LARGE PARTNERSHIPS

Growing Population and Complexity Hinder Effective IRS Audits

What GAO Found

Internal Revenue Service (IRS) data show, from tax years 2002 to 2011, the number of large partnerships more than tripled. According to IRS officials, many large partnerships are hedge funds or other investment funds where the investors are legally considered partners. Many others are large because they are tiered and include investment funds as indirect partners somewhere in a tiered structure. According to IRS data, there were more than 10,000 large partnerships in 2011. A majority had more than 1,000 direct and indirect partners although hundreds had more than 100,000. A majority also had six or more tiers.

IRS audits few large partnerships—0.8 percent in fiscal year 2012 compared to 27.1 percent for large corporations. Of the audits that were done, about two-thirds resulted in no change to the partnership’s reported net income. The remaining one-third resulted in an average audit adjustment to net income of $1.9 million. These minimal audit results may be due to challenges hindering IRS’s ability to effectively audit large partnerships. Challenges included administrative tasks required by the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and the complexity of large partnership structures due to tiering and the large number of partners. For example, IRS auditors said that it can sometimes take months to identify the person who represents the partnership in the audit, as required by TEFRA, reducing the time available to conduct the audit. Complex large partnerships also make it difficult to pass through audit adjustments across tiers to the taxable partners.

What GAO Recommends

GAO makes no recommendations but will issue a report later in 2014 assessing IRS’s large partnership audit challenges. IRS provided technical comments, which were incorporated.

View GAO-14-746T. For more information, contact James R White at (202) 512-9110 or whitej@gao.gov.