

IRS Initiative to Target Large Partnerships Takes Aim October 1

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The wait is finally over: The Internal Revenue Service Large Business and International (LB&I) Division will start implementing the Large Partnership Compliance (LPC) Program within the next two weeks. The IRS introduced the program last year. Since then, the IRS has consistently stated that examinations under the LPC Program will begin in late 2021, and it has hired over 40 new specialists to focus on pass-through entities.

The LPC Program will use data analytics to select the appropriate partnerships for examination. Similar to other audit programs, which utilized a two-step approach that first uses an automated systemic pointing of returns based on objective criteria and then uses data to bucket returns based on risk factors, the LPC Program uses a number of criteria to define what “large” is and then identifies the partnership population through data analysis to select the taxpayers in that population that the IRS believes present the highest risk of noncompliance. The IRS will also focus on transfer pricing in partnership returns.

In connection with the LPC Program, if any partner satisfies the criteria to be considered a high net worth individual (or family), the IRS will expand the examination as part of its Global High-Wealth (GHW) Program. The GHW Program similarly uses data analytics to determine which taxpayers to examine, starting with the individual partner and expanding out to any connected tax return. The GHW examining agents look for any unusual or questionable items, not only with respect to the target entity in which the taxpayer has a direct interest, but also with respect to any entity on which the target entity directly or indirectly exerts influence.

Given this backdrop, individuals (or families) who have formed partnerships, joint ventures, or LLCs treated as partnerships for tax purposes may be contacted by the IRS in the near future. Winston & Strawn’s tax controversy attorneys are ready to assist with these new IRS audit regimes. If you are contacted by the IRS or would like to learn more, please reach out to any of the attorneys listed below, or your Winston & Strawn relationship attorney.

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