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U.S. Partnership Representative Solution

Internal Revenue Service (IRS) Audit Requirements

Why it's important and what's at stake

The Internal Revenue Service (IRS) audit rules require U.S. partnerships to appoint a Partnership Representative (PR) to manage the audit process with the IRS for each tax year. The rules apply to any domestic or foreign partnerships, including any foreign entity treated as a partnership under IRS rules, that is required to file a partnership return (U.S. Form 1065) in the United States.

What is the role of the Partnership Representative?

The Partnership Representative (PR) role wields considerable authority. Duties and powers include the following:

- Must be named on the partnership tax return effective for tax years beginning 1 January 2018
- Must have substantial presence in the U.S.
- Serves as a designated liaison for the partnership with the IRS during audits
- Has the power to bind the partnership and all former and current partners with respect to the audit process
- Has absolute power to conclude audit matters regardless of any limitations on the PR's authority in the partnership agreement.

Who can act as a Partnership Representative?

Any person or entity can serve as PR (including non-partners). The only limitation is that the person must have a substantial presence in the United States. A substantial presence means the PR must:

- Make themselves available to meet in person with the IRS at a reasonable time and place and
- Have a U.S. taxpayer ID number
- Have a U.S. address and phone number

Where the PR is an entity, the partnership must appoint an individual who meets the substantial presence requirements to act as the 'designated individual' of the entity serving as PR. If the partnership does not appoint a PR the IRS has the authority to appoint one on its behalf.

Which partnerships are covered by the rules?

The rules apply to all entities taxed as partnerships including:

- Limited partnerships
- General partnerships
- Limited liability companies electing partnership tax treatment
- Foreign entities that are engaged in a U.S. trade or business and file U.S. partnership tax returns

Carne's PR Solution

Carne can provide managers with a best in class Partnership Representative Solution:

- Experienced industry personnel with the appropriate managerial background to act as PR
- Experts supported by next generation technology
- A deep bench of U.S. based individuals across multiple U.S. locations

Next steps

To comply with the rules, U.S. partnerships must appoint a PR with a substantial presence in the United States. This substantial substance requirement is intended to ensure that the person selected to represent the partnership will be available to the IRS in the United States when the IRS seeks to communicate or meet with the representative. A requirement that could prove problematic for Non-U.S. fund managers without suitable U.S. employees who can fill the role.

For more information, get in touch:

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Carne: where asset management comes together

Carne makes operations simpler for organisations right across the asset management industry. Expertise in the areas of risk and compliance, due diligence and oversight, distribution and governance come together on a single platform to radically alter the ease and effectiveness with which our clients are able to function. From boutique managers through to global financial giants, we offer Unity through simplicity™: everything in one place for total control.

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