



# MANUAL TRANSMITTAL

Department of the Treasury  
Internal Revenue Service

4.31.1

JUNE 8, 2023

## EFFECTIVE DATE

(06-08-2023)

## PURPOSE

- (1) This transmits revised IRM 4.31.1, Pass-Through Entity Handbook, Introduction.

## MATERIAL CHANGES

- (1) IRM 4.31.1.1 - Program Scope and Objectives. Added BBA items.
- (2) IRM 4.31.1.1.1 - Background. Added BBA IRM reference.
- (3) IRM 4.31.1.3.2 - Field Examination. Add ILSC and BBA language.
- (4) IRM 4.31.1.1.3.6 - CPF Technical Employees. Added BBA and ILSC items.
- (5) IRM 4.31.1.1.3.8 - Key Case CPF. Included BBA Operation.
- (6) IRM 4.31.1.1.4 - Program Management and Review. Added BBA reference.
- (7) IRM 4.31.1.1.6 - Terms/Definitions/Acronyms. Updated to include BBA terms and corrections to definitions of other terms.
- (8) IRM 4.31.1.1.7 - Related Sources. Updated hyper links.
- (9) IRM 4.31.1.5 - TEFRA Corporate Data Initiative (CDI) Application. Updated entire section.
- (10) IRM 4.31.7 - ILSC combined both ILSC and NonTEFRA procedures.
- (11) IRM 4.31.1.8 - Centralized Partnership Audit Regime (BBA)
- (12) IRM 4.31.1.9 - Appeals Consideration. Added BBA reference.
- (13) Various editorial changes made throughout the IRM.

## EFFECT ON OTHER DOCUMENTS

This material supersedes IRM 4.31.1, Pass-Through Entity Handbook, Introduction, dated 4-04-2019.

## AUDIENCE

Field and campus personnel performing technical duties pass-through entities and/or their investors. LB&I plans to develop a separate Internal Revenue Manual (IRM). Until that occurs, LB&I personnel should check with their manager to see if the particular IRM section applies or if there is other guidance to follow.

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4.31.1

Introduction

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4.31.1.1  
(06-08-2023)  
**Program Scope and Objectives**

- (1) This Internal Revenue Manual (IRM) section provides an overview of terms and responsibilities for partnership examinations subject to and not subject to provisions of the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982.
- (2) **Purpose** : This handbook describes:
  - Types of TEFRA Agreements
  - Overview of the Pass-through Control System (PCS), formerly Partnership Control System
  - Explanation of the TEFRA Compliance Database Initiative (CDI) Database
  - Explanation of TEFRA
  - Explanation of Investor Level Statute Control (ILSC) returns
  - Explanation of the Bipartisan Budget Act of 2015 (BBA)
- (3) **Audience** : Field Revenue Agents (RAs), and campus RAs, Tax Compliance Officers (TCOs), Tax Examiners (TEs) and Clerks performing examination procedures for pass-through entities and/or their investors linked on the PCS.
- (4) **Policy Owner** : Director, Small Business/Self-Employed (SB/SE), Headquarters Examination, Examination Field and Campus Policy (SE:S:DCE:E:HQ:EFCP:CEFS).
- (5) **Program Owner** : Program Manager, Campus Examination and Field Support (SE:S:DCE:E:HQ:EFCP:CEFS:FSP).
- (6) **Primary Stakeholders** : SB/SE, Large Business and International (LB&I), and IRS Independent Office of Appeals.
- (7) **Program Goals** : Establish an electronic linkage between the partnership being examined and its underlying partners in order to generate notices required by statute; monitor and control statutes; and gather closing information.
- (8) **Contact Information**: To recommend changes or make any other suggestions related to this IRM section, see IRM 1.11.6.5, Providing Feedback About an IRM Section -Outside of Clearance.

4.31.1.1.1  
(06-08-2023)  
**Background**

- (1) TEFRA was passed in 1982 to allow examinations and statutes to be controlled at the partnership level. This eliminated the need to control each individual partner statute. It also unified the litigation process whereby the partnership files the petition rather than each individual partner. The PCS was created to establish an electronic linkage between the partnerships and their underlying partners. This helps ensure that all partners, no matter how complex the partnership structure, are issued notices and adjusted in a timely manner. PCS linkage allows the campus to perform examination procedures for those partners the examiner doesn't need so they can focus on partnership examinations. PCS also allows the campus to systemically generate notices, control statutes, and gather closing information.
- (2) Section 1101(a) of the Bipartisan Budget Act of 2015 (BBA), P.L. 114-74, Title XI (November 2, 2015), replaced sub chapter C of chapter 63 of subtitle F of the Internal Revenue Code (Code) effective for partnership taxable years beginning after December 31, 2017." This is the official Chief Counsel language used in the treas. regs, rev. procs., etc.

- (3) Generally, all partnerships with tax years beginning after 12/31/2017 will be subject to the BBA examination procedures. The law also allows eligible partnerships with tax years that begin 11/3/2015 to 12/31/2017 to elect into the centralized partnership audit regime within 30 days of the date the IRS first notifies a partnership in writing that its return has been selected for examination.
- (4) This IRM is in effect for all TEFRA partnerships and Investor Level Statute Control (ILSC) entities, and IRM 4.31.9 is for BBA partnerships.
- (5) PCS is a database that was created to establish an electronic linkage between pass-through entities and their underlying investors. This helps ensure that all investors are noticed and adjusted in a timely manner. PCS linkage allows Business Operation Divisions (BODs) to recognize when a taxpayer is subject to a pass-through examination. If an examiner chooses not to control investors returns, it allows the campus to work those investors so the examiner can focus on examining the pass-through entity. PCS also allows the campus to systemically generate notices, control statutes, and gather closing information.

4.31.1.1.2  
(04-04-2019)  
**Authority**

- (1) TEFRA policy was established in response to the partnership provisions of the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982.

4.31.1.1.3  
(04-04-2019)  
**Roles and Responsibilities**

- (1) Each designated campus will maintain a Campus Pass-through Function (CPF) to establish and control, through Automated Information Management System (AIMS) and PCS, any partner or shareholder returns related to key cases within its jurisdiction. The PCS will also be used to identify and establish linkage on second and subsequent tier entities. AIMS and PCS are also used to identify and control indirect investors and/or pass-through entities.
- (2) The CPF is responsible for storing closed TEFRA key case admin files for at least 18 months after the last investor's one-year date.
- (3) Coordination between the CPF assigned the key case and the field division (Examination and/or Appeals) examining the key case is critical to ensure that all notices are issued timely.
- (4) Each CPF will complete an AIMS Inventory Validation Listing (IVL) at least annually or more often if necessary.

4.31.1.1.3.1  
(04-04-2019)  
**National Headquarters**

- (1) The Director, SB/SE, Headquarters Examination, Field and Campus Policy (SE:S:DCE:E:HQ:EFCE:CEFS:FSP) is responsible for:
  - a. Ensuring that TEFRA policy and procedural changes are promptly implemented through coordination with CPF personnel and with Compliance, in the field offices, area offices and territories of both the SB/SE and LB&I operating divisions;
  - b. Monitoring and evaluating CPF operations and quality control procedures;
  - c. Coordinating the resolution of CPF technical and operational problems;
  - d. Initiating the development of training modules for all levels of CPF employees;
  - e. Updating IRMs 4.31.1-8 and 4.29; and
  - f. The establishment of assessment and refund tolerances used by the CPF.

4.31.1.1.3.2  
(06-08-2023)

**Field Examination**

- (1) Field Territory Managers and Field Area Directors are responsible for ensuring that TEFRA policies and procedures are followed.
- (2) Field Examination Managers are responsible for:
  - a. Maintaining an updated copy of IRM 4.31, Pass-Through Entity Handbook, in their respective functions;
  - b. Ensuring the training of technical and clerical employees in TEFRA, Investor Level Statute Control (ILSC) and BBA procedures;
  - c. Establishing PCS records and acting on PCS reports in a timely manner to assure an accurate PCS database.
- (3) Field examiners are responsible for ensuring that BBA procedures are followed.

4.31.1.1.3.3  
(04-04-2019)

**Campus Examination  
Field Support  
Operations**

- (1) The Director, SB/SE Examination - Brookhaven Campus and Director, LB&I Pass-Through Entities - Ogden, are responsible for:
  - a. Coordinating and staffing CPF operations;

4.31.1.1.3.4  
(04-04-2019)

**Campus Examination  
Operations Manager**

- (1) The campus Examination Operations Manager, or equivalent, who has a CPF is responsible for ensuring:
  - a. The establishment and maintenance of pass-through suspense files;
  - b. The establishment of correct PCS and AIMS databases;
  - c. The effective use of PCS reports;
  - d. The correction of database rejects;
  - e. The timely processing of TEFRA notices;
  - f. The development of appropriate controls to ensure timely and accurate return and linkage establishment;
  - g. Timely report writing;
  - h. Timely assessments;
  - i. The training of all employees in CPF procedures; and
  - j. The timely notification to the field and the other CPF of significant events.

4.31.1.1.3.5  
(04-04-2019)

**CPF Managers**

- (1) The CPF manager is responsible for:
  - a. Maintaining updated copies of the Pass-Through Entity Handbook in their respective functions;
  - b. Ensuring the training of their employees in CPF procedures;
  - c. Establishing investor returns on PCS and AIMS;
  - d. Maintaining correct data bases;
  - e. Maintaining complete and accurate case files;
  - f. Timely report writing and assessment of pass-through related deficiencies or overassessments within the one-year assessment or Internal Revenue Code (IRC) 6501 statute date; and
  - g. Coordinating with other functions and the other CPF, as necessary.

4.31.1.1.3.6  
(06-08-2023)  
**CPF Technical  
Employees**

- (1) RAs (GS-512), TCOs (GS-526), and TEs (592) assigned or detailed to the CPF will perform all technical duties including coordinating with and assisting other units within the campus, the other CPF, and field offices nationwide. All the duties of some technical employees may not be considered technical duties. Only time spent on technical duties should be included on the Form 5344.
- (2) Specific technical responsibilities include the following;
  - a. Report writing of Individual Master File (IMF) and Business Master File (BMF) reports;
  - b. Review of the Final Partnership Administrative Adjustment (FPAA), 60-Day, and linkage packages;
  - c. Development and securing of statutory notice language;
  - d. Classification and screening of returns;
  - e. Execution of Form 870-PT and Form 870-LT secured through the 60-day or FPAA process;
  - f. Coordinating the execution of Forms 870-PT(AD) and 870-LT(AD) with Appeals;
  - g. Review of Form 906, Closing Agreement on Final Determination Covering Specific Matters, for completeness;
  - h. Identification of tier activities, including the determination of whether tax consequences on returns of tier partner warrant linking tier partner, writing tier reports, and preparation of the appropriate distribution schedules for tiers;
  - i. Providing advice to the campus on the appropriate statute of limitations;
  - j. Preparation of Form(s) 3999, Statute Expiration Report, for barred statutes within the campus;
  - k. Preparation of Form(s) 3999-T, Statute Expiration Report (for TEFRA key cases): For example, tier statute expires within the campus;
  - l. Assisting in bankruptcy cases;
  - m. PCS coordination activities;
  - n. Assisting in training; and
  - o. Assisting in the determination of the applicability of penalties from the key case reports.
- (3) Technical employees will coordinate with and assist the following other functions:
  - a. Report writers;
  - b. TAS (Taxpayer Advocate Service);
  - c. Clerical units;
  - d. Campus Program Analysis System (PAS);
  - e. Other campus operations;
  - f. Technical Services (TS);
  - g. Criminal Investigation;
  - h. Other Customer Service functions;
  - i. Campus PCS Coordinator;
  - j. Centralized Case Processing (CCP);
  - k. Taxpayers and their authorized representatives;
  - l. Appeals Officers; and
  - m. Area and Chief Counsels.
- (4) The campus TEFRA Coordinator and ILSC Coordinator will:



- a. Coordinate with campus and Technical Service Pass-Through Coordinators (TSPC) on case processing;
- b. Coordinate with Headquarters on any legal issues that need to be addressed by Chief Counsel;
- c. Review closing packages for completeness;
- d. Provide technical support to employees.

(5) The campus PCS Coordinator is charged with:

- a. Identifying and resolving technical linkage problems;
- b. Identifying and coordinating the resolution of PCS systemic problems.

4.31.1.1.3.7  
(04-04-2019)  
**CPF Mail**

- (1) The CPF will be responsible for acknowledging Form 3210 (Document Transmittal) within 3 days of receipt.

4.31.1.1.3.8  
(06-08-2023)  
**Key Case CPF**

- (1) Generally, key case CPF technical duties are determined by Operating Division. LB&I TEFRA and ILSC cases are worked at the Ogden Pass-Through Entities (PTE) Unit and SB/SE TEFRA cases and ILSC cases are worked at the Brookhaven Campus. BBA Chapter 2/2A cases are worked at the Ogden BBA Chapter 2/2A Operation.

(2) The key case CPF is responsible for:

- a. Linking investors through PCS;
- b. Issuing timely notices to investors;
- c. Receiving and executing agreements and settlement agreements;
- d. Establishing and maintaining the key case administrative file;
- e. Setting the one-year assessment statute date; and
- f. Preparing and mailing closing packages to functions (Compliance and Appeals) that have statute responsibility for investor returns.

4.31.1.1.3.9  
(04-04-2019)  
**Investor CPF**

- (1) Generally, the CPF services the investors according to the operating Division of the key case.

(2) The investor CPF is responsible for:

- a. Securing investor returns;
- b. Creating and maintaining investor files;
- c. Identifying tiers;
- d. Linking tier investors;
- e. Writing reports of examinations; and
- f. Making pass-through related assessments on linked investors in their control.

- (3) Generally, the key case CPF and investor CPF are the same. They may not be the same if the investor is linked to key cases or tiers in more than one operating Division (i.e., LB&I or SB/SE). These are called multi-linked tiers or investors.

4.31.1.1.4  
(06-08-2023)  
**Program Management and Review**

- (1) **Program Reports:** Each year an exam plan is created for partnership examinations.

- (2) **Program Effectiveness:** The exam plan is monitored to ensure the partnership examination objectives are met. Open examinations are monitored to ensure a TEFRA determination is made and that the Tax Matters Partner (TMP) Notice of Beginning of Administrative Proceeding (NBAP) date is entered on Examination Returns Control System (ERCS). For BBA audits, open examinations are monitored to ensure that the BBA procedures are properly followed including but not limited to the rightful Notice of Administrative Proceeding (NAP) letters issuance, the NAP date is entered on Examination Returns Control System (ERCS), the statute of limitations was properly extended.

4.31.1.1.5  
(04-04-2019)

#### Program Controls

- (1) Technical Services monitors a report to ensure TEFRA returns are identified in a timely manner. The AIMS provides a report for TEFRA one-year statute dates, AMS4940, that the field monitors to ensure field controlled Investor cases are completed timely.

4.31.1.1.6  
(06-08-2023)

#### Terms/Definitions/ Acronyms

- (1) There are several terms unique to TEFRA and BBA. Examples of these words:

Term	Definition
AAR	Administrative Adjustment Request (AAR) - Notification to the Internal Revenue Service (IRS) of any subsequent change by a TMP partner or partnership to the treatment of a partnership item. The AAR is filed by checking the appropriate boxes on Form 1065X, Amended Partnership Return, or by submitting Form 8082 (partnership level), Notice of Inconsistent Treatment or AAR, along with a claim for refund or an amended return. AAR procedures are in IRM 4.31.4. A BBA partnership may file an AAR under <b>IRC 6227</b> with respect to any partnership-related item and correct errors on a previously filed partnership return. A BBA AAR must be signed by the partnership representative or designated individual. IRM 4.31.9.7.7
Affected Item	Any item that requires adjustment as a result of an adjustment made to a partnership item. There are two types of affected items: computational and factual. Factual affected items are those that require a determination at the partner level.

Term	Definition
BBA	Bipartisan Budget Act (BBA) of 2015. The centralized partnership audit regime affects all partnerships filed with tax years beginning after December 31, 2017 unless the partnership is eligible and timely elected out of BBA.
Campus TEFRA Coordinator	Campus TEFRA Coordinator acts as a liaison between the CPF and the field offices, Appeals and Counsel for TEFRA cases. They also provide technical support for the CPF.
CCP	Centralized Case Processing (CCP)- This function processes assessments and abatements and closes or transfers cases from the area to the campus or to files.
CPF	Campus Pass-through Function (CPF)- The CPF is the suspense unit for investor returns located in the Brookhaven and Ogden campuses. The two CPFs will be maintained to obtain and control, through the AIMS and PCS, any partner, shareholder or investor returns related to key cases within their jurisdiction. For details see CPF IRM 4.31.3 and IRM 4.31.6.
CPF ILSC Coordinator	Campus Pass-through Function Investor Level Statute Control Coordinator acts as a liaison between the CPF and the field offices, Appeals and Counsel for ILSC cases. The CPF ILSC Coordinator also provides technical support for the CPF.

Term	Definition
FPAA	<p>Notice of Final Partnership Administrative Adjustment (FPAA) - The statutory notice of adjustments (as distinguished from a statutory notice of deficiency) in a TEFRA partnership proceeding that is subject to judicial review in the Tax Court, the Court of Federal Claims, or the district court of the United States where the partnerships principal place of business is located. Only partnership adjustments are identified. An FPAA may also include penalties that are determined at the partnership level. FPAAs should only be issued by the TSPC or the CPF, and not field agents.</p>
ILSC	<p>Investor Level Statute Control (ILSC). These are pass-through entities (Form 1120-S and Form 1065) where the assessment periods are controlled at the investor level. Proceedings involve investors in S corporations, partnerships that are not subject to TEFRA and for partnerships starting after December 31, 2017, electing out of BBA. See also NonTEFRA definition.</p>
Investor	<p>Partner, Shareholder, or Beneficiary - An investor return that reflects pass-through items from a pass-through entity return, which is controlled (via PCS and AIMS). Examples of investor returns includes, but is not limited to, Form 1040, Form 1041, Form 1120, Form 1120-S and Form 1065.</p>

Term	Definition
Key Case	An examined pass-through return established on PCS. For TEFRA this is a Form 1065, U.S. Return of Partnership Income. For ILSC this can be either a Form 1065 or Form 1120-S, U.S. Income Tax Return for an S Corporation which passes partnership or S corporation results of pass-through items to its investors on Schedules K-1.
LB&I	Large Business and International (LB&I). Serves corporations, subchapter S corporations, and partnerships with assets greater than \$10 million.
LIN	LB&I Imaging Network (LIN). The system used by LB&I to store images of returns.
Linkage	The electronic relationship between a pass-through entity and its investor
NBAP	Notice of Beginning of Administrative Proceeding (NBAP) - The required notice sent at the start of an examination of a TEFRA partnership to the TMP, and the copies of that letter sent to each notice partner. IRC 6223(a)(1)
NonTEFRA	Term used for partnership tax years beginning prior to January 1, 2018, that meet the small partnership exception of IRC 6231 and do not request a TEFRA election. Sometimes referred to as ILSC. See ILSC definition.
OYD	One-Year Date (OYD). This is a statute date applicable to TEFRA partnerships. Adjustments to the partner returns must be made within one year of a final partnership determination that finalizes the key case adjustments.
Partnership	A partnership is the relationship between two or more people to do trade or business.

Term	Definition
Partnership-related Item (BBA)	A Partnership-related Item (PRI) is defined as any item or amount with respect to the partnership that is relevant in determining the income tax liability of any person under Chapter 1, any partner's distributive share of such items, and the imputed underpayment. For further details, see Treas. Reg. § 301.6241-1(a)(6)(ii). Partnership Representative (PR) A Partnership Representative (PR) is designated by the partnership, has the sole authority to act on behalf of the partnership and can bind the partnership. The PR can be a partner or any other person, i.e. non-partner, that has a substantial presence in the United States.
PCS	Pass-through Control System (PCS) (formerly, Partnership Control System) - Database used to establish an electronic linkage between a key case pass-through entity and its underlying investors. The database is used to manage inventory, systemically generate notices, and control statutes.
Record	Information stored on the PCS database for a key case or an investor.
SB/SE	Small Business and Self-Employed (SB/SE). Generally serves taxpayers who file Form 1040, Schedules C, E, F or Form 2106, as well as small businesses with assets under \$10 million.
TMP	Tax Matters Partner (TMP) - The designated partner to whom the Service looks as the primary representative of the partnership that is subject to a TEFRA proceeding.
Technical Services	Technical Services (TS) is the field review staff.

Term	Definition
TSPC	The Technical Services Pass-Through Coordinator (TSPC) in Technical Services acts as a liaison between the Field Examiners and the CPFs for both TEFRA and BBA, as well as linked ILSC cases. The field examiner can locate their TSPC on the Partnership Knowledge Base, TEFRA Overview, Other Related Resources.
TEFRA	Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982.
Tier	A pass-through entity that is a partner of a pass-through entity. An S-corporation or partnership could be a tier partner of a partnership.
60-day Letter	Contains the TEFRA letter (1827 or 1829) sent to the TMP and notice partners proposing adjustments to partnership items, notifying them of their right to file a protest to Appeals, the schedule of adjustments, and an agreement Form 870-PT or a Form 870-LT. 60 day letters are only issued by the TSPC or the CPF, and not field agents.

4.31.1.1.7  
(06-08-2023)

#### Related Resources

- (1) The following IRM cross-references may be helpful:
  - a. Management of Interrelated and Related Cases: IRM 4.31, Pass-Through Entity Handbook.
  - b. AIMS: AIMS/Processing Handbook, IRM 4.4
  - c. Statute IRM 25.6.23, Examination Process-Assessment Statute of Limitations Controls.
  - d. Additional IRM links can be found on the Knowledge Management web site. *TEFRA Website Technical Services - Technical Services Code (TSC) Lists (irsnet.gov)*
  - e. IRM 8.19, Appeals Pass-Through Entity Handbook.

4.31.1.2  
(06-01-2004)

#### Overview

- (1) This handbook will explain the procedures for conducting a coordinated pass-through examination from both the field and campus perspective. The handbook is broken down into sections to allow the user to more easily find answers to questions. Check sheets are provided as a job aid and to ensure consistency is maintained.

- (2) The examiner of a key case pass-through entity must understand the different types of entities, and how they are examined.
- (3) The key case examiner must also know how the tax returns of the related partners are eventually adjusted.

4.31.1.3  
(04-04-2019)  
**Types of TEFRA  
Agreements**

- (1) The terminology used in these sections to describe certain agreements or settlement agreements is provided below:
  - a. Form 870-PT, Agreement for Partnership Items and Partnership Level Determinations as to Penalties, Additions to Tax, and Additional Amounts. This agreement form allows the partner to agree to adjustments proposed to partnership items. Penalties are determined at the partnership level for partnership years ending after 8/5/1997. (See IRC 6221.) Use this agreement form if only proposing adjustments to partnership items and partnership level penalties, but not to affected items.
  - b. Form 870-LT, Agreement for Partnership Items and Partnership Level Determinations as to Penalties, Additions to Tax, and Additional Amounts and Agreement for Affected Items. This form permits the partner to agree to both partnership adjustments and affected items or only partnership adjustments. A pass-through partner (i.e. a tier) cannot sign Part 2 of Form 870-LT agreeing to affected items since a pass-through partner cannot bind its underlying investors. Only the ultimate taxpayers can agree to affected items.
  - c. Form 870-PT(AD), Settlement Agreement for Partnership Items and Partnership Level Determinations as to Penalties, Additions to Tax, and Additional Amounts. This is the Appeals version of the Form 870-PT.
  - d. Form 870-LT(AD), Settlement Agreement for Partnership Items and Partnership Level Determinations as to Penalties, Additions to Tax, and Additional Amounts and Agreement for Affected Items. This is the Appeals version of the Form 870-LT.
- (2) Signing an agreement or settlement agreement:
  - a. Allows any partner to agree with the treatment in the partner's return of the examination (or settlement) results of the key case.
  - b. Removes the partner from any further partnership proceeding.
  - c. The TMP or partner will be agreeing to all proposed adjustments unless partial agreement language has been included on the settlement agreement form signed.
  - d. No subsequent claim may be filed.
  - e. The TMP can also agree for non-notice partners (partners holding less than a one percent profits interest in a partnership with more than 100 partners) if the Form 870-PT is modified to specifically state that the TMP is binding non-notice partners. Generally, an agreement signed by the TMP, as TMP, should not be executed unless it was signed with the attempt to bind non-notice partners.
  - f. All notice partners must sign their own separate agreements.
  - g. A settlement by a pass-through partner binds indirect partners to adjustments to partnership items and partnership level penalties, but not to affected items.
  - h. Non-notice partners may elect NOT to be covered by an agreement that may be entered into by the TMP, where the Form 870-PT may be modified to allow the TMP to agree for the non-notice partners. This



election is made by filing a statement with the Service denying the TMP the right to enter into such a settlement.

- i. The TMP cannot agree to affected item adjustments requiring deficiency proceedings for non-notice partners. Similarly, a pass-through partner cannot bind indirect partners to affected items.

**Note:** All settlement agreements signed by a taxpayer must be properly executed by the Service before an agreement is binding.

4.31.1.4  
(06-08-2023)  
**Pass-Through Control  
System (PCS), Formerly  
Partnership Control  
System Overview**

- (1) The PCS is a computer system designed to control and monitor pass-through entity and linked partner returns. It does not replace AIMS inventory control, but it provides the additional information needed to control partner and pass-through returns and meet the legal requirements of TEFRA. The PCS is described in depth in IRM 4.29, the Pass-Through Control System (PCS) Handbook including information on special features, the various user reports, letters, input documents, and indicators. IRM 2.2 covers information related to the specific command codes.

**Note:** .

4.31.1.5  
(06-08-2023)  
**TEFRA Corporate Data  
Initiative (CDI)  
Application**

- (1) The TEFRA CDI Application is a valid substitute for IDRS TXMOD controls. The campus will load all returns onto the CDI application to assist with processing and statute control. Local procedures will be developed regarding the proper use and function of the CDI application.
- (2) IDRS TXMOD controls are used to assist in inventory management and statute control. See **IRM 4.31.3.13.18.1(13)**, CCA 42-43 (ORCAS ).

4.31.1.6  
(06-05-2013)  
**TEFRA**

- (1) Before TEFRA was enacted in 1982, partnership items appearing on individual and corporate taxpayer returns were determined by individual audits and notices of deficiency which included both partnership and nonpartnership items. Thus, multiple partners in the same partnership would be adjusted through separate proceedings unique to each partner.
  - Statutory Notice - Partner A
  - Statutory Notice - Partner B
  - Statutory Notice - Partner C

Each notice suspended only the period for assessment for one partner and began a petition period for only that partner. Alternatively, the partner could allow the notice of deficiency to default, pay the tax, and file a claim/suit for refund. Inconsistent results were possible.

- (2) The TEFRA changed the way the Internal Revenue Service (IRS) conducts the examinations of those entities to which the TEFRA sections of the IRC apply. Along with the changes to the examination process, specific time frames and notice requirements were created. If these time frames and notice requirements are not properly adhered to, no assessments are allowable against any partner returns.
- (3) After the enactment of the unified partnership audit and litigation procedures of IRC 6221 through 6234 (TEFRA), one partnership audit, notice and judicial proceeding binds all partners:

- a. One NBAP is sent to the TMP to signify the beginning of an audit. Notice partners are sent copies.
  - b. One FPAA is sent to the TMP informing him/her of the Service's adjustment to partnership items. Notice partners are sent copies if their partnership items have not converted to nonpartnership items.
  - c. Only the FPAA notice to the TMP suspends the statute of limitations for all partners and begins the petition period for a unified judicial proceeding.
  - d. A petition based on FPAA may be filed in Tax Court, District Court, or Court of Federal Claims. Only one petition based on the FPAA to the TMP may be filed on behalf of all partners. Duplicate petitions will be dismissed.
  - e. If the TMP does not file a petition within the first 90 days after the FPAA was mailed, a petition may be filed within 60 days from the close of the 90-day period by any notice partner or 5 percent group.
  - f. The single petition that goes forward will bind all remaining partners regardless of whether they participate or intervene. If no petition is filed, the defaulted FPAA will bind all partners remaining in the partnership proceedings.
  - g. Once an FPAA is defaulted, no separate refund action is allowed to change partnership items. (IRC 6511(g) and IRC 7422(h)) Thus, all adjustments to partnership items that may result in a refund must be raised in a petition to the FPAA since this will be the sole opportunity to file a petition resulting in a refund.
  - h. The Service computes the resulting assessments and refunds following the default of the FPAA or the final decision of the Tax Court. Petitions to District Court or the Court of Federal Claims are treated as defaulted FPAA's for assessment and collection purposes in order to preserve the status of those forums as refund courts. (IRC 6225)
  - i. Penalties are assessed using notice of deficiency procedures following the partnership proceeding. For partnership years ending after August 5, 1997, however, they must be determined at the partnership level and directly assessed following the partnership proceeding even if the amount they are computed on are affected items subject to deficiency procedures.
- (4) The unified audit and litigation procedures (IRC 6221 - 6234) unified the procedures in three respects:
- a. All partners are governed by one administrative proceeding and one docketed proceeding (if applicable).
  - b. All deficiencies and refunds are determined based on the single unified proceeding.
  - c. IRC 6229 sets forth a minimum assessment period for all partners running from the date the partnership return is filed or due to be filed, whichever is later.
- (5) The existence of the CPF is to provide administrative assistance to the field offices. The CPF ensures the TEFRA requirements or partner level statute controls are met in accordance with the applicable sections of the IRC.
- (6) If the examiner fails to utilize PCS and the CPF (which is mandatory for TEFRA), then the examiner assumes all of the responsibilities of the CPF including administrative functions, issuances of all notices, the recognition of and the actions required within the proper time frames and the proper resolution of all of the related partner cases. The examiner must secure all of those

returns for resolution. If a partner in a pass-through entity is itself another pass-through entity (a pass-through entity, also called a tier), then the examiner must also secure all partner returns of the tier. As long as this tiering situation exists, the examiner must continue to secure and control all of the related returns.

- (7) When the examiner utilizes the CPF, substantially all of the burdens of administrative duties, time frames, notice requirements, partner examination report writing and tiering situations are shifted from the examiner to the CPF. The examiner is free to conduct the examination of the key case and the CPF will complete all of the required administrative functions.

**Note:** The examiner may choose to retain control of all the partners, but PCS linkage is still required.

If the examiner initially fails to recognize that TEFRA applies, but then later recognizes the need to transfer responsibilities to the CPF, all of the actions that would have been completed by the CPF to that point must be completed by the examiner prior to the shifting of any responsibilities. Complete cooperation and approval between the TSPC and the Campus TEFRA Coordinator is required.

4.31.1.7  
(06-08-2023)  
**Investor Level Statute  
Control (ILSC)**

- (1) Pass-through entities (Form 1120-S and Form 1065) where the assessment periods are controlled at the investor level. Proceeding involve investors in S corporations and partnerships that are not subject to TEFRA or elect out of BBA.
  - a. NonTEFRA partnerships are qualifying small partnership returns with tax years that begin before January 1, 2018, that do not elect into TEFRA.
  - b. BBA Elect Out (BEO) partnerships are those that elect out of BBA for tax years beginning on or after January 1, 2018.
- (2) Examiners may elect to link ILSC investors on PCS but still maintain control of all investors. PCS linkage is advised as it makes others aware of the examination and the related investors. This is valuable in the event an investor has multiple pass-through investments which may also be under examination. The awareness may prevent the inadvertent issuance of a statutory notice of deficiency by TS that is unaware of another exam.
- (3) If the examiner utilizes the CPF in the ILSC examination, then substantially all the burden of case control, statute protection and tiering are shifted to the CPF. As in TEFRA examinations, if the examiner starts out controlling the case but decides later to shift much of the responsibilities to the CPF, the examiner must have completed all necessary actions the CPF would have completed up to that time. The requirements for shifting responsibilities for ILSC cases are much more stringent than the requirements for TEFRA cases. Before any transfers can take place, it requires complete and total agreement and cooperation between the Technical Service TEFRA/Pass-Through Coordinator and the Campus ILSC Coordinator.
- (4) If the examiner elects not to use the PCS and the CPF for an ILSC case, the examiner assumes responsibility for substantially all the same functions as for TEFRA cases. ILSC cases do not have the same notice requirements or time frames, but the tiering, case control and report preparation requirements still exist for the examiner. With ILSC cases, if the examiner does not utilize the

CPF, the examiner assumes complete and total statute control for all related investors. Unlike TEFRA cases where the statute for all related investors is controlled at the key case level, the statute control for all related investors of an ILSC key case is controlled at the ultimate investor level. The examiner must secure all investor returns (including pass-through entities) and secure statute extensions for all entities required.

4.31.1.8  
(06-08-2023)  
**Centralized Partnership  
Audit Regime (BBA)**

- (1) Before BBA was enacted in 2015, partnership returns were examined under TEFRA or NonTEFRA procedures. For partnership tax years beginning after December 31, 2017 and forward, partnership examinations are audited under BBA procedures unless the partnership is eligible and timely elected out of BBA.
- (2) See IRM 4.31.9 Pass-Through Entity Handbook, Centralized Partnership Audit Regime (BBA) Field Examination Procedures.

4.31.1.9  
(06-08-2023)  
**Appeals Considerations**

- (1) If a NonTEFRA/ILSC key case is not linked on PCS, Appeals will only accept protesting investors cases if both of the following are met:
  - a. The entity has five or fewer investors, and
  - b. None of the investors is a pass-through entity.
- (2) If a NonTEFRA/ILSC key case is unagreed, the key case is not linked, and the case does not meet the criteria for sending multiple investor cases to Appeals, the key case examiner must either link the key case on PCS or hold the investor returns until the key case entity issues are resolved in Appeals. IRM 4.31.6, Investor Level Statute Control (ILSC) Pass-Through Examinations - CPF Procedures, describes the statute requirements for linking cases. The CPF will make no exceptions.
- (3) All BBA cases will be centralized through Appeals TEFRA/BBA Team. BBA Administrative Adjustment Requests (AARs) and all other BBA cases will be handled under the same procedures. IRM 8.19.14.