THE AVERAGE JOE GUIDE TO

Amending a BBA Partnership Return

The actual BBA correction procedure is an administrative adjustment request (AAR). Here is why there are two calculations, and what you actually prepare.

Two questions. Not two competing methods.

BBA centralizes correction and collection at the partnership. Push-out lets reviewed-year partners account for their own tax consequences.

PARTNERSHIP QUESTION

1 What is the basic IU?

IU means imputed underpayment. This is a standardized partnership-level calculation using grouping, netting and a statutory rate. It is not each partner's actual income tax.

COMPUTE EVEN IF PUSHING OUT

2 Choose the lawful route

Positive IU: partnership pays it OR elects to push out the adjustments.

Adjustments that do not result in an IU must go to partners, even if the partnership pays an IU.

PAY OR PUSH OUT; DOCUMENT THE CHOICE

INDIVIDUAL QUESTION

3 What is my tax change?

After receiving Form 8986, recompute actual old-year income tax with and without the adjustments. The partner's own deductions, credits and limits matter.

ONLY FOR ADJUSTMENTS PASSED TO YOU

4 Report on Form 8978

Use Schedule A and Form 8978 to bring the old-year income-tax differences into the reporting-year Form 1040. Do not treat the old adjustment as new current-year K-1 income.

REPORTING YEAR FOLLOWS FURNISHING DATE

Why $3,700 and $2,000 can both be correct

The next pages use one invented example. $3,700 is the basic IU; $2,000 is one partner's assumed actual income-tax increase. They are not two bills for the same pushed-out adjustment.

What stays in the file versus what is filed

Old-year WITH/WITHOUT copies are workpapers. The AAR package and reporting-year Form 8978 are filing documents. Only you perform any CCH Axcess filing.

IRS: IU computation and pay-versus-push-out routes

IRS: Form 8978 instructions

First calculate the imputed underpayment

Illustration only: $100,000 ordinary income was split 50/50. The correct split is 60/40. This is not a finding about the actual case's IU.

Partner / item	Original	Corrected	Difference
A: ordinary income	$50,000	$60,000	+$10,000
B: ordinary income	$50,000	$40,000	-$10,000
Partnership total	**$100,000**	**$100,000**	**$0**

1 Classify before netting

For every year, list each item, partner, original amount, corrected amount and difference. Assign its grouping and subgroup; keep supporting schedules.

WORKPAPER: NOT JUST TOTAL CHANGE

2 Do not cancel these legs

Here, A's +$10,000 and B's -$10,000 belong in separate reallocation subgroups. A zero partnership-total change does not prove zero IU.

ILLUSTRATIVE REALLOCATION

$10,000 positive base × 37% = $3,700

Basic IU before other items or modifications

The general framework is eligible net positive reallocation/residual adjustments × the highest section 1 or 11 rate for the reviewed year, plus applicable credit-group and creditable-expenditure adjustments. Use their specific rules, not unrestricted netting.

Why 37%? Why not the partner's personal rate?

37% applies to the 2020/2021 illustration. It is the statutory reviewed-year rate used here, not a forever rate or a forecast of either partner's bill. Example assumes no credits or modifications.

IRS: How to figure an imputed underpayment

IRS: Form 8082 instructions, grouping and netting

Actual-case check: a saved “No” IU answer is not proof the computation is correct. Retain and review the IU schedule for each reviewed year.

Now calculate the partner's actual tax

Continue the same illustration for Partner A. Form 8986 communicates a +$10,000 old-year ordinary-income adjustment, not a new $10,000 current-year K-1.

Copy the old Form 1040 twice. Do not overwrite the filed return.

Use the proper baseline, including prior amendments or adjustments. Use the old year's tax law in both copies. Keep these hypothetical returns as workpapers.

WITHOUT Leave this adjustment out

Old K-1 ordinary-income input:
$50,000

Use all the other proper baseline inputs. Recalculate the full return.

Assumed income-tax result: $22,000

WORKPAPER ONLY - DO NOT FILE

WITH Apply the adjustment

Old K-1 ordinary-income input:
$50,000 + $10,000 = $60,000

Do not enter $110,000. Recompute affected deductions, credits and limits.

Assumed income-tax result: $24,000

WORKPAPER ONLY - DO NOT FILE

$24,000 - $22,000 = X = $2,000

This old year's income-tax difference

Compare income tax, not the refund or balance due

Withholding, estimated payments and other payment items can change a refund without changing income tax. Do not use total tax if it blends SE tax or NIIT into this calculation.

CHECK Related items

Recalculate affected QBI, deductions, credits and loss limits. Trace basis, passive losses and other carryovers into later years.

NO FLAT-RATE SHORTCUT

SE / NIIT Separate treatment

If affected, prepare a limited first-affected-year 1040-X and explanation. Do not duplicate Form 8978's income-tax change.

SE EARNINGS ARE NOT SE TAX

IRS: Form 8978 instructions, actual tax recomputations

IRS: Form 1040-X instructions, BBA non-income-tax changes

One controlled path from old years to 2023

Case framing: 2020 and 2021 corrections; 2023 reporting year in the prepared case draft. Confirm Form 8986 furnishing dates. A prepared draft is not proof of IRS filing.

2020 Direct correction → **2021** Direct + carryover → **2022** Carryover effects → **2023** Reporting year

Compute one coordinated income-tax delta per affected year. In 2021, include its direct correction and any 2020 carryover effect together, once. Then include any 2022 difference. Reporting-year attributes also need to be carried forward correctly.

2020 delta + 2021 delta + 2022 delta → Form 8978

For example only: 2020 $2,000 + 2021 $600 + 2022 $0 = $2,600 income-tax adjustment. Do not add the $3,700 partnership IU to it. Compute required interest and penalties separately; this is not automatically the payment due.

PARTNERSHIP FILING PACKAGE

AAR Electronic or paper

Electronic: Form 1065 with G(5) “Amended return” checked for transmission, plus Form 8082 marked AAR/BBA with applicable elections and signed PR/DI signature page.

Paper: Form 1065-X marked BBA AAR.

Include IU computation and support.

THE CHECKBOX DOES NOT MAKE IT NON-BBA

INDIVIDUAL FILING PACKAGE

1040 Reporting-year return

Prepare Schedule A (Form 8978) and Form 8978 from the annual income-tax calculations. Report the result on the applicable reporting-year Form 1040 line.

Reconcile Forms 8986 to the workpapers and final output; verify software calculations.

2023 HERE, SUBJECT TO DATE VERIFICATION

The handoff: 8985 + 8986

For pushed-out adjustments: include Form 8985 summary and Forms 8986 with the AAR. Furnish each partner's 8986 on the AAR filing date. Do not furnish amended K-1s for the AAR.

IRS: AAR package, electronic amended checkbox and partner statements

IRS: Form 8978 instructions

Preparation and review guide, not a filing authorization. No CCH menu path is assumed. Check the applicable year's rules, timeliness, state treatment and form revisions before filing. You must personally perform any CCH Axcess filing.

Which route is actually available?

Do this screening for each reviewed year before building the package. A valid election out of BBA is annual; do not assume last year's status carries forward.

1 Was the partnership outside BBA for that year?

YES, including a valid annual election out: use the applicable ordinary amended-return / amended-K-1 route.
NO: use the BBA AAR process for partnership-related corrections, not ordinary amended K-1s.

VERIFY THE ORIGINAL RETURN AND ELECTION

2 Is the AAR route open?

Original return must already be filed. Generally, file within 3 years of the later of its filing date or its unextended due date.

A Notice of Administrative Proceeding (NAP) generally closes this route. Check specific exceptions; do not assume an expired or blocked AAR can be cured by an ordinary amendment.

IF BLOCKED: STOP AND RESOLVE THE PROCEDURAL ROUTE

3A Positive IU

Choose partnership payment OR a valid election to push out all adjustments.

If the partnership pays, it still pushes out adjustments that do not result in an IU.

THE PARTNER DOES NOT CHOOSE THIS ELECTION

3B Zero / non-IU adjustments

Push out the applicable adjustments to reviewed-year partners. An IU of zero does not mean there is no partner-level work or tax effect.

8985 + 8986 ARE STILL NEEDED

4 Who received Form 8986?

Individual / taxable non-pass-through partner: Form 8978 path.
Partnership / S corporation: pass-through rules; evaluate further push-out versus payment, not an individual 1040 workflow.
Trust / estate: classify items taxable to the entity versus passed to beneficiaries; both paths can apply.
SE tax / NIIT affected: separate limited old-year amendment, not Form 8978 income tax.

DO NOT SEND EVERY RECIPIENT DOWN THE SAME PATH

IRS: AAR eligibility, deadline, NAP restriction and payment routes

IRS: Form 8978, taxable and pass-through partners

Workload reality: this may require several amendments' worth of preparation and review. That does not mean every recomputed old return is filed as an amendment.

What each form does, and where it goes

Use the applicable revision. “Schedule A” below means Schedule A (Form 8978), not the itemized-deduction Schedule A attached to Form 1040.

PARTNERSHIP	**1065 + 8082**	Electronic AAR package to IRS; 1065 G(5) amended checkbox plus 8082 AAR/BBA designation.
PARTNERSHIP	**1065-X**	Paper AAR route to IRS; not an extra form on top of the electronic route.
PARTNERSHIP	**8985**	Summary/transmittal to IRS with AAR for pushed-out adjustments.
PARTNERSHIP	**8986**	Partner-specific adjustment statement: IRS with AAR and each partner on AAR filing date.
PREPARER	**Copied old 1040s**	WITH/WITHOUT tax calculations. Workpapers, not filed old-year amendments.
INDIVIDUAL	**8978 + its Schedule A**	Annual income-tax recomputations and adjustments; attach to reporting-year Form 1040.
INDIVIDUAL	**1040-X; SE / 8960**	Conditional first-affected-year amendment for SE tax / NIIT; supporting schedules as applicable.

IU is tax. It is not a penalty.

Partnership-pay route: separately determine interest and any applicable penalties. Partner push-out: Form 8978 line 14 is the tax adjustment; line 15 is penalties; line 17 is interest.

For AAR push-out interest, calculate each positive old-year tax increase from that year's original return due date to payment. Use the AAR underpayment rate (federal short-term rate + 3 points), with quarterly rate changes and daily compounding. Do not use the audit push-out +5 rate. A negative-year tax change does not create an interest credit.

Keep an interest workpaper: year | tax principal | start/end dates | quarterly rates | days | interest. Attach required computations. Penalties are fact-dependent, not an automatic 20%. Tax plus interest and applicable penalties affects payment; do not fold everything into the line 14 tax adjustment.

IRS: Form 8978 lines 14, 15, 17 and AAR interest exception

IRS: Form 8082, AAR interest and partnership payment

No case interest amount or automatic CCH calculation is assumed. Verify dates, rates, output and any penalty basis.