



Tax Basis Reporting Changes for 2020 Schedule K-1

All Partnership K-1s required to be reported on Tax Basis starting in Tax Year 2020

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Overview

The Internal Revenue Service (IRS) released Notice 2019-66 ahead of the 2019 tax year mandating that all Form 1065 Schedule K-1 partner capital accounts in Part L be reported on the Tax Basis method for partnerships with tax years beginning January 1, 2020. This contrasts with prior rules allowing for Generally Accepted Accounting Principles (GAAP), Section 704(b) and “Other” reporting methods to be utilized to report partner capital balances.

This change was originally proposed to take effect in tax year 2019, but was deferred to tax year 2020 due to timing constraints of taxpayers transitioning to the new method in time. The reasoning behind this change in reporting method is to create better clarity on the schedule K-1 and to show what the actual positive or negative tax basis is for each partner. Previously, any negative tax basis was required to be reported on schedule K-1, line 20AH, outside of any schedule L capital computation.



Additionally, taxpayers have been required to report partners’ shares of net unrecognized Section 704(c) gain or loss as of the beginning and end of the partnership’s 2019 taxable year. The Schedule K-1 instructions do not elaborate on the definition of “net unrecognized Section 704(c) gain or loss”.



There are open requests for additional guidance with respect to 704(c) computations. For purposes of reporting in 2020, partnerships should be consistent with prior years practice for purposes of applying Section 704(c) to partners until further guidance is issued.

It is worth noting that that Form 1065 (U.S. Return of Partnership Income), Schedule L ("Balance Sheet") has not received any changes in reporting methodology at this time. As such, Schedule L may still be reported on a GAAP basis to match Audited Financial Statements. The partnership capital account reported in Schedule L will then differ to what is being reported on Schedule K-1's that are distributed to partners. This mismatch is acceptable by the IRS and further updates to the reporting method may occur in future years to sync these numbers together again.

If you have any questions about the changes in Schedule K-1 reporting methodology or Section 704(c) calculations, please contact [Stephen Vlasak](#).