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## LIST OF SUBSTANTIVE CHANGES AND ADDITIONS

### *PPC's 1065 Deskbook*

**Thirty-third Edition (October 2022)**

#### Highlights of this Edition

The following are some of the important new features of the 2022 Edition of *PPC's 1065 Deskbook*:

- **Inflation Reduction Act of 2022.** Although most of its changes affect years after 2022, the Inflation Reduction Act did affect several tax credits that partnerships pass through to their partners that will be reported in 2022. Changes to commonly encountered credits have been explained.
- **Schedules K-2 and K-3.** This edition of the *Deskbook* expands the discussion of preparing Schedules K-2 (Partners' Distributive Share Items—International) and K-3 (Partner's Share of Income, Deductions, Credits, etc.—International) to (a) explain when those schedules are required (based, in part, on FAQs released in April 2022), (b) explain when the various parts of the Schedules K-2 and K-3 must be completed, and (c) provide an example of reporting foreign taxes paid by the partnership.
- **Reportable transactions.** Taxpayers who enter into certain transactions must report these transactions on their return or face significant penalties. This edition of the *Deskbook* contains a new key issue to help preparers of partnership returns recognize potential reportable transactions, including those reported to them by lower-tier partnerships, and know how to report them on the Form 1065 and Schedules K-1.
- **Forgiven Paycheck Protection Program (PPP) loans.** The IRS has released guidance that provides partnerships with options for when to recognize the tax-exempt income related to a forgiven PPP loan. These options allow partnerships to recognize the tax-exempt income and related increase in the partners' outside basis in the same year that expenses paid with the PPP loan proceeds (and the related outside basis decrease) are recognized. In addition, guidance on allocating the tax-exempt income to the partners in a way that will be deemed to satisfy the Section 704(b) rules was issued.
- **Inflation-adjusted amounts.** Each year, many amounts are adjusted for inflation. The text and examples have been updated to reflect the 2022 amounts.

In addition to these featured items, your *Deskbook* includes the following update items detailed below.

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 1 Organizational, Syndication, and Start-up Expenses (Preopening Expenses)	1. Expanded the discussion of capitalizing certain costs to explain the treatment of costs that facilitate certain acquisitive transactions, including costs that are considered <i>inherently facilitative</i> .	Key Issue 1C
CHAPTER 3 Selecting the Tax Year	1. Added a discussion on when a partnership must change its tax year-end when a deceased partner's interest is transferred to an estate that chooses a fiscal tax year different than the deceased partner's tax year-end.	Key Issue 3B Example 3B-13

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 4 Accounting Methods	1. Clarified the discussion on how to change from an impermissible to a permissible depreciation method to explain available options when the impermissible method was only used for one tax year.	Key Issue 4E
CHAPTER 6 Audit Rules, Amended Returns, and Due Diligence in Form 1065 Preparation	1. Expanded the discussion of the centralized audit regime to note that return preparers need to verify the identity of the partnership representative (PR) on an annual basis.  2. Added a discussion on using penalty relief procedures available to small partnerships or the first-time penalty abatement procedures available to all taxpayers to reduce late filing penalties.  3. Added a new key issue on how to recognize and disclose reportable transactions, including how and when the disclosure should be made to partners	Key Issue 6A  Key Issue 6D  Key Issue 6M
CHAPTER 7 Trade or Business Income	1. Noted that the threshold for filing Form-1099K by third party settlement organizations (such as Venmo or Paypal) has been substantially reduced for 2022, so partnerships may receive Form 1099-K for the first time, especially if they participate in online sales.	Key Issue 7B
CHAPTER 8 Inventory and Cost of Goods Sold	1. Added a discussion of how the Section 280E loss disallowance rules apply to taxpayers in a cannabis business.	Key Issue 8I
CHAPTER 9 Nonbusiness Income	1. Added a discussion of the Revenue Procedure that gives partnerships options for determining the year to include tax-exempt income from a forgiven Paycheck Protection Program (PPP) loan. This affects the year that the related positive basis adjustment is made to the partners' outside basis  2. Covered the Revenue Procedure that provides guidance on allocating the tax-exempt income from a forgiven PPP loan to the partners in a way that will be deemed to meet the IRC Sec. 704(b) rules.  3. Explained a Chief Counsel Advice stating that taxpayers who received PPP loan forgiveness based on misrepresentations or omissions cannot exclude that forgiveness from taxable income.	Key Issue 9F  Key Issue 9F  Key Issue 9F
CHAPTER 10 Installment Sales and Like-kind Exchanges	1. Added an example of recomputing an installment sale gross profit percentage following a purchase price reduction.	Example 10B-6
CHAPTER 11 Trade or Business Property Transactions	1. Noted three favorable private letter rulings that found certain specific businesses were not performing services in the field of health or acting as an insurance broker. So, gains from the sale of their stock qualified for the Section 1202 exclusion of gain from the sale of qualified small business stock.  2. Clarified how to report the net Section 1231 gains or losses from an involuntary conversion to partners, noting the special reporting for involuntary conversions due to casualties and theft.	Key Issue 11A  Key Issue 11F

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 14 Taxes and Interest Expense	<ul style="list-style-type: none"> <li>3. The IRS provides a safe harbor for determining the loss associated with certain Ponzi-type investment schemes. The discussion of these losses has been expanded to cover a Tax Court case and IRS Chief Counsel advice that addressed the safe harbor</li> <li>4. Added a discussion of deducting losses when securities become worthless.</li> <li>5. When assets that constitute a trade or business are sold, the buyer and seller must report how the purchase/sales price was allocated to the various assets on Form 8594. Added a practice tip concerning written agreements that set forth the purchase price allocations.</li> <li>6. Added a discussion of the Form 8594 reporting when post-sale adjustments are made to purchase price.</li> </ul>	Key Issue 11G
CHAPTER 16 Partnership Retirement Plans and Fringe Benefits	<ul style="list-style-type: none"> <li>1. Noted that when computing adjusted taxable income [which is used to compute the Section 163(j) limit on business interest expense], depreciation and amortization expense are not added back to taxable income for tax years beginning after 2021.</li> </ul>	Key Issue 14G
CHAPTER 18 Qualified Business Income Deduction (IRC Sec. 199A)	<ul style="list-style-type: none"> <li>1. Added information about filing amended payroll tax returns if 2020 or 2021 COVID-19 payroll tax credits were not properly claimed on an original payroll tax return.</li> <li>1. Enhanced the discussion of how a partnership determines W-2 wages for purposes of the Section 199A wage/investment limit.</li> </ul>	Key Issue 16C
CHAPTER 20 Schedule K-1, Capital Account Reconciliation with Schedules M-1, M-2, and M-3	<ul style="list-style-type: none"> <li>1. Enhanced the discussion of reporting the partners' tax-basis capital on Schedule K-1 to clarify how adjustments made under IRC Secs. 734(b) and 743(b) affect outside basis and tax-basis capital accounts.</li> <li>2. Added additional examples of expenses recorded on the books but not included in the tax return, including excess business interest expense passed through from lower tier partnerships and leases reported in accordance with the ASC 842 lease accounting standards.</li> </ul>	Key Issue 20B
CHAPTER 21 Partnership Pass-through Items	<ul style="list-style-type: none"> <li>1. Updated the discussion about when rental income from a residence is subject to self-employment tax because substantial services are provided to occupants, based on two recent letter rulings.</li> <li>2. Expanded the discussion of preparing Schedules K-2 (Partners' Distributive Share Items—International) and K-3 (Partner's Share of Income, Deductions, Credits, etc.—International) to (a) explain when those schedules are required (based, in part, on FAQs released in April 2022), (b) explain when the various parts of the Schedules K-2 and K-3 must be completed, and (c) provide an example of reporting foreign taxes paid by the partnership.</li> </ul>	Key Issue 21E  Key Issue 21G Example 21G-1

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 22 Alternative Minimum Tax	<ol style="list-style-type: none"> <li>1. Added a discussion of depreciation methods and strategies to eliminate the AMT adjustment.</li> <li>2. Updated coverage for the required capitalization and amortization of Section 174 research and experimental expenditures paid or incurred after 2021.</li> </ol>	Key Issue 22A Key Issue 22B
CHAPTER 23 Reporting Credits Allocated to Partners	<ol style="list-style-type: none"> <li>1. Updated the discussion of Section 30D plug-in electric drive motor vehicle credit for changes enacted by the Inflation Reduction Act, some of which are effective for vehicles sold after August 16, 2022.</li> <li>2. Noted the temporary relief from compliance with certain operational provisions and deadlines related to the low-income housing credit provided in a 2022 IRS Notice.</li> <li>3. Explained the change in the definition of expenditures that qualify for the Section 41 credit for increasing research activities for amounts paid or incurred in tax years beginning after 2021.</li> <li>4. Noted the increased payroll tax credit for qualifying research expenditures for years beginning after 2022 provided by the Inflation Reduction Act.</li> </ol>	Key Issue 23A Key Issue 23B Key Issue 23E Key Issue 23E
CHAPTER 32 Transfers of Partnership Interests and Basis Adjustments	<ol style="list-style-type: none"> <li>1. Added an example showing how a Section 743 basis adjustment made when a partner acquires a partnership interest by sale or exchange affects subsequent transfers of that partnership interest.</li> </ol>	Ex. 32B-9