



# Internal Revenue Service

## Small Business/Self-Employed

# IRS Stakeholder Partners Headliners ...and more

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*This e-mail is being sent to you for distribution to your organization's members. If you need further assistance please contact your local Taxpayer Education and Communication (TEC) office. The number is available in IRS Publication 3698A "Small Business/Self-Employed Taxpayer Education and Communication at a Glance", which can be found at [Taxpayer Education and Communication](#).*

### **Schedule K-1 Matching Update**

Earlier this year, the IRS initiated the first matching program of Schedule K-1 forms from Partnerships, S Corporations and Trusts to individual returns. The first phase of this initiative has been completed. Based on preliminary stakeholder feedback and IRS evaluation, there may be enhancements made to the program to further reduce taxpayer burden and to improve compliance. The IRS will continue to work with stakeholders, especially tax practitioners, to refine the initiative. The IRS remains committed to improving compliance on information reporting on K-1s, and therefore ensuring fairness to all taxpayers, while imposing the least possible burden on taxpayers who are covered by K-1s.

As a result of discussions with external stakeholders, the IRS ceased issuing notices on August 1, 2002, to taxpayers for tax year 2000 on Schedule K-1 matching issues. The notices issued prior to August 1 are legally valid and will be processed as usual. Therefore, taxpayers and practitioners receiving these notices should respond as indicated in the notice.

In November 2002, the IRS expects to have sufficient data from closed cases to begin determining possible enhancements to the program. A review of various aspects of the program is planned, including the accuracy of the screen-out process and the level of no-change rates. The IRS will be working closely with external stakeholders once the data gathering and analysis are completed to develop future policy and procedures for the K-1 matching program. The matching of tax year 2001 returns will continue as scheduled, with anticipated refinements to be incorporated into the process. K-1 information will still be used in the following applications to enhance compliance:

1. Including K-1 information in the Substitute for Return program used to address non-filers
2. Adding K-1 information to the information reviewed by our Lead Development Center, which identifies abusive scheme promoters and users
3. Enhancing classification and selection of business and individual returns for examination through a more complete understanding of related flow-through entities

To fulfill this vision, the modifications being made to the Schedule K-1 matching program are essential. It may be helpful to remember the following suggestions when preparing tax returns:

- Adequately identify “amended” K-1 forms. The flow-through entity issuing the K-1 should clearly mark these as amended. Individuals are not required to attach the K-1 to their return. Therefore, the only way an individual can inform the IRS that an amended K-1 has been received is to attach a schedule or explanation.
- Adequately identify “estimated” K-1 forms.
- Avoid netting information unless adequate schedules or explanations are attached. Properly treat and report related expenses. Avoid netting flow-through related expenses against any K-1 income item. Additionally, passive activity loss or other loss carryovers that have been netted against ordinary flow-thru income (loss) should be explained on a schedule such as the Form 8582, Passive Activity Loss Limitation.