for Form 1065, Schedules K and K-1, for the tax year being amended or otherwise adjusted. See the Instructions for Form 1065 for a list of forms that may be required.

Note. In *Part II* of Form 1065-X, "see instructions" refers to the instructions for Form 1065 and Schedule K-1, not the Instructions for Form 1065-X.

TEFRA partnerships filing AARs. A TEFRA partnership filing an AAR to change items that were reported on its original return must do the following.

1. Determine the required changes to be made.
2. Complete Form 1065-X to identify the changes being made.
 - a. On Form 1065-X, check the "TEFRA AAR" box under Part I.
 - b. See later for how to complete columns (a) through (c) of Part II.
3. Complete Form 1065-X.
 - a. See *Who Must Sign*, earlier, for who must sign the Form 1065-X.
 - b. Attach amended Schedules K-1 showing the corrected amounts for each partner.
4. File Form 1065-X and attach any other supporting documents required.
5. Give a copy of the amended Schedules K-1 to the applicable partners.

TEFRA partner filing an AAR. A partner in a TEFRA partnership that is filing an AAR to change items associated with its investment in the TEFRA partnership that were reported on its original return must do the following.

1. Determine the required changes to be made.
2. Complete Form 1065-X to identify the changes being made.
 - a. On Form 1065-X, check the "TEFRA AAR" box under Part I.
 - b. See below for how to complete columns (a) through (c) of Part II.
3. Complete Form 1065-X.
 - a. See *Who Must Sign*, earlier, for who must sign the Form 1065-X.
 - b. Attach amended Schedules K-1 showing the corrected amounts for each partner.
4. File Form 1065-X and attach any other supporting documents required.
5. Give a copy of the amended Schedules K-1 to any applicable partners.

If you are a TEFRA partnership, the IRS will process Form 1065-X following the guidelines set forth in sections 6227(c)(1) and 6227(c)(2) (prior to amendment by BBA).

BBA partnerships filing AARs. A BBA partnership filing an AAR to change items that were reported on its original return must do the following.

1. Determine the required changes to be made.
2. Complete Form 1065-X to identify the changes being made.
 - a. On Form 1065-X, check the "BBA AAR" box under Part I.
 - b. See later for how to complete columns (a) through (c) of Part II.
3. Figure an IU and determine if there are any adjustments that do not result in an IU.
4. Determine if you will pay the IU or push out the adjustments to the partners.
 - a. If paying an IU, report the IU appropriately in Part IV. Complete Forms 8985 and 8986 (pushout package)

pertaining to the adjustments that do not result in an IU (if applicable).

b. If pushing out all the adjustments to the reviewed year partners, complete Forms 8985 and 8986 (pushout package).

5. File Form 1065-X and attach any other supporting documents required, including copies of Forms 8985 and 8986 (if applicable).

6. If applicable, distribute the Forms 8986 to reviewed year partners according to the Form 8986 instructions.

Column (a). Enter the amounts from Schedule K of Form 1065 as originally filed or as was previously adjusted. If the return was changed or audited by the IRS, enter the amounts as adjusted.

Column (b). Enter the net increase or decrease for each line being changed. Enter as a positive the amount by which column (c) exceeds column (a) or enter as a negative the amount by which column (a) exceeds column (c). Use parentheses around all amounts that are negative. Positive amounts are increases and negative amounts are decreases. Explain the increase or decrease in Part V.

Column (c). Enter the correct amount. This will be the sum of column (a) and column (b).

Forms 8985 and 8986

If a BBA partnership files an AAR and it is making an election under section 6227(b)(2) to have the adjustments taken into account by the reviewed year partners, and has adjustments that do not result in an IU, then it will furnish to each partner of the partnership for the reviewed year a Form 8986 reflecting the partner's share of the adjustments to PRI as a result of a BBA audit or BBA AAR for situations where the partners are taking into account the adjustments. The partnership is also required to file with the AAR all Forms 8986 furnished to partners and Form 8985. Form 8985 is used to summarize and transmit Forms 8986, in situations where the partners are taking into account the adjustments. Adjustments shown on the Form 1065-X, Part II, column (b), should tie to the adjustments reported on the Form 8985, Part IV, column (f). Form 8985 is also used to report payment(s) made and related calculations by a pass-through partner, if applicable. See the instructions for these forms for further information.

Amended Schedules K-1

If a BBA partnership files an AAR and it needs to make its partners aware of their allocable share of adjustments, it will furnish to each partner of the partnership for the reviewed year a Form 8986 reflecting the partner's share of the adjustments (and should **not** provide amended Schedules K-1). The partnership is also required to file with the AAR all Forms 8986 furnished to partners and Form 8985. See the instructions for these forms for further information. ELPs filing a Form 1065-X as an AAR should see *Part III*, later. All other partnerships should file amended Schedules K-1 with Form 1065-X and furnish copies of the amended Schedules K-1 to the partners.

If a TEFRA partnership is filing Form 1065-X for an AAR, it should inform the partners receiving the amended Schedules K-1 that the partnership is filing the AAR. If the partnership is not subject to either the rules for consolidated audit proceedings (TEFRA proceedings) under sections 6221 through 6234 (prior to amendment by BBA) or to the centralized partnership audit regime under BBA, it must furnish the amended Schedules K-1 to its partners. The partners must then file their own amended returns.

Amended Schedules K-2 and K-3 for Tax Years Beginning on or After January 1, 2021

NonBBA partnership filing an amended return. Attach the amended Schedule K-2 and on the header of the schedule enter "As Amended." Attach the amended Schedules K-3 with the amended box checked at the top of each. The partnership must furnish the amended Schedules K-3 to its partners.

BBA partnerships filing AARs. Attach the amended Schedule K-2 and on the header of the schedule enter "As Amended." If a BBA partnership files an AAR and it needs to make its partners aware of their allocable share of adjustments, it will not issue amended Schedules K-3 but rather will file Forms 8985 and 8986 with the AAR and furnish Forms 8986 to partners. Refer to the instructions for Forms 8985 and 8986.

Part III—Amended or Administrative Adjustment Request (AAR) Items for ELPs and REMICs Only

ELPs only. An ELP may file an AAR to adjust its partnership items. Generally, the ELP has two choices for handling the adjustment.

1. It may combine the adjustment with the same partnership item for the year in which the IRS allows the adjustment and pass it through to the current partners for that year. However, if the adjustment involves the reduction in a credit which exceeds the amount of that credit for the partnership tax year in which the adjustment is allowed, the partnership must pay tax in an amount equal to the excess amount.

2. It may elect to not pass the adjustment through to current partners by paying tax on any IU that results from the adjustment. If the partnership elects to pay the tax, enter it on Part III, line 16. Attach a computation of the tax to Form 1065-X.

In either case, the partnership is liable for any interest and penalties on IUs that result from the adjustment. See section 6242(b) (prior to amendment by BBA) for details. Interest is figured on the IU for the period beginning on the day after the due date (excluding extensions) of the partnership return for the tax year the adjustment takes effect or, if earlier, the date the partnership paid the tax due under (2) above. The adjusted year is the partnership tax year in which the item being adjusted arose.

ELPs and REMICs. Identify in Part III of Form 1065-X the amount and treatment of any item the partnership or REMIC is changing from the way it was reported on the original return.

Column (a). Enter a description of the item that the partnership or REMIC is adjusting or amending.

Column (b). Enter the amounts from the ELP's or REMIC's return as originally filed or as it was later adjusted. If the return was changed or audited by the IRS, enter the amounts as adjusted.

Column (c). Enter the net increase or net decrease for each line being changed. Use parentheses around all amounts that are decreases. Explain the increase or decrease in Part V.

Column (d). Enter the correct amount. This will be the sum of column (b) and column (c).

Line 6. Show any increase or decrease to the ELP's tax or other payments.

Line 10. Enter the total tax as follows.

ELPs. Enter the line 6 amounts on line 10.

REMICs. Add the amounts on lines 7 through 9 and enter the total for each column on line 10.

Line 11. Enter the amount of tax deposited with Form 7004, Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns.

Line 14. Enter the amount from the “Overpayment” line of the original return, even if the ELP or REMIC chose to credit all or part of this amount to the next year’s estimated tax. This amount must be considered in preparing Form 1065-X because any refund due from the original return will be refunded separately from any additional refund claimed on Form 1065-X. If the original return was changed by the IRS and the result was an additional overpayment of tax, also include that amount on line 14.

Line 16. If the ELP or REMIC does not use electronic fund transfers, including the Electronic Federal Tax Payment System (EFTPS), enclose a check with this form. Make the check payable to “United States Treasury.”

Line 17. If the ELP or REMIC is entitled to a refund larger than the amount claimed on the original return, line 17 will show only the additional amount of overpayment. This additional amount will be refunded separately from the amount claimed on the original return. The IRS will figure any interest due and include it in the refund.

Amended Schedules K-1 or Schedules Q

If the ELP or REMIC is filing Form 1065-X for an AAR, do not furnish the amended Schedules K-1 or Schedules Q to the partners or residual interest holders. If the REMIC is not filing for an AAR and is not subject to the rules for consolidated audit proceedings under sections 6221 through 6231 (prior to amendment by BBA), the REMIC must furnish the amended Schedules Q to its residual interest holders.

Part IV—Imputed Underpayment (IU) Under the Centralized Partnership Audit Regime

BBA AARs must always include a computation of the IU (even when the IU is zero or less than zero, or the adjustments do not result in an IU) as determined under section 6225(b). Where the adjustments do not result in an IU, the IU should be shown as zero. Documentation should be included with the AAR that supports the computation of the IU amount. If the resulting IU amount is zero or less than zero, or the adjustments do not result in an IU, or if the partnership is making an election under section 6227(b)(2) to have the adjustments taken into account by the reviewed year partners, line 1 of Part IV should be shown as zero. Otherwise, the IU amount should be reported on line 1 of Part IV.

If the adjustments requested in the AAR result in an IU, generally the partnership takes the adjustments into account and must pay the IU. Adjustments requested in the AAR that result in a zero IU (or less than zero, or the adjustments do not result in an IU) must be taken into account by each reviewed year partner as if the partnership had made an election under section 6227(b)(2), but only with regard to those adjustments that do not result in an IU. In this instance, see Forms 8985 and 8986 and their related instructions for reporting amounts not included in the IU.

The partnership may elect under section 6227(b)(2) to have the reviewed year partners take into account adjustments resulting in an IU. If the partnership makes the election, the partnership is not liable for, nor required to pay, the IU related to the adjustments. Additionally, if the IU calculation results in an amount that is zero or less than zero, or the adjustments do not result in an IU, then all adjustments are taken into account by the reviewed year partners. However, the partnership may have withholding and reporting obligations under chapter 3 or

chapter 4 with respect to the adjustments taken into account by the reviewed year foreign partners. See the instructions for Form 8985 and Form 8986.

If the partnership elects under section 6227(b)(2) to have its reviewed year partners take all the adjustments into account, all modifications by the partnership (that would have been allowed had the partnership paid an IU) are not allowed and disregarded.

The partnership must always include an IU calculation, irrespective of whether the IU is zero (or less than zero, or the adjustments don’t result in an IU) or the partnership elects under section 6227(b)(2) to have its reviewed year partners take all the adjustments into account.

Under section 6227(b)(1), the partnership may modify the IU resulting from adjustments reported in a BBA AAR in accordance with the provisions under section 6225(c), disregarding the provisions under section 6225(c)(2), (7), and (9). Any modification made to the IU under section 6227(b)(1) must be disclosed and fully explained in documentation included with the AAR.

If modifications are applied to the IU, complete and attach Form 8980 and report the modified IU amount on Part IV, line 1. See *Part I, Section 2, Item E*, earlier, for more information on modification.

The applicability of interest and penalties is discussed under [Interest and penalties applicable to IU](#), earlier. The BBA AAR may include a prepayment for interest and penalties. If making such prepayments, the AAR should include documentation that supports the calculations. A payment made with Form 1065-X should detail the portion of the payment that is for the IU, the portion that is for prepaid estimated interest, and the portion that is for prepaid estimated penalties. The total of all three should be reflected on line 2 of Part IV.

Under section 6232(a)(2), partnerships filing a BBA AAR that have adjustments that result in an IU, and do not elect the alternative to payment of the IU (by not electing to push out the adjustments to the reviewed year partners), must pay the IU, which should be shown on line 2 in Part IV of Form 1065-X at the time of filing the AAR. Information to include on the payment made by check is the name of the partnership, “Form 1065,” the TIN of the partnership, the tax year, and “BBA AAR Imputed Underpayment.” Checks must be made payable to “United States Treasury” and included with the BBA AAR. If making an electronic payment, choose the payment description “BBA AAR Imputed Underpayment” from the list of payment types. The payment amount, including any prepaid estimated interest and penalties, should be reported on Part IV, line 3.

Figuring the Imputed Underpayment (IU)

Definitions

Reallocation grouping. In general, any adjustment that allocates or reallocates a PRI to and from a partner or partners is a reallocation adjustment, except for an adjustment to a credit or to a creditable expenditure. Each reallocation adjustment generally results in at least two separate adjustments, each of which becomes a separate subgrouping.

Credit grouping. Any adjustment to a PRI that is reported or could be reported by a partnership as a credit on the partnership’s return, including a reallocation adjustment to such PRI, is placed in the credit grouping.

Creditable expenditure grouping. Any adjustment to a PRI where any person could take the item that is adjusted (or item as adjusted if the item was not originally reported by the partnership) as a credit, including a reallocation adjustment to a creditable expenditure, is placed in the creditable expenditure grouping.

Residual grouping. Any adjustment to a PRI that doesn't belong in the reallocation, credit, or creditable expenditure grouping is placed in the residual grouping. This grouping also includes any adjustment to a PRI that derives from an item that would not have been required to be allocated by the partnership to a partner under section 704(b), such as an adjustment to a liability amount on the balance sheet.

Subgrouping. Each adjustment is subgrouped according to how the adjustment would be required to be taken into account separately under section 702(a). In general, a subgrouping follows the Schedule K/K-1/K-2/K-3 line items, including any alpha codes related to a Schedule K-1 line item.

Negative adjustment. A negative adjustment is any adjustment that is a decrease in an item of gain or income, an increase in an item of loss or deduction, or an increase in an item of credit or creditable expenditure.

Positive adjustment. A positive adjustment is any adjustment that is not a negative adjustment.

Net positive adjustment. An amount that is greater than zero which results from netting adjustments within a grouping or subgrouping. A net positive adjustment includes a positive adjustment that was not netted with any other adjustment. A net positive adjustment includes a net decrease in an item of credit (or creditable expenditure).

Net negative adjustment. Any amount which results from netting adjustments within a grouping or subgrouping that is not a net positive adjustment. A net negative adjustment includes a negative adjustment that was not netted with any other adjustment.

Total netted partnership adjustments (TNPA). The sum of all net positive adjustments in the reallocation grouping and the residual grouping.

Adjustments not resulting in an IU. If, after grouping, subgrouping, and netting, the amount in any grouping or subgrouping is a net negative or the calculation of the IU is zero or less than zero, then the adjustments in those net negative groups or in the calculation of the IU are adjustments that do not result in an IU. Any adjustments that do not result in an IU are taken into account by the reviewed year partners in accordance with Regulations section 301.6227-3.

Formula for Figuring the IU

Figuring the IU

TNPA x rate* =	
+ Sum of net positive adjustments to creditable expenditure and credit groupings:	
= Total Imputed Underpayment (IU)	
* Highest rate in effect for the reviewed year under section 1 or 11.	

The process of taking the adjustments shown on the AAR and inputting them into the formula above requires an understanding of the concepts of grouping, subgrouping, and netting. There are seven steps necessary in figuring an IU. The first three steps focus on grouping, subgrouping, and netting.

Steps in Figuring the IU

Step 1—Grouping

Place each adjustment into one of four groupings: reallocation, credit, creditable expenditure, and residual groupings.

Reallocation grouping. A reallocation adjustment generally consists of at least two adjustments, one positive and one negative, with each in a separate subgrouping.

- One part of the reallocation adjustment reverses the effect of the improper allocation of a PRI.
- The other part of the adjustment makes the proper allocation of the PRI.
- Under the AAR rules, if one of the reallocation adjustments is negative, such negative adjustment must be pushed out to the proper partner(s).



Do not net reallocation adjustments. As each part of a reallocation adjustment is placed in a separate subgrouping within the reallocation grouping, those adjustments cannot be netted in accordance with the netting rules.

Example. \$100 of ordinary income is being reallocated from Partner A to Partner B. For purposes of figuring the IU, there will be two adjustments, each in a separate subgrouping: a negative adjustment of \$100 (reversing improper allocation to Partner A) and a positive adjustment of \$100 (making proper allocation to Partner B). These two adjustments cannot be netted. As a result, the total net positive adjustment in the reallocation grouping is \$100 and will be included in the TNPA.

Credit grouping.

- Generally, a decrease in credits is treated as a positive adjustment, and an increase in credits is treated as a negative adjustment.
- A reallocation adjustment relating to the credit grouping is placed into two separate subgroupings and will not be netted together nor will they be netted with other credit adjustments.

Creditable expenditure grouping.

- Generally, a decrease in creditable expenditures is treated as a positive adjustment to credits, and an increase in creditable expenditures is treated as a negative adjustment.
- A reallocation adjustment relating to a creditable expenditure grouping is placed into two separate subgroupings and will not be netted together.
- A creditable expenditure is treated in this manner even if the partners claimed a deduction in lieu of a credit.
- Each adjustment to a creditable expenditure is subgrouped based upon the separate category of income to which the creditable expenditure relates and to account for any different allocation of the creditable expenditure between partners. Two or more adjustments to creditable expenditures are included within the same subgrouping only if each adjustment relates to creditable expenditures in the same separate category, and each adjusted PRI would be allocated to the partners in the same ratio had those items been properly reflected on the originally filed partnership return.

Residual grouping. The residual grouping contains all adjustments that do not fit into one of the other groups.

Recharacterization adjustments. A recharacterization adjustment will generally result in at least two separate adjustments within the residual grouping.

- One adjustment reverses the improper characterization of the PRI.
- The other adjustment makes the proper characterization of the PRI.
- The adjustments that result from a recharacterization are placed into separate subgroupings.

Step 2—Subgrouping

Determine if any adjustment, within one of the four groupings, needs to be subgrouped. Each adjustment is subgrouped according to how the adjustment would be required to be taken into account separately under section 702(a). If any adjustment could be subject to any preference, limitation, or restriction

under the Internal Revenue Code (or not allowed, in whole or in part, against ordinary income) if taken into account by any person, the adjustment is placed in a separate subgrouping from all other adjustments within the grouping.

Generally, each separate line item of Schedule K/K-1/K-2/K-3 or return schedule (that is, Schedule L, etc.) represents a separate and distinct subgrouping.

Example. Adjustments to ordinary income must be placed in a different subgrouping than capital gain income or interest income because each of those items is required to be separately stated under section 702(a).

- Subgroupings generally reflect a line item from Schedule K/ K-1, including any subcategories of those lines (for example, alpha codes per the Schedule K-1 instructions or activities broken out via attached statements). If any line item on Schedule K/K-1 or other schedules consists of multiple items and the components are required to be taken into account separately under the Internal Revenue Code, regulations, forms, instructions, or other IRS guidance, then such line item must be further subgrouped.

Example. 2019 Schedule K-1, box 13, code A (cash contributions 60%), and box 13, code B (cash contributions 30%), are two separate subgroupings.

- The ordinary income/(loss) amount reflected on line 1 of Schedule K and in box 1 of Schedule K-1 is sourced from Form 1065, page 1, and is a net amount consisting of various page 1 line items of income and expenses. Although those separate page 1 line items are distinct items of income and expense, if they are appropriately netted and included on line 1 of Schedule K and in box 1 of Schedule K-1, the net amount will be considered a single subgrouping, unless such amount is required to be separately allocated, such as when the partnership has more than one trade or business. If the partnership has more than one trade or business reported on page 1 of Form 1065, the net income/(loss) from each trade or business must be separately reported on Schedule K-1. Each separate activity will constitute a separate subgrouping and it must be determined which activity an adjustment to the page 1 item of income and expense relates to for subgrouping purposes.

- If you have a negative adjustment along with a positive adjustment in the same line item of Schedule K/K-1, you must consider whether they may be properly netted at the partnership level and whether they are required to be taken into account separately by any partner because it may be subject to a limitation or preference under the Internal Revenue Code before you can place them in the same subgrouping (for example, passive/active for separate activities).

- A negative adjustment that is not otherwise required to be placed in its own subgrouping must be placed in the same subgrouping as another adjustment if the negative adjustment and the other adjustment would have been properly netted at the partnership level and such netted amount would have been required to be allocated to the partners of the partnership as a single item for purposes of section 702(a) or other provision of the Internal Revenue Code and regulations.

Step 3—Netting

Net all adjustments within each of the groupings and subgroupings.

- Positive and negative adjustments may only be netted against each other if they are in the same subgrouping.
- An adjustment in one grouping or subgrouping may not be netted against an adjustment in any other grouping or subgrouping.

- All adjustments within a subgrouping are netted to determine whether there is a net positive adjustment or net negative adjustment for that subgrouping.

Step 4—Figure the Total Netted Partnership Adjustments (TNPA)

- Each net positive adjustment in a grouping or subgrouping in the residual or reallocation grouping that results after netting the adjustments is included in the calculation of the TNPA.
- Each net negative adjustment in a grouping or subgrouping that results after netting the adjustments is excluded from the calculation of the TNPA because those adjustments do not result in an IU.

Step 5—Determine the Highest Tax Rate in Effect Under Section 1 or 11 in the Reviewed Year

Step 6—Determine the Sum of Net Positive Adjustments to Creditable Expenditures and Credit Groupings That Will Increase the Product of the TNPA Multiplied by the Highest Rate in Effect

- A net decrease to creditable expenditures is treated as a net positive adjustment to credits and increases the product of the TNPA multiplied by the highest tax rate in effect. A net increase to creditable expenditures is treated as a net negative adjustment that is excluded from the calculation of the TNPA and is an adjustment that does not result in an IU.
- For the credit grouping, a net positive adjustment will increase the product of the TNPA multiplied by the highest tax rate in effect. A net negative adjustment, including net negative adjustments resulting from a credit reallocation adjustment, will be treated as an adjustment that does not result in an IU.

Step 7—Figure the IU Based on the Results of Steps 4 Through 6 and Insert Those Results Into the IU Formula

Figuring the IU

TNPA x rate* =	
+ Sum of net positive adjustments to creditable expenditure and credit groupings:	
= Total Imputed Underpayment (IU)	
* Highest rate in effect for the reviewed year under section 1 or 11.	

Partnership-Partner Amended Return Filed as Part of Modification

Partnership-partners who are filing amended returns as part of the modification of the IU during examination under section 6225(c)(2) will report the applicable payment of tax on Part IV, line 1. The pass-through partner will compute the amount like an IU on the adjustments allocated to it and make the payment with the filing of the Form 1065-X. A payment made with Form 1065-X should detail the portion of the payment that is for the payment of the IU and the portion that is for interest and penalties. The partnership should consider all available guidance issued by the IRS when figuring the amount due. In general, the partnership should compute its amount due in accordance with the IU computation in these instructions. See [Steps in Figuring the IU](#), earlier. The total of all three should be reflected on Part IV, line 2. If the payment is made by check,

information to include on the payment is the name of the partnership-partner, “Form 1065,” the TIN of the partnership-partner, tax year, and “Partner Payment for BBA Modification.” Checks must be made payable to “United States Treasury” and included with the amended return. If making an electronic payment, choose the payment description “Partner Pymnt for BBA Modification” from the list of payment types. The payment amount, including interest and penalties, should be reported on Part IV, line 3.

Partnership-Partners Who Are Allocated Adjustments That Do Not Result in an IU

If a partnership-partner is paying an amount due as part of an amended return submitted for purposes of modification, any adjustments that do not result in an IU must be taken into account in the tax year that the amount is paid by the partnership-partner. However, if there are only adjustments that do not result in an IU, those adjustments are subject to modification by the ultimate taxpayers who reported the original amounts and not by the partnership-partner itself. Refer to Regulations section 301.6225-3 for further guidance.

Part V—Explanation of Changes to Items in Part II and Part III

For each amended item, explain in detail the reasons for the change. Include any computations necessary to support the amended item.

Changes in allocations. If there is a change in the allocation of income, gain, loss, deduction, or credit to a partner, specify the nature and reasons for the changes.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for business taxpayers filing this form is approved under OMB control number 1545-0123 and is included in the estimates shown in the instructions for their business income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. You can send us comments from [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or you can write to: Internal Revenue Service, Tax Forms and Publications Division, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Do not send Form 1065-X to this address. Instead, see [Where To File](#), earlier.