



Fair market valuation services for partnerships related to §743(b)



The Bipartisan Budget Act (BBA) of 2015 changed the way partnerships are audited effective for tax years ending after December 31, 2017. For the first time, the BBA causes the partnership to be potentially liable for U.S. federal income tax to the extent of any assessed underpayments, unless the partnership elects to push the adjustments out to reviewed year partners. However, the push-out option can be administratively burdensome for certain partnerships based on the volume of traded partnership units and number of partners in the partnership.

The items subject to the partnership audit rules are broadly defined and include, among other matters, §743(b) basis adjustments. Consequently, taxes owed as a result of a partnership audit adjustment attributable to §743(b) basis adjustments are the liability of the partnership (unless the push-out option is elected). While any partnership with a §754 election is potentially impacted, it is common for Master Limited Partnerships (MLP) to have §743(b) basis adjustments on at least a monthly basis.

Why now?

In light of the new partnership audit rules, it is critical for partnerships to substantiate the fair market value allocation among its assets when determining the amount of section §743(b) adjustments. Historically, partnerships may have allocated the majority of §743(b) adjustments to intangible assets or goodwill, without substantiation from a valuation. As a result of the potential liability to partnerships under the BBA rules, external auditors of partnerships may question the historical §743(b) allocation and basis adjustment methods, as historical §743(b) allocation methods may have lacked substantiation of value.

A sound valuation analysis of the partnership's assets can provide substantiation for the partnership's §743(b) allocations and basis adjustments among the partnership assets. This is a critical time for

partnerships to reassess their historical §743(b) allocation and basis adjustment methods; address any value substantiation issues with a properly performed valuation; and determine the frequency at which valuations may need to be conducted going forward.

This is where KPMG LLP (KPMG) can help.

Why choose KPMG?

The KPMG Valuation & Business Modeling Services practice has a dedicated team of professionals experienced in performing valuations of tangible and intangible assets for partnerships. KPMG professionals have performed valuations for a variety of purposes such as partnership formation, dissolution, and compliance, including §743(b).

As a leading provider of valuation services with a well-established track record, our team has the technical knowledge to effectively meet our clients' valuation needs and to help them vigorously defend their tax positions. Our practice is closely integrated with our Passthroughs Tax practice and has national resources dedicated to supporting tax valuation engagements. In fact, KPMG is the only Big Four valuation services provider that is part of a national tax practice, and the only Big Four firm to have dedicated valuation professionals within the firm's national tax office. We work closely with tax specialists within our

Washington National Tax (WNT) office, which gives us technical depth on complex valuation and tax issues and Internal Revenue Service audit procedures.

A flexible approach

We recognize that historical methods utilized by partnerships for the §743(b) allocation and basis adjustments and the frequency at which historical valuations were performed on the partnership's assets vary by partnership. We also recognize your partnership will have specific reporting requirements related to the §743(b) allocation and basis adjustment. Based on the specific nature of the partnership assets and other facts and circumstances, our valuation and tax professionals will work closely with you and your external auditors to help identify and address technical issues up front and also help you determine the scope and frequency of the valuation.

Frequently asked questions (FAQs)

What is the Bipartisan Budget Act of 2015?

The Bipartisan Budget Act of 2015 (BBA), signed into law on November 2, 2015, changed the way partnerships are audited for tax years beginning after December 31, 2017. The BBA repealed The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and allows the Internal Revenue Service to assess underpayments at the partnership level unless the partnership elects to push the underpayment out to reviewed year partners.

What is a §743(b) allocation and adjustment?

Partners are generally not allowed to adjust their interest in a partnership property upon acquisition, with two exceptions:

- Elective Adjustments under §754
- Mandatory Adjustments under §743(b) for substantial built-in loss property

The adjustment treats the purchasing partner as if they purchased an interest in each asset that the partnership owns for consideration paid, thus protecting the purchasing partner from inherent gain or loss in the partnership property.

Does §743(b) apply to your partnership?

If your partnership makes a §754 election or has substantial built-in loss property, regardless of whether the partnership is publicly traded, §743(b) could apply following any of these triggering events:

- Sale or exchange of a partnership interest
- Death of a partner
- Admittance of a new partner

To the extent that your partnership is an MLP, §743(b) may be more prevalent due to the frequency of partnership unit trades, volume of such trades, and high number of partners.

Contact us

Yuwon Pak

Managing Director, Washington
National Tax - Valuation
T: 202-533-4021
E: ywpak@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

[kpmg.com/socialmedia](https://www.kpmg.com/socialmedia)

