

Partnerships: Review and Update



Partnerships: Review & Update

Materials developed and presented by:

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Meet Doug Van Der Aa



Doug Van Der Aa, CPA, JD


Doug Van Der Aa is a lively and energetic speaker – especially on the subject of taxes and ethics. He has been a highly rated speaker and seminar leader for CPA Associations and other organizations throughout the country for more than 18 years.

Doug has over 25 years of professional experience, including tax practice in CPA firms and the practice of transactional business and real estate law as an attorney. As a CPA, Doug’s practice concentrated on the tax needs of closely held businesses, with their related pass-through entities, complex individual returns, estates and trusts.

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Course Development Resources

- The author gratefully acknowledges **RIA Checkpoint** for use of certain materials included in this presentation.
- Additional materials are adapted from various authoritative pronouncements of the IRS.
- The opinions expressed within, however, are solely the responsibility of the author.


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Learning Objectives



- Apply the latest tax rules and regulations of partnerships.
- Understand the IRS requirement to report tax basis capital!
- New Schedules K-2 and K-3
 - And the filing exception
- Apply planning opportunities and potential pitfalls.

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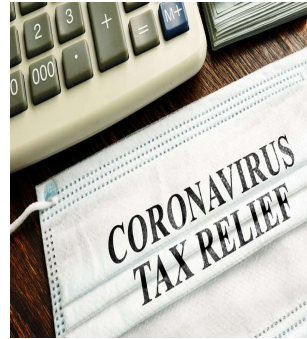
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COVID-Related Tax Relief Act of 2020

Business relief included:

- PPP2-Loan Program
- Clarification of PPP Loan Forgiveness
- Employee Retention Credit changes
- 100% business meal deduction



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Paycheck Protection Program

PPP Loan Forgiveness

- A portion of the loan may be forgiven - **Tax-Free!**
- But the IRS had said that the business expenses were **non-deductible!**



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COVID-Related Tax Relief Act of 2020

The Act expressly overrides the IRS position and provides that:

“no deduction shall be denied, no tax attribute shall be reduced, and no basis increase shall be denied, by reason of the exclusion from gross income provided...”

(Section 276)

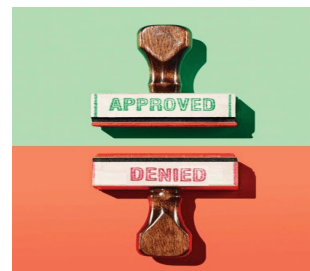


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COVID-Related Tax Relief Act of 2020

The Act expressly overrides the IRS

The IRS promptly surrendered and issued Revenue Ruling 2021-02 on January 6, which obsoletes Notice 2020-32 and Rev. Ruling 2020-27



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COVID-Related Tax Relief Act of 2020

The Act also clarifies that gross income does not include forgiveness of certain loans, emergency Economic Injury Disaster Loan (EIDL) grants, and certain loan repayment assistance under the CARES Act, and deductions are allowed.

(Section 278)



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Partnership PPP Forgiveness Basis

Under Code Section 276 S-Corporations and Partnerships treat the exclusion from gross income as tax-exempt income

- *And increase their basis*



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Partnership PPP Forgiveness Basis

But when do you get the increase in basis?

- When the PPP Loan is forgiven?
 - Cash Basis or All Events Test....
- Or,
- When the qualifying expenses are paid or incurred?

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Partnership PPP Forgiveness Basis

The AICPA asked the IRS for guidance on three issues:

- Timing of Basis Increase -
Recommending the basis adjustment occurs when the expenses are paid
- Recommending that the IRS issue guidance to the treatment in the S Corp OAA account
- Asking for clear guidance on how to report on the 1120-S and 1065



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S Corporation and Partnership PPP Forgiveness Basis

On November 18 the IRS addressed the first of these questions, issuing three Revenue Procedures on the treatment of amounts excluded from gross income in connection with forgiveness of PPP loans.



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S Corporation and Partnership PPP Forgiveness Basis

Revenue Procedure 2021-48 provides that taxpayers may treat amounts that are excluded from gross income (tax-exempt income) in connection with the forgiveness of Paycheck Protection Program (PPP) Loans as **received or accrued**:

- 1) As eligible expenses are paid or incurred,
- 2) When an application for PPP Loan forgiveness is filed, or
- 3) When PPP Loan forgiveness is granted.

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Partnership PPP Forgiveness Basis

Revenue Procedure 2021-49

provides guidance for partners and their partnerships regarding allocations under § 704(b) of the Internal Revenue Code and the corresponding adjustments to be made with respect to the partners' bases in their partnership interests under § 705 of the Code.



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Partnership PPP Forgiveness Basis



Revenue Procedure 2021-50

allowed eligible BBA partnerships to file amended Forms 1065 and furnish amended Schedules K-1 on or before December 31, 2021, to adopt the guidance set forth in Rev. Procs. 2021-48 and 2021-49 if certain requirements are met.

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New Schedules K-2 and K-3

Schedule K-3 (Form 1065) Partner's Share of Income, Deductions, Credits, etc.—International
 Department of the Treasury Internal Revenue Service
 For calendar year 2021, or tax year beginning / / 2021, ending / / 2021
 CMB No. 1545-0123
2021
 See separate instructions.

Information About the Partnership

A Partnership's employer identification number (EIN)

B Partnership's name, address, city, state, and ZIP code

Information About the Partner

C Partner's SSN or Taxpayer Identification Number (TIN) (Do not use TIN of a disregarded entity. See instructions.)

D Name, address, city, state, and ZIP code for partner entered in C. See instructions.

E Check to indicate the parts of Schedule K-3 that apply.

| | Yes | No |
|----------------------------------------------------------------------------|-----|----|
| 1 Does Part I apply? If "Yes," complete and attach Part I | 1 | |
| 2 Does Part II apply? If "Yes," complete and attach Part II | 2 | |
| 3 Does Part III apply? If "Yes," complete and attach Part III | 3 | |
| 4 Does Part IV apply? If "Yes," complete and attach Part IV | 4 | |
| 5 Does Part V apply? If "Yes," complete and attach Part V | 5 | |
| 6 Does Part VI apply? If "Yes," complete and attach Part VI | 6 | |
| 7 Does Part VII apply? If "Yes," complete and attach Part VII | 7 | |
| 8 Does Part VIII apply? If "Yes," complete and attach Part VIII | 8 | |
| 9 Does Part IX apply? If "Yes," complete and attach Part IX | 9 | |
| 10 Does Part X apply? If "Yes," complete and attach Part X | 10 | |
| 11 Does Part XI apply? If "Yes," complete and attach Part XI | 11 | |
| 12 Reserved for future use | 12 | |
| 13 Does Part XIII apply? If "Yes," complete and attach Part XIII | 13 | |

For IRS Use Only

For Paperwork Reduction Act Notice, see the Instructions for Form 1065. www.irs.gov/Form1065 Cat. No. 747155 Schedule K-3 (Form 1065) 2021

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New Schedules K-2 and K-3

- Last summer (2021) the IRS released drafts of two new 2021 tax forms for Partnerships and S Corporations
 - Schedules K-2 and K-3
 - Replacing the good old K-1 lines 16/14
- Intended to provide pass-through owners with the information necessary to comply with the international tax provisions of the IRC

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New Schedules K-2 and K-3

- Previously this information was commonly reported on pages (and pages) of confusing footnotes to the K-1
- The IRS says the new forms should standardize the reporting of this information to owners
 - And make it easier to properly prepare their returns*

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New Schedules K-2 and K-3

SCHEDULE K-2 (Form 1065) Partners' Distributive Share Items—International

OMB No. 1545-0023
2021

Department of the Treasury Internal Revenue Service
Name of partnership: _____ Employee identification number (EIN): _____

A Is the partnership a withholding foreign partnership?
 Yes No If "Yes," enter your WF-ED# _____

B Is the partnership (including the home office or any branch) a qualified derivatives dealer?
 Yes No If "Yes," enter your QD-ED# _____

C Check to indicate the parts of Schedule K-2 that apply:

| | Yes | No | | Yes | No |
|-------------------------------------------------------------------------|-----|----|---------------------------------------------------------------------------|-----|----|
| 1 Does Part I apply? If "Yes," complete and attach Part I | 1 | | 7 Does Part VII apply? If "Yes," complete and attach Part VII | 7 | |
| 2 Does Part II apply? If "Yes," complete and attach Part II | 2 | | 8 Does Part VIII apply? If "Yes," complete and attach Part VIII | 8 | |
| 3 Does Part III apply? If "Yes," complete and attach Part III | 3 | | 9 Does Part IX apply? If "Yes," complete and attach Part IX | 9 | |
| 4 Does Part IV apply? If "Yes," complete and attach Part IV | 4 | | 10 Does Part X apply? If "Yes," complete and attach Part X | 10 | |
| 5 Does Part V apply? If "Yes," complete and attach Part V | 5 | | 11 Does Part XI apply? If "Yes," complete and attach Part XI | 11 | |
| 6 Does Part VI apply? If "Yes," complete and attach Part VI | 6 | | 12 Reserved for future use | 12 | |

Part I Partnership's Other Current Year International Information

Check boxes for additional specified attachments. See instructions.

| | | | |
|------------------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------|-------------------------------------------------------------------------------------------|
| <input type="checkbox"/> 1. Gain on personal property sale | <input type="checkbox"/> 4. Foreign tax translation | <input type="checkbox"/> 7. Form 8858 information | <input type="checkbox"/> 10. Partner loan transactions |
| <input type="checkbox"/> 2. Foreign oil and gas taxes | <input type="checkbox"/> 5. High-taxed income | <input type="checkbox"/> 8. Form 5471 information | <input type="checkbox"/> 11. Dual consolidated loss |
| <input type="checkbox"/> 3. Splitter arrangements | <input type="checkbox"/> 6. Section 267A disallowed deduction | <input type="checkbox"/> 9. Other forms | <input type="checkbox"/> 12. Other international items (attach description and statement) |

Part II Foreign Tax Credit Limitation

Section 1—Gross Income

| Description | (a) U.S. source | Foreign Source | | | | (f) Sourced by partner | (g) Total |
|---------------------------------------------|-----------------|------------------------------------|-----------------------------|-----------------------------|-------------------------|------------------------|-----------|
| | | (b) Foreign branch category income | (c) Passive category income | (d) General category income | (e) Other category code | | |
| 1 Sales | | | | | | | |
| A | | | | | | | |
| B | | | | | | | |
| C | | | | | | | |
| 2 Gross income from performance of services | | | | | | | |
| A | | | | | | | |
| B | | | | | | | |
| C | | | | | | | |
| 3 Gross rental real estate income | | | | | | | |
| A | | | | | | | |
| B | | | | | | | |
| C | | | | | | | |
| 4 Other gross rental income | | | | | | | |
| A | | | | | | | |
| B | | | | | | | |
| C | | | | | | | |

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New Schedules K-2 and K-3

Schedule K-3 (Form 1065) 2021
Partner's Share of Income, Deductions, Credits, etc.—International
 Department of the Treasury Internal Revenue Service
 For calendar year 2021, or tax year beginning / / 2021, ending / /

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A Partnership's employer identification number (EIN)

B Partnership's name, address, city, state, and ZIP code

Information About the Partner

C Partner's SSN or Taxpayer Identification Number (TIN) (Do not use TIN of a disregarded entity. See instructions.)

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| | Yes | No |
|----------------------------------------------------------------------------|-----|----|
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New Schedules K-2 and K-3

In general, you will be required to disclose:

- Gross Receipts
- Deductions sorted by category
 - Sales, services, rentals, etc
- Interest expense, sorted by category
- Tax basis of assets
 - Beginning and end of year

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New Schedules K-2 and K-3

Practitioners *assumed* that these new forms would only be required where the taxpayer had foreign activities...



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New Schedules K-2 and K-3

In January, 2022 the IRS “**clarified**” that the new schedules were required of **all** partnerships!

- Unless the partnership had “actual” knowledge that its partners didn’t need the information

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New Schedules K-2 and K-3

In response to **severe** criticism, the IRS announced in February that it was providing additional relief for 2021 for qualifying partnerships and S Corps to entities without knowledge of owners that needed the internationally relevant information.



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New Schedules K-2 and K-3

- When the IRS released draft 2022 K-2 & 3 Forms it appeared that the Schedules would be required for nearly all Partnerships & S Corporations...
- On October 25, the IRS seemed to bow to pressure in releasing draft instructions for the Partnership K-2 & 3 creating a **filing exception** for domestic partnerships with **solely** domestic activities and US partners

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New Schedules K-2 and K-3

2022 Domestic Filing Exception

A domestic partnership does not need to file Sch K-2 & K-3 if you satisfy **four (4) criteria**:

- 1) No or limited Foreign Activity
- 2) US Citizen/Resident Alien partners
- 3) Timely Partner Notification
- 4) No K-3 requests received

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New Schedules K-2 and K-3

2022 Domestic Filing Exception

A domestic partnership does not need to file Sch K-2 & K-3 **IF** you satisfy four (4) criteria:

- 1) No or very limited Foreign Activity
- 2) US Citizen/Resident Alien partners
- 3) Timely Partner Notification
- 4) No K-3 requests received

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Partnerships: Review and Update

New Schedules K-2 and K-3

2022 Domestic Filing Exception

1) No (or very limited) Foreign Activity

- Foreign Activity is defined as:
 - Foreign income taxes paid or accrued
 - Foreign source income or loss
 - Ownership interest in a foreign partnership
 - Ownership interest in a foreign corporation
 - Ownership of a foreign branch
 - Ownership of a foreign disregarded entity

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New Schedules K-2 and K-3

2022 Domestic Filing Exception

1) No (or very limited) Foreign Activity

- New de minimis foreign activity exception where you have less than \$300 of foreign income taxes withheld on stocks and mutual funds

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New Schedules K-2 and K-3

2022 Domestic Filing Exception

2) US Citizen/Resident Alien partners

- All the direct partners must be:
 - Individual US Citizens
 - Resident Aliens
 - Domestic Estates
 - Domestic Grantor Trusts
 - Domestic non-grantor trusts with solely US Citizen and non-resident alien beneficiaries

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New Schedules K-2 and K-3

2022 Domestic Filing Exception

2) US Citizen/Resident Alien partners

- Note that any partnership with corporate or partnership partners is SOL
 - And must file the full K-2/3

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New Schedules K-2 and K-3

2022 Domestic Filing Exception

3) Timely Partner Notification

- You must **notify** all your partners that they will not be receiving a K-3 from the partnership unless they request it
 - In writing or by email
 - No later than 2 months before the due date of the return – **without extensions**

JANUARY 15!

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New Schedules K-2 and K-3

2022 Domestic Filing Exception

4) No K-3 requests received by the one month date

- The partnership doesn't receive any partner requests for K-3 info on or before one month before the original 1065 due date
 - If you do, you must file K-2 & K-3 only for the offending partner(s)

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New Schedules K-2 and K-3

At this time, there is no comparable guidance for S corporations.....



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Tax Basis Capital Accounts

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Importance of Capital Accounts

- Capital accounts always measure the **difference between a partner's share of partnership assets, and his share of liabilities.**
- This difference represents the partner's net investment (or equity) in his partnership.
- The precise amount of this **difference depends on the reporting basis used to measure the assets and liabilities.**



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Reporting Partner Capital Accounts

How does a partnership balance sheet differ from a corporate balance sheet?



- Partnership capital accounts are a combination of retained earnings, capital stock, and paid-in capital for a corporation.
- And capital accounts are specific to each partner.

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Reporting Partner Capital Accounts

In recent years the IRS has required partnerships to report partners' capital accounts on the K-1 using either:

- Tax Basis
- GAAP
- Section 704(b) book
- Some other basis

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| L Partner's capital account analysis: | |
| Beginning capital account | \$ 30,000 |
| Capital contributed during the year | \$ 10,000 |
| Current year increase (decrease) | \$ 10,800 |
| Withdrawals & distributions | \$ (4,000) |
| Ending capital account | \$ 46,000 |
| <input checked="" type="checkbox"/> Tax basis <input type="checkbox"/> GAAP <input type="checkbox"/> Section 704(b) book <input type="checkbox"/> Other (explain) | |
| M Did the partner contribute property with a built-in gain or loss? | |
| <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," attach statement (see instructions) | |

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Draft 2020 Form K-1

| | | | | | | | | | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|-----------------------------|----|--------------------|----|----|------------------------------------------------------------------------------------------------------------|--|--|----|-------|
| <table border="1"> <tr> <td>Guaranteed future recourse financing</td> <td>\$</td> <td>\$</td> </tr> <tr> <td>Recourse</td> <td>\$</td> <td>\$</td> </tr> <tr> <td colspan="3"><input type="checkbox"/> Check this box if item K includes liability amounts from lower tier partnerships.</td> </tr> </table> | Guaranteed future recourse financing | \$ | \$ | Recourse | \$ | \$ | <input type="checkbox"/> Check this box if item K includes liability amounts from lower tier partnerships. | | | 14 | See I |
| Guaranteed future recourse financing | \$ | \$ | | | | | | | | | |
| Recourse | \$ | \$ | | | | | | | | | |
| <input type="checkbox"/> Check this box if item K includes liability amounts from lower tier partnerships. | | | | | | | | | | | |
| L Partner's Capital Account Analysis | | | | | | | | | | | |
| Beginning capital account | \$ | | | | | | | | | | |
| Capital contributed during the year | \$ | | | | | | | | | | |
| Current year net income (loss) | \$ | | | | | | | | | | |
| Other increase (decrease) (attach explanation) | \$ | 21 <input type="checkbox"/> | | | | | | | | | |
| Withdrawals & distributions | \$ (| 22 <input type="checkbox"/> | | | | | | | | | |
| Ending capital account | \$ | *See B | | | | | | | | | |
| M Did the partner contribute property with a built-in gain or loss? | | | | | | | | | | | |
| <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," attach statement. See instructions. | | | | | | | | | | | |
| N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss) | | | | | | | | | | | |
| Beginning | \$ | | | | | | | | | | |
| Ending | \$ | | | | | | | | | | |
| For Paperwork Reduction Act Notice, see Instructions for Form 1065. www.irs.gov/Form1065 | | | | | | | | | | | |

The Draft K-1 didn't specify which method you may/must use in 2020.....

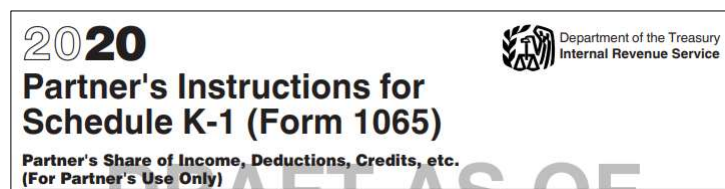


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2020 Draft Instructions

On October 22, 2020 the IRS released an *early draft* of the Form 1065 Instructions together with a news release (IR-2020-240) announcing that for 2020 you were required to **“calculate partner capital accounts using the transactional approach for the tax basis method.”**



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2020 Instructions

Apparently the transactional method is now the **only** method that may be used to report capital accounts in 2020 and beyond

- *There is no alternative*



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2020 Instructions

The IRS claimed that *most* partnerships already use the tax basis method.....



I'm not sure I believe that, but take it for whatever its worth.

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2020 Instructions

“How to report partnership events or transactions....

If you are uncertain how to report a partnership event or transaction, you should account for the event or transaction **in a manner generally consistent with figuring the partner's adjusted tax basis in its partnership interest** (without regard to partnership liabilities), taking into account the rules and principles of sections 705, 722, 733, and 742 and by reporting the amount on the line for other increase (decrease).”

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2020 Instructions

In Notice 2020-43 the IRS defined the transactional approach as:

Increase a partner's tax capital account by the amount of money and the tax basis of property contributed to the partnership (less any liabilities assumed by the partnership or to which the property is subject) as well as allocations of income or gain made by the partnership to the partner, and



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2020 Instructions

In Notice 2020-43 the IRS defined the transactional approach as:

- Decrease a partner's tax capital account by the amount of money and the tax basis of property distributed by the partnership to the partner (less any liabilities assumed by the partner or to which the property is subject) as well as allocations of loss or deductions made by the partnership to the partner.

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Partnerships: Review and Update

2020 Instructions

- If you used tax basis capital on prior year's returns, you should be all set
- If not, you may reconstruct their tax basis capital...



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Tax Basis Capital

*The only way I know to compute this is to go back to the formation of the partnership and determine each partner's **beginning tax basis capital account**.....*

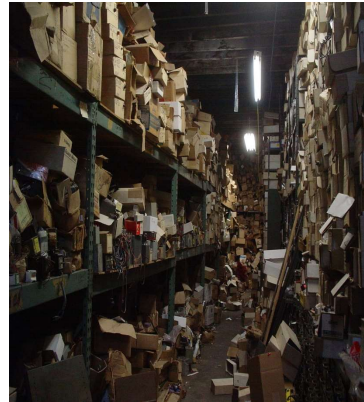


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Tax Basis Capital

Then you need to get copies of all K-1s for all tax years since then and post the income, losses, deductions and distributions...



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Instructions

If you admitted a new partner during the year via a contribution to capital, the IRS directs you to enter -0- for their beginning capital account.



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Instructions

If a new partner acquired their interest via purchase, exchange, gift or inheritance, you should enter the transferor partner's ending capital account balance as the beginning balance for the new partner.



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Tax Basis Capital

A photograph of a warehouse or storage area filled with stacks of cardboard boxes. The boxes are piled high on shelves and on the floor, creating a cluttered scene. The lighting is somewhat dim, with a bright spot in the center.

So what do you do if you haven't been maintaining/reporting tax basis capital in prior years...?

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Partnerships: Review and Update

Instructions

The IRS is **"graciously"** permitting partnerships which didn't previously use the tax basis method to calculate beginning tax basis capital for 2020 using one of three (3) methods:

- 1) **Modified Outside Basis Method**
- 2) **Modified Previously Taxed Capital Method**
- 3) **Section 704(b) Method**



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Instructions

You must attach a statement to the K-1s indicating the method used to determine each partner's beginning capital account balances



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Partnerships: Review and Update

Instructions

1

Modified Outside Basis Method

A partner's beginning capital account is equal to the partner's adjusted tax basis in its partnership interest as determined under the principles and provisions of subchapter K; and subtracting from that basis:

- 1) The partner's share of partnership liabilities under section 752 and
- 2) The sum of partner's section 743(b) adjustments (that is, net section 743(b) adjustments).

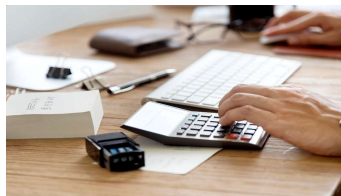
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Instructions

1

Modified Outside Basis Method

For purposes of establishing a partner's beginning capital account, the IRS says you *may* rely on the adjusted tax basis information provided by your partners.



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Instructions

You may rely on the adjusted tax basis information provided by your partners...

This assumes your partners can provide you with a reasonably accurate basis number



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Instructions

2

Modified Previously Taxed Capital Method

- This method tries to determine each partner's share of the net inside tax basis of the partnership's property
 - *Through a deemed sale of all assets*

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Instructions

2

Modified Previously Taxed Capital Method

- Determine the amount of **cash** the partner would receive if you liquidated after selling all of your assets in a fully taxable transaction for cash equal to the fair market value of the assets; increased by



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Instructions

2

Modified Previously Taxed Capital Method

- Increased by the amount of **tax loss** determined without taking into account any section 743(b) basis adjustments (including any remedial allocations under Regulations Section 1.704-3(d)); and



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Instructions

Modified Previously Taxed Capital Method

- Decreased by the amount of **tax gain** determined without taking into account any section 743(b) basis adjustments (including any remedial allocations under Regulations section 1.704-3(d)) that would be allocated to the partner following such a liquidation (treating all liabilities as nonrecourse).

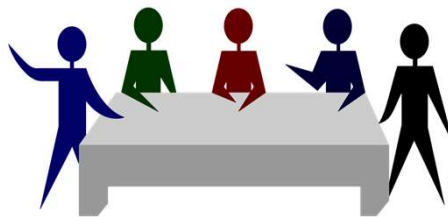


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Instructions

The IRS notes that Section 734 adjustments **do** affect partners' capital accounts

- They are internal to the partnership and affect all its partners*



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Instructions

However, Section 743 adjustments do **not** affect partners' capital accounts!

- They only affect the particular partner acquiring an interest by purchase or inheritance



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Instructions



Modified Previously Taxed Capital Method

- The IRS says that instead of using FMV you may use the assets' bases as determined under Section 704(b), as determined for financial accounting purposes, or on the basis set forth in the partnership agreement for purposes of determining what each partner would receive if the partnership were to liquidate, as determined by partnership management.

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Instructions

Modified Previously Taxed Capital Method

- If you use this method the K-1 statement must also disclose the method used to determine the partnership's net liquidity value (FMV, 704(b), etc.)

2



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Instructions

3

Section 704(b) Method

- Start with the partner's **Section 704(b) capital account**,
- Section 704(b) capital accounts are credited with the **FMV** of assets contributed to the partnership, rather than their tax basis !

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Instructions

3

Section 704(b) Method

- Start with the partner's Section 704(b) capital account
- **MINUS** the partner's share of section 704(c) built-in gain in the partnership's assets
- **PLUS** the partner's share of section 704(c) built-in loss in the partnership's assets

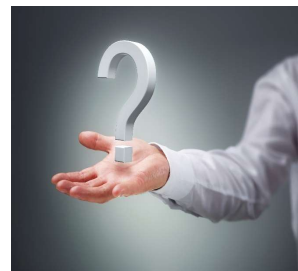
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Instructions

What is Section 704(c) property?

- Property contributed to a partnership is Section 704(c) property if, at the time of the contribution, its ***fair market value differs from its adjusted tax basis.***

Section 704(c) property also includes property with differences resulting from revaluations (reverse section 704(c) allocations).



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Partnerships: Review and Update

Instructions

There is also a special method for publicly traded partnerships...



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Observation

- For original partners who invested pro-rata in original equity interests with cash
- Your inside tax basis should be about the same as (or dang close to) the partner's outside basis
 - *So your biggest challenge may be with partners who acquired their interests later.....*

(Hat tip to Bruce Edwards, CPA)

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Partnerships: Review and Update

Instructions

The IRS announced that they intended to grant penalty relief for 2020 if you make errors in reporting your beginning capital account balance if you take **ordinary and prudent business care** in following the instructions to calculate and report the beginning balances.



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Instructions

- Don't forget that **Tax Basis** is **critically important** as people look to deduct the COVID-19 losses coming thru on their K-1s.
- Partners and the IRS need that information more right now than they have at any time in the last 10 years!
- This is no time to drop the issue.



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Partnerships: Review and Update

Schedule M-2

Note that you may need to re-do Schedule M-2 to reconcile the changes in your now tax basis capital accounts

Since it won't reconcile to the Schedule L Balance Sheet, you may get a nasty diagnostic

- CCH advises to override ending RE and ignore the warning diagnostic



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Concluding Thoughts



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Thank You

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