

113TH CONGRESS
2D SESSION

S. 3018

To amend the Internal Revenue Code of 1986 to reform the rules relating to partnership audits and adjustments.

IN THE SENATE OF THE UNITED STATES

DECEMBER 16, 2014

Mr. LEVIN introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to reform the rules relating to partnership audits and adjustments.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Partnership Auditing
5 Fairness Act”.

6 **SEC. 2. PARTNERSHIP AUDITS AND ADJUSTMENTS.**

7 (a) REPEAL OF TEFRA PARTNERSHIP AUDIT
8 RULES.—

1 (1) IN GENERAL.—Chapter 63 of the Internal
2 Revenue Code of 1986 is amended by striking sub-
3 chapter C.

4 (2) CLERICAL AMENDMENT.—The table of sub-
5 chapters for chapter 63 of such Code is amended by
6 striking the item relating to subchapter C.

7 (b) REPEAL OF ELECTING LARGE PARTNERSHIP
8 RULES.—

9 (1) IN GENERAL.—Subchapter K of chapter 1
10 of the Internal Revenue Code of 1986 is amended by
11 striking part IV.

12 (2) ASSESSMENT RULES RELATING TO ELECT-
13 ING LARGE PARTNERSHIPS.—Chapter 63 of such
14 Code is amended by striking subchapter D.

15 (3) CLERICAL AMENDMENTS.—

16 (A) The table of parts for subchapter K of
17 chapter 1 of such Code is amended by striking
18 the item relating to part IV.

19 (B) The table of subchapters for chapter
20 63 of such Code is amended by striking the
21 item relating to subchapter D.

22 (4) EFFECTIVE DATE.—The amendments made
23 by this subsection shall apply to returns filed after
24 December 31, 2014.

25 (c) PARTNERSHIP AUDIT REFORM.—

1 (1) IN GENERAL.—Chapter 63 of the Internal
 2 Revenue Code of 1986, as amended by this section,
 3 is amended by inserting after subchapter B the fol-
 4 lowing new subchapter:

5 **“Subchapter C—Treatment of Partnerships**

“PART I—IN GENERAL

“PART II—PARTNERSHIP ADJUSTMENTS

“PART III—PROCEDURE

“PART IV—DEFINITIONS AND SPECIAL RULES

6 **“PART I—IN GENERAL**

“Sec. 6221. Determination at partnership level.

“Sec. 6222. Partner’s return must be consistent with partnership return.

“Sec. 6223. Designation of partnership representative.

7 **“SEC. 6221. DETERMINATION AT PARTNERSHIP LEVEL.**

8 “(a) IN GENERAL.—Items of income, gain, loss, de-
 9 duction, or credit of a partnership for a partnership tax-
 10 able year (and any partner’s distributive share thereof)
 11 shall be audited, any tax attributable thereto shall be as-
 12 sessed and collected, and the applicability of any penalty,
 13 addition to tax, or additional amount which relates to an
 14 adjustment to any such item or share shall be determined,
 15 at the partnership level pursuant to this subchapter.

16 “(b) ELECTION OUT FOR CERTAIN PARTNERSHIPS
 17 WITH 100 OR FEWER PARTNERS.—This subchapter shall
 18 not apply with respect to any partnership for any taxable
 19 year if—

1 “(1) the partnership elects the application of
2 this subsection for such taxable year,

3 “(2) the partnership has 100 or fewer partners
4 on the last day of such taxable year,

5 “(3) each of the partners of such partnership is
6 an individual, a C corporation (other than a real es-
7 tate investment trust or a regulated investment com-
8 pany), any foreign entity that would be treated as a
9 C corporation were it domestic, or an estate of a de-
10 ceased partner,

11 “(4) the election—

12 “(A) is made with a timely filed return for
13 such taxable year, and

14 “(B) includes (in the manner prescribed by
15 the Secretary) a disclosure of the name and
16 taxpayer identification number of each partner
17 of such partnership, and

18 “(5) the partnership notifies each such partner
19 of such election in the manner prescribed by the
20 Secretary.

21 For purposes of paragraph (4)(B), the Secretary may pro-
22 vide for alternative identification of any foreign partners.

1 **“SEC. 6222. PARTNER’S RETURN MUST BE CONSISTENT**
2 **WITH PARTNERSHIP RETURN.**

3 “(a) IN GENERAL.—A partner of any partnership
4 shall, on the partner’s return, treat each item of income,
5 gain, loss, deduction, or credit attributable to such part-
6 nership in a manner which is consistent with the treat-
7 ment of such income, gain, loss, deduction, or credit on
8 the partnership return.

9 “(b) UNDERPAYMENT DUE TO INCONSISTENT
10 TREATMENT ASSESSED AS MATH ERROR.—Any under-
11 payment of tax by a partner by reason of failing to comply
12 with the requirements of subsection (a) shall be assessed
13 and collected in the same manner as if such underpayment
14 were on account of a mathematical or clerical error ap-
15 pearing on the partner’s return. Paragraph (2) of section
16 6213(b) shall not apply to any assessment of an under-
17 payment referred to in the preceding sentence.

18 “(c) ADDITION TO TAX FOR FAILURE TO COMPLY
19 WITH SECTION.—For addition to tax in the case of part-
20 ner’s disregard of the requirements of this section, see
21 part II of subchapter A of chapter 68.

22 **“SEC. 6223. PARTNERS BOUND BY ACTIONS OF PARTNER-**
23 **SHIP.**

24 “(a) DESIGNATION OF PARTNER.—Each partnership
25 shall designate (in the manner prescribed by the Sec-
26 retary) a partner (or other person) as the partnership rep-

1 representative who shall have the sole authority to act on be-
 2 half of the partnership under this subchapter. In any case
 3 in which such a designation is not in effect, the Secretary
 4 may select any partner as the partnership representative.

5 “(b) BINDING EFFECT.—A partnership and all part-
 6 ners of such partnership shall be bound—

7 “(1) by actions taken under this subchapter by
 8 the partnership, and

9 “(2) by any decision in a proceeding brought
 10 under this subchapter.

11 **“PART II—PARTNERSHIP ADJUSTMENTS**

“Sec. 6225. Partnership adjustment by Secretary.

“Sec. 6226. Administrative adjustment request by partnership.

12 **“SEC. 6225. PARTNERSHIP ADJUSTMENT BY SECRETARY.**

13 “(a) IN GENERAL.—In the case of any adjustment
 14 by the Secretary in the amount of any item of income,
 15 gain, loss, deduction, or credit of a partnership, or any
 16 partner’s distributive share thereof—

17 “(1) the partnership shall pay any imputed un-
 18 derpayment with respect to such adjustment in the
 19 adjustment year as provided in section 6232, and

20 “(2) any imputed overpayment shall be taken
 21 into account by the partnership in the adjustment
 22 year as a reduction in non-separately stated income
 23 or an increase in non-separately stated loss (which-
 24 ever is appropriate) under section 702(a)(8).

1 “(b) DETERMINATION OF IMPUTED UNDERPAY-
 2 MENTS AND OVERPAYMENTS.—For purposes of this sub-
 3 chapter—

4 “(1) IN GENERAL.—Except as provided in sub-
 5 section (c), any imputed underpayment or imputed
 6 overpayment with respect to any partnership adjust-
 7 ment for any reviewed year shall be determined—

8 “(A) by netting all adjustments of items of
 9 income, gain, loss, or deduction and multiplying
 10 such net amount by the highest rate of tax in
 11 effect for the reviewed year under section 1 or
 12 11,

13 “(B) by treating any net increase or de-
 14 crease in loss under subparagraph (A) as a de-
 15 crease or increase, respectively, in income, and

16 “(C) by taking into account any adjust-
 17 ments to items of credit as an increase or de-
 18 crease, as the case may be, in the amount de-
 19 termined under subparagraph (A).

20 “(2) ADJUSTMENTS TO DISTRIBUTIVE SHARES
 21 OF PARTNERS NOT NETTED.—In the case of any ad-
 22 justment which reallocates the distributive share of
 23 any item from one partner to another, such adjust-
 24 ment shall be taken into account under paragraph
 25 (1) by disregarding—

1 “(A) any decrease in any item of income or
2 gain, and

3 “(B) any increase in any item of deduc-
4 tion, loss, or credit.

5 “(c) MODIFICATION OF IMPUTED UNDERPAY-
6 MENTS.—

7 “(1) METHOD IN GENERAL.—The Secretary
8 shall establish procedures under which the imputed
9 underpayment amount may be modified consistent
10 with the requirements of this subsection.

11 “(2) AMENDED RETURNS OF PARTNERS.—Such
12 procedures shall provide that if—

13 “(A) one or more partners file returns for
14 the taxable year of the partners which includes
15 the end of the reviewed year of the partnership,

16 “(B) such returns take into account all ad-
17 justments under subsection (a) properly allo-
18 cable to such partners (and for any other tax-
19 able year with respect to which any tax at-
20 tribute is affected by reason of such adjust-
21 ments), and

22 “(C) payment of any tax due is included
23 with such return,

1 then the imputed underpayment amount shall be de-
 2 termined without regard to the portion of the adjust-
 3 ments so taken into account.

4 “(3) REALLOCATION OF DISTRIBUTIVE
 5 SHARE.—In the case of any adjustment which reallo-
 6 cates the distributive share of any item from one
 7 partner to another, paragraph (2) shall apply only if
 8 returns are filed by all partners affected by such ad-
 9 justment.

10 “(4) YEAR AND DAY FOR SUBMISSION TO SEC-
 11 RETARY.—Anything required to be submitted pursu-
 12 ant to paragraph (1) shall be submitted to the Sec-
 13 retary not later than the close the 180-day period
 14 beginning on the date on which the notice of a pro-
 15 posed partnership adjustment is mailed under sec-
 16 tion 6231 unless such period is extended with the
 17 consent of the Secretary.

18 “(5) DECISION OF SECRETARY.—Any modifica-
 19 tion of the imputed underpayment amount under
 20 this subsection shall be made only upon approval of
 21 such modification by the Secretary.

22 “(d) DEFINITIONS AND SPECIAL RULE.—For pur-
 23 poses of this subchapter—

1 “(1) REVIEWED YEAR.—The term ‘reviewed
2 year’ means the partnership taxable year to which
3 the item being adjusted relates.

4 “(2) ADJUSTMENT YEAR.—The term ‘adjust-
5 ment year’ means the partnership taxable year in
6 which—

7 “(A) in the case of an adjustment pursu-
8 ant to the decision of a court in a proceeding
9 brought under section 6234, such decision be-
10 comes final,

11 “(B) in the case of an administrative ad-
12 justment request under section 6226, such ad-
13 ministrative adjustment request is made, or

14 “(C) in any other case, notice of the final
15 partnership adjustment is mailed under section
16 6231.

17 **“SEC. 6226. ADMINISTRATIVE ADJUSTMENT REQUEST BY**
18 **PARTNERSHIP.**

19 “(a) IN GENERAL.—A partnership may file a request
20 for an administrative adjustment in the amount of any
21 item of income, gain, loss, deduction, or credit of the part-
22 nership for any partnership taxable year, but only to the
23 extent such adjustment results in an imputed under-
24 payment.

1 “(b) ADJUSTMENT.—Any adjustment under sub-
 2 section (a) shall be determined and taken into account by
 3 the partnership under rules similar to the rules of section
 4 6225 (other than subsection (c) thereof) for the partner-
 5 ship taxable year in which the administrative adjustment
 6 request is made.

7 “(c) PERIOD OF LIMITATIONS.—A partnership may
 8 not file such a request—

9 “(1) more than 3 years after the later of—

10 “(A) the date on which the partnership re-
 11 turn for such year is filed, or

12 “(B) the last day for filing the partnership
 13 return for such year (determined without re-
 14 gard to extensions), and

15 “(2) after any notice of an administrative pro-
 16 ceeding with respect to the taxable year is mailed
 17 under section 6231.

18 **“PART III—PROCEDURE**

“Sec. 6231. Notice of proceedings and adjustment.

“Sec. 6232. Assessment, collection, and payment.

“Sec. 6233. Penalties and interest.

“Sec. 6234. Judicial review of partnership adjustment.

“Sec. 6235. Period of limitations on making adjustments.

19 **“SEC. 6231. NOTICE OF PROCEEDINGS AND ADJUSTMENT.**

20 “(a) IN GENERAL.—The Secretary shall mail to the
 21 partnership and the partnership representative—

22 “(1) notice of any administrative proceeding
 23 initiated at the partnership level with respect to an

1 adjustment of any item of income, gain, loss, deduc-
2 tion, or credit of a partnership for a partnership tax-
3 able year, or any partner's distributive share thereof,

4 “(2) notice of any proposed partnership adjust-
5 ment resulting from such proceeding, and

6 “(3) notice of any final partnership adjustment
7 resulting from such proceeding.

8 Any notice of a final partnership adjustment shall not be
9 mailed earlier than 180 days after the date on which the
10 notice of the proposed partnership adjustment is mailed.

11 Such notices shall be sufficient if mailed to the last known
12 address of the partnership representative or the partner-
13 ship (even if the partnership has terminated its existence).

14 The first sentence shall apply to any proceeding with re-
15 spect to an administrative adjustment request filed by a
16 partnership under section 6226.

17 “(b) FURTHER NOTICES RESTRICTED.—If the Sec-
18 retary mails a notice of a final partnership adjustment to
19 any partnership for any partnership taxable year and the
20 partnership files a petition under section 6234 with re-
21 spect to such notice, in the absence of a showing of fraud,
22 malfeasance, or misrepresentation of a material fact, the
23 Secretary shall not mail another such notice to such part-
24 nership with respect to such taxable year.

1 “(c) **AUTHORITY TO RESCIND NOTICE WITH PART-**
 2 **nership Consent.**—The Secretary may, with the con-
 3 sent of the partnership, rescind any notice of a partner-
 4 ship adjustment mailed to such partnership. Any notice
 5 so rescinded shall not be treated as a notice of a partner-
 6 ship adjustment for purposes of this subchapter, and the
 7 taxpayer shall have no right to bring a proceeding under
 8 section 6234 with respect to such notice.

9 **“SEC. 6232. ASSESSMENT, COLLECTION, AND PAYMENT.**

10 “(a) **IN GENERAL.**—Any imputed underpayment—
 11 “(1) shall be assessed and collected in the same
 12 manner as if it were a tax imposed for the adjust-
 13 ment year by subtitle A, and
 14 “(2) shall be paid on or before the return due
 15 date for the adjustment year.

16 “(b) **LIMITATION ON ASSESSMENT.**—Except as oth-
 17 erwise provided in this chapter, no assessment of a defi-
 18 ciency may be made (and no levy or proceeding in any
 19 court for the collection of any amount resulting from such
 20 adjustment may be made, begun or prosecuted) before—
 21 “(1) the close of the 90th day after the day on
 22 which a notice of a final partnership adjustment was
 23 mailed, and

1 “(2) if a petition is filed under section 6234
2 with respect to such notice, the decision of the court
3 has become final.

4 “(c) PREMATURE ACTION MAY BE ENJOINED.—Not-
5 withstanding section 7421(a), any action which violates
6 subsection (b) may be enjoined in the proper court, includ-
7 ing the Tax Court. The Tax Court shall have no jurisdic-
8 tion to enjoin any action under this subsection unless a
9 timely petition has been filed under section 6234 and then
10 only in respect of the adjustments that are the subject
11 of such petition.

12 “(d) EXCEPTIONS TO RESTRICTIONS ON ADJUST-
13 MENTS.—

14 “(1) ADJUSTMENTS ARISING OUT OF MATH OR
15 CLERICAL ERRORS.—

16 “(A) IN GENERAL.—If the partnership is
17 notified that, on account of a mathematical or
18 clerical error appearing on the partnership re-
19 turn, an adjustment to a partnership item is re-
20 quired, rules similar to the rules of paragraphs
21 (1) and (2) of section 6213(b) shall apply to
22 such adjustment.

23 “(B) SPECIAL RULE.—If a partnership is
24 a partner in another partnership, any adjust-
25 ment on account of such partnership’s failure to

1 comply with the requirements of section
2 6222(a) with respect to its interest in such
3 other partnership shall be treated as an adjust-
4 ment referred to in subparagraph (A), except
5 that paragraph (2) of section 6213(b) shall not
6 apply to such adjustment.

7 “(2) PARTNERSHIP MAY WAIVE RESTRIC-
8 TIONS.—The partnership may at any time (whether
9 or not any notice of partnership adjustment has
10 been issued), by a signed notice in writing filed with
11 the Secretary, waive the restrictions provided in sub-
12 section (b) on the making of any partnership adjust-
13 ment.

14 “(e) LIMIT WHERE NO PROCEEDING BEGUN.—If no
15 proceeding under section 6234 is begun with respect to
16 any notice of a final partnership adjustment during the
17 90-day period described in subsection (b) thereof, the
18 amount for which the partnership is liable under section
19 6225 shall not exceed the amount determined in accord-
20 ance with such notice.

21 **“SEC. 6233. PENALTIES AND INTEREST.**

22 “(a) PENALTIES AND INTEREST DETERMINED FROM
23 REVIEWED YEAR.—

1 “(1) IN GENERAL.—In the case of an imputed
2 underpayment with respect to a partnership adjust-
3 ment for a reviewed year, the partnership—

4 “(A) shall pay to the Secretary interest
5 computed under paragraph (2), and

6 “(B) shall be liable for any penalty, addi-
7 tion to tax, or additional amount as provided in
8 paragraph (3).

9 “(2) DETERMINATION OF AMOUNT OF INTER-
10 EST.—The interest computed under this paragraph
11 with respect to any partnership adjustment is the in-
12 terest which would be determined under chapter
13 67—

14 “(A) on the imputed underpayment deter-
15 mined with respect to such adjustment, and

16 “(B) for the period beginning on the day
17 after the return due date for the reviewed year
18 and ending on the return due date for the ad-
19 justment year (or, if earlier, the date payment
20 of the imputed underpayment is made).

21 Proper adjustments in the amount determined under
22 the preceding sentence shall be made for adjust-
23 ments required for partnership taxable years after
24 the reviewed year and before the adjustment year by
25 reason of such partnership adjustment.

1 “(3) PENALTIES.—A partnership shall be liable
 2 for any penalty, addition to tax, or additional
 3 amount for which it would have been liable if such
 4 partnership had been an individual subject to tax
 5 under chapter 1 for the reviewed year and the im-
 6 puted underpayment were an actual underpayment
 7 (or understatement) for such year.

8 “(b) INTEREST AND PENALTIES WITH RESPECT TO
 9 ADJUSTMENT YEAR RETURN.—

10 “(1) IN GENERAL.—In the case of any failure
 11 to pay an imputed underpayment on the date pre-
 12 scribed therefor, the partnership shall be liable—

13 “(A) for interest as determined under
 14 paragraph (2), and

15 “(B) for any penalty, addition to tax, or
 16 additional amount as determined under para-
 17 graph (3).

18 “(2) INTEREST.—Interest determined under
 19 this paragraph is the interest that would be deter-
 20 mined by treating the imputed underpayment as an
 21 underpayment of tax imposed in the adjustment
 22 year.

23 “(3) PENALTIES.—Penalties, additions to tax,
 24 or additional amounts determined under this para-

1 graph are the penalties, additions to tax, or addi-
 2 tional amounts that would be determined—

3 “(A) by applying section 6651(a)(2) to
 4 such failure to pay, and

5 “(B) by treating the imputed under-
 6 payment as an underpayment of tax for pur-
 7 poses of part II of subchapter A of chapter 68.

8 **“SEC. 6234. JUDICIAL REVIEW OF PARTNERSHIP ADJUST-**
 9 **MENT.**

10 “(a) IN GENERAL.—Within 90 days after the date
 11 on which a notice of a final partnership adjustment is
 12 mailed under section 6231 with respect to any partnership
 13 taxable year, the partnership may file a petition for a re-
 14 adjustment for such taxable year with—

15 “(1) the Tax Court,

16 “(2) the district court of the United States for
 17 the district in which the partnership’s principal place
 18 of business is located, or

19 “(3) the Claims Court.

20 “(b) JURISDICTIONAL REQUIREMENT FOR BRINGING
 21 ACTION IN DISTRICT COURT OR CLAIMS COURT.—

22 “(1) IN GENERAL.—A readjustment petition
 23 under this section may be filed in a district court of
 24 the United States or the Claims Court only if the
 25 partnership filing the petition deposits with the Sec-

1 retary, on or before the date the petition is filed, the
 2 amount of the imputed underpayment (as of the
 3 date of the filing of the petition) if the partnership
 4 adjustment was made as provided by the notice of
 5 final partnership adjustment. The court may by
 6 order provide that the jurisdictional requirements of
 7 this paragraph are satisfied where there has been a
 8 good faith attempt to satisfy such requirement and
 9 any shortfall of the amount required to be deposited
 10 is timely corrected.

11 “(2) INTEREST PAYABLE.—Any amount depos-
 12 ited under paragraph (1), while deposited, shall not
 13 be treated as a payment of tax for purposes of this
 14 title (other than chapter 67).

15 “(c) SCOPE OF JUDICIAL REVIEW.—A court with
 16 which a petition is filed in accordance with this section
 17 shall have jurisdiction to determine all items of income,
 18 gain, loss, deduction, or credit of the partnership for the
 19 partnership taxable year to which the notice of final part-
 20 nership adjustment relates, the proper allocation of such
 21 items among the partners, and the applicability of any
 22 penalty, addition to tax, or additional amount for which
 23 the partnership may be liable under this subchapter.

24 “(d) DETERMINATION OF COURT REVIEWABLE.—
 25 Any determination by a court under this section shall have

1 the force and effect of a decision of the Tax Court or a
 2 final judgment or decree of the district court or the Claims
 3 Court, as the case may be, and shall be reviewable as such.
 4 The date of any such determination shall be treated as
 5 being the date of the court's order entering the decision.

6 “(e) EFFECT OF DECISION DISMISSING ACTION.—If
 7 an action brought under this section is dismissed other
 8 than by reason of a rescission under section 6231(c), the
 9 decision of the court dismissing the action shall be consid-
 10 ered as its decision that the notice of final partnership
 11 adjustment is correct, and an appropriate order shall be
 12 entered in the records of the court.

13 **“SEC. 6235. PERIOD OF LIMITATIONS ON MAKING ADJUST-**
 14 **MENTS.**

15 “(a) IN GENERAL.—Except as otherwise provided in
 16 this section, no adjustment under this subpart for any
 17 partnership taxable year may be made after the date
 18 which is 3 years after the latest of—

19 “(1) the date on which the partnership return
 20 for such taxable year was filed,

21 “(2) the return due date for the taxable year,
 22 or

23 “(3) the date on which the partnership filed an
 24 administrative adjustment request with respect to
 25 such year under section 6226.

1 “(b) EXTENSION BY AGREEMENT.—The period de-
 2 scribed in subsection (a) (including an extension period
 3 under this subsection) may be extended by an agreement
 4 entered into by the Secretary and the partnership before
 5 the expiration of such period.

6 “(c) SPECIAL RULE IN CASE OF FRAUD, ETC.—

7 “(1) FALSE RETURN.—In the case of a false or
 8 fraudulent partnership return with intent to evade
 9 tax, the adjustment may be made at any time.

10 “(2) SUBSTANTIAL OMISSION OF INCOME.—If
 11 any partnership omits from gross income an amount
 12 properly includible therein and such amount is de-
 13 scribed in section 6501(e)(1)(A), subsection (a) shall
 14 be applied by substituting ‘6 years’ for ‘3 years’.

15 “(3) NO RETURN.—In the case of a failure by
 16 a partnership to file a return for any taxable year,
 17 the adjustment may be made at any time.

18 “(4) RETURN FILED BY SECRETARY.—For pur-
 19 poses of this section, a return executed by the Sec-
 20 retary under subsection (b) of section 6020 on be-
 21 half of the partnership shall not be treated as a re-
 22 turn of the partnership.

23 “(d) SUSPENSION WHEN SECRETARY MAILES NOTICE
 24 OF ADJUSTMENT.—If notice of a final partnership adjust-
 25 ment with respect to any taxable year is mailed under sec-

tion 6231, the running of the period specified in subsection (a) (as modified by the other provisions of this section) shall be suspended—

“(1) for the period during which an action may be brought under section 6234 (and, if a petition is filed under such section with respect to such notice, until the decision of the court becomes final), and

“(2) for 1 year thereafter.

“PART IV—DEFINITIONS AND SPECIAL RULES

“Sec. 6241. Definitions and special rules.

“SEC. 6241. DEFINITIONS AND SPECIAL RULES.

“(a) DEFINITIONS AND SPECIAL RULES.—For purposes of this subchapter—

“(1) PARTNERSHIP.—The term ‘partnership’ means any partnership required to file a return under section 6031(a).

“(2) PARTNER.—The term ‘partner’ means—

“(A) a partner in the partnership, and

“(B) any other person whose income tax liability under subtitle A is determined in whole or in part by taking into account directly or indirectly income, gain, deduction, or loss of the partnership.

“(b) PARTNERSHIP ADJUSTMENT.—The term ‘partnership adjustment’ means any adjustment in the amount

1 of any item of income, gain, loss, deduction, or credit of
 2 a partnership, or any partner's distributive share thereof.

3 “(c) RETURN DUE DATE.—The term ‘return due
 4 date’ means, with respect to the taxable year, the date
 5 prescribed for filing the partnership return for such tax-
 6 able year (determined without regard to extensions).

7 “(d) JOINT AND SEVERAL LIABILITY.—

8 “(1) IN GENERAL.—The partnership and any
 9 partner of the partnership shall be jointly and sever-
 10 ally liable for any imputed underpayment and any
 11 penalty, addition to tax, or additional amount attrib-
 12 utable thereto.

13 “(2) PERIOD FOR ASSESSMENT OF PART-
 14 NERS.—The period for assessment of an imputed
 15 underpayment with respect to a partner of a part-
 16 nership shall not expire earlier than 3 years after
 17 the date on which an assessment of such imputed
 18 underpayment was made with respect to the partner-
 19 ship.

20 “(3) DETERMINING PARTNERS.—A person shall
 21 be treated as partner of the partnership if such per-
 22 son is a partner of such partnership at any time
 23 during the reviewed or adjustment year.

1 “(e) PAYMENTS NONDEDUCTIBLE.—No deduction
2 shall be allowed under subtitle A for any payment required
3 to be made by a partnership under this subchapter.

4 “(f) SPECIAL RULE FOR DEDUCTIONS, LOSSES, AND
5 CREDITS OF FOREIGN PARTNERSHIPS.—Except to the ex-
6 tent otherwise provided in regulations, in the case of any
7 partnership the partnership representative of which re-
8 sides outside the United States or the books of which are
9 maintained outside the United States, no deduction, loss,
10 or credit shall be allowable to any partner unless section
11 6031 is complied with for the partnership’s taxable year
12 in which such deduction, loss, or credit arose at such time
13 as the Secretary prescribes by regulations.

14 “(g) PARTNERSHIPS HAVING PRINCIPAL PLACE OF
15 BUSINESS OUTSIDE UNITED STATES.—For purposes of
16 sections 6234, a principal place of business located outside
17 the United States shall be treated as located in the Dis-
18 trict of Columbia.

19 “(h) PARTNERSHIPS IN CASES UNDER TITLE 11 OF
20 UNITED STATES CODE.—

21 “(1) SUSPENSION OF PERIOD OF LIMITATIONS
22 ON MAKING ADJUSTMENT, ASSESSMENT, OR COLLEC-
23 TION.—The running of any period of limitations pro-
24 vided in this subchapter on making a partnership
25 adjustment (or provided by section 6501 or 6502 on

the assessment or collection of any imputed under-
 payment determined under this subchapter) shall, in
 a case under title 11 of the United States Code, be
 suspended during the period during which the Sec-
 retary is prohibited by reason of such case from
 making the adjustment (or assessment or collection)
 and—

“(A) for adjustment or assessment, 60
 days thereafter, and

“(B) for collection, 6 months thereafter.

A rule similar to the rule of section 6213(f)(2) shall
 apply for purposes of section 6232(b).

“(2) SUSPENSION OF PERIOD OF LIMITATION
 FOR FILING FOR JUDICIAL REVIEW.—The running
 of the period specified in section 6234 shall, in a
 case under title 11 of the United States Code, be
 suspended during the period during which the part-
 nership is prohibited by reason of such case from fil-
 ing a petition under section 6234 and for 60 days
 thereafter.”.

(2) CLERICAL AMENDMENT.—The table of sub-
 chapters for chapter 63 of such Code is amended by
 inserting after the item relating to subchapter B the
 following new item:

“SUBCHAPTER C. TREATMENT OF PARTNERSHIPS”.

(d) CONFORMING AMENDMENTS.—

1 (1) Section 6422 of the Internal Revenue Code
2 of 1986 is amended by striking paragraph (12).

3 (2) Section 6501(n) of such Code is amended—

4 (A) by striking paragraphs (2) and (3),
5 and

6 (B) by striking “CROSS REFERENCES” and
7 all that follows through “For period of limita-
8 tions” and inserting “CROSS REFERENCE.—
9 For period of limitations”.

10 (3) Section 6503(a)(1) of such Code is amended
11 by striking “(or section 6229” and all that follows
12 through “of section 6230(a))”.

13 (4) Section 6504 of such Code is amended by
14 striking paragraph (11).

15 (5) Section 6511 of such Code is amended by
16 striking subsection (g).

17 (6) Section 6512(b)(3) of such Code is amend-
18 ed by striking the second sentence.

19 (7) Section 6515 of such Code is amended by
20 striking paragraph (6).

21 (8) Section 6601(c) of such Code is amended by
22 striking the last sentence.

23 (9) Section 7421(a) of such Code is amended
24 by striking “6225(b), 6246(b)” and inserting
25 “6232(c)”.

1 (10) Section 7422 of such Code is amended by
2 striking subsection (h).

3 (11) Section 7459(c) of such Code is amended
4 by striking “section 6226” and all that follows
5 through “or 6252” and inserting “section 6234”.

6 (12) Section 7482(b)(1) of such Code is amend-
7 ed—

8 (A) by striking “section 6226, 6228, 6247,
9 or 6252” in subparagraph (E) and inserting
10 “section 6234”,

11 (B) by striking subparagraph (F), by strik-
12 ing “or” at the end of subparagraph (E) and
13 inserting a period, and by inserting “or” at the
14 end of subparagraph (D), and

15 (C) by striking “section 6226, 6228(a), or
16 6234(c)” in the last sentence and inserting
17 “section 6234”.

18 (13) Section 7485(b) of such Code is amended
19 by striking “section 6226, 6228(a), 6247, or 6252”
20 and inserting “section 6234”.

21 (e) EFFECTIVE DATE.—Except as provided in sub-
22 section (b)(4), the amendments made by this section shall
23 apply to returns filed for partnership taxable years ending
24 after December 31, 2014, except that a partnership may
25 elect (at such time and in such form and manner as the

1 Secretary of the Treasury may prescribe) for such amend-
2 ments to apply to any return of the partnership filed for
3 partnership taxable years ending after the date of the en-
4 actment of this Act and before January 1, 2015.

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