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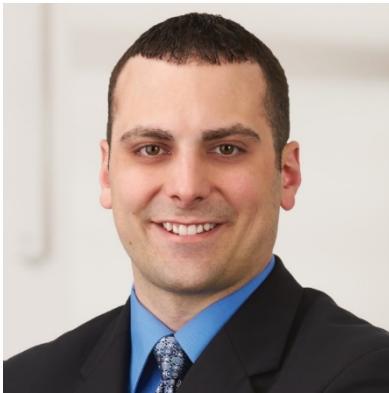
Tiered Partnerships and the Future of K-1 Reporting



Presenters



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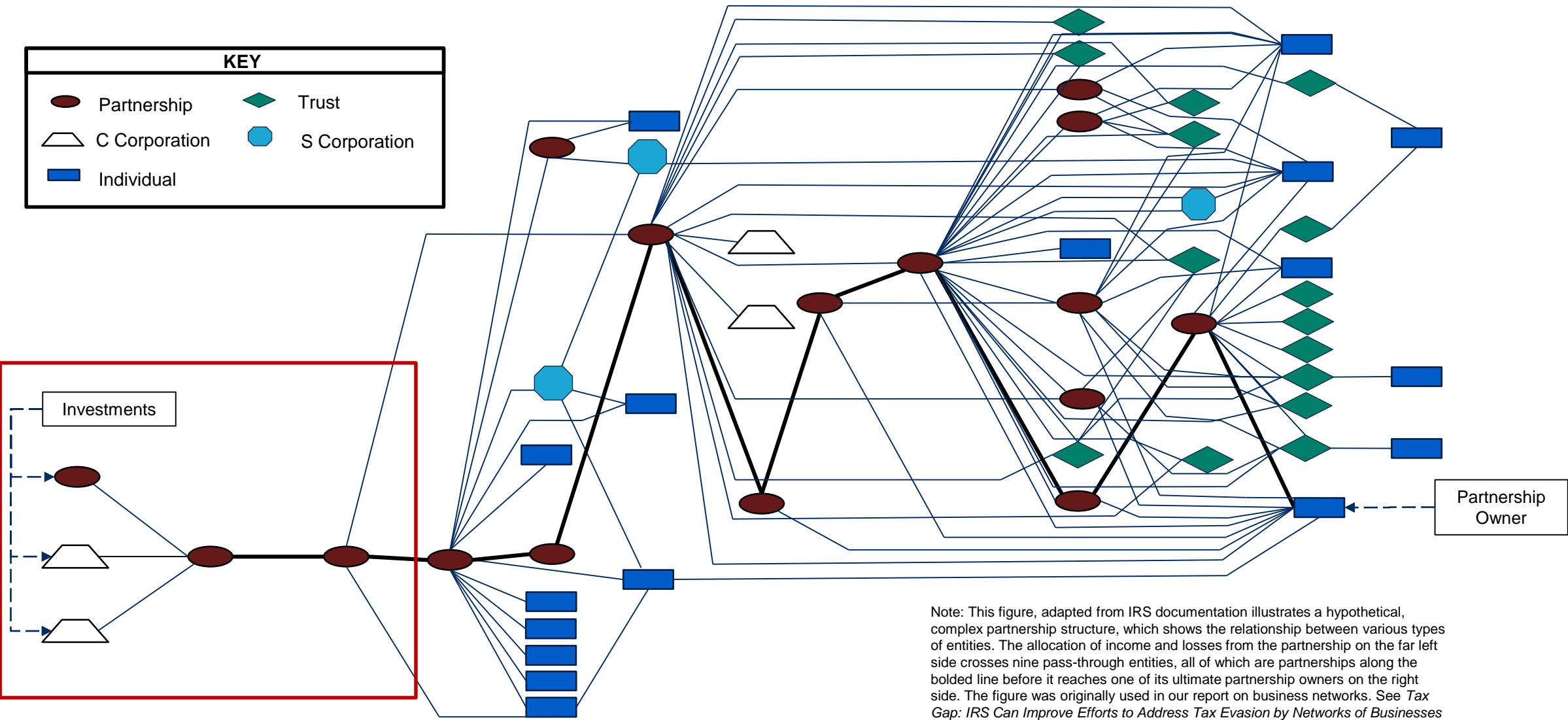
Agenda

1)	What is a tiered partnership structure?
2)	What are the benefits of a tiered partnership structure?
3)	What are the drawbacks of a tiered partnership structure?
4)	What are the reporting risks for tiered partnerships?
5)	How does the Digital K-1 process improve the lives of K-1 producers and recipients?

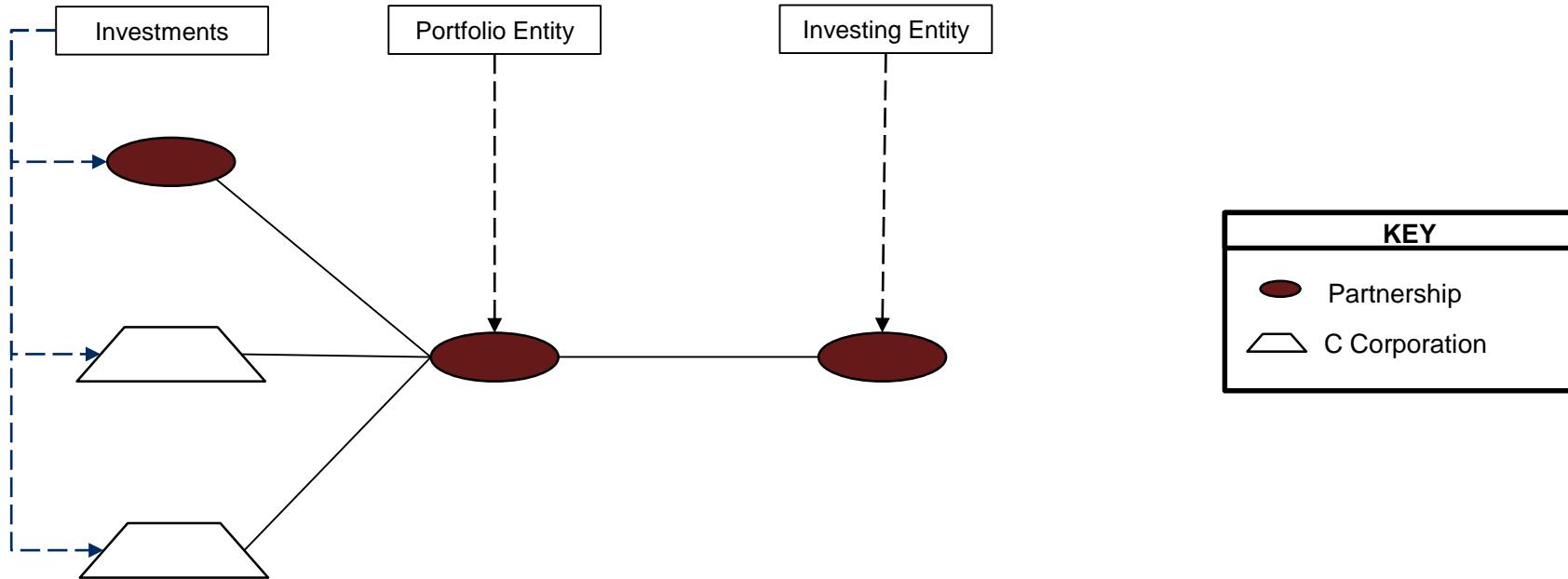
Tiered Partnerships: Structures



Hypothetical Tiered Partnership Structure



Simple Hypothetical Tiered Partnership Structure



Tiered Partnerships: Benefits and Drawbacks



Partnership Objectives

Economic &
Operating
Agreements



Legal
Framework



Tax
Minimization



Tiered Partnership Benefits (Part 1)

- **Economic** – Separate groups can be aggregated in different entities, each containing discreet economic agreements among the members of each entity – fee arrangements, preferential allocations “promote or carried interest.”
- **Flexibility** – Partnerships and the attendant agreements can be drafted to contain flexibility in the allocation of items of income/loss, cash contributions/distributions, entry/exit of partners/members, nature of operations, and investments; income is generally not restricted.

Tiered Partnership Benefits (Part 2)

- **Tax Efficient** – Partnership entities are generally not subject to federal income tax at the entity level; accordingly, using multiple/tiered partnerships in a structure does not generally create incremental federal income tax leakage between the income-producing investment and the ultimate taxpayer. Tax items generally retain their character as they “flow through” to the partnership entity to the ultimate taxpayer.
- **Legal** – A separate legal presence can be created to accommodate varying agreements among members, lender requirements (“bankruptcy remote”), aggregation of certain investor types (“ERISA”), liability protection & risk management, and contractual parties.

Tiered Partnership Drawbacks (Part 1)

- **Accounting** – Separate legal entity accounting required for tax reporting and cumbersome in comparison with consolidation for financial accounting purposes.
- **Administrative** – Incremental costs including, but not limited to, legal, tax compliance, and accounting can generally be significant.
- **Risk & data management** – Incremental entities increase risk in terms of accuracy, multiple transfer points of data, tax audit, and compliance risk.

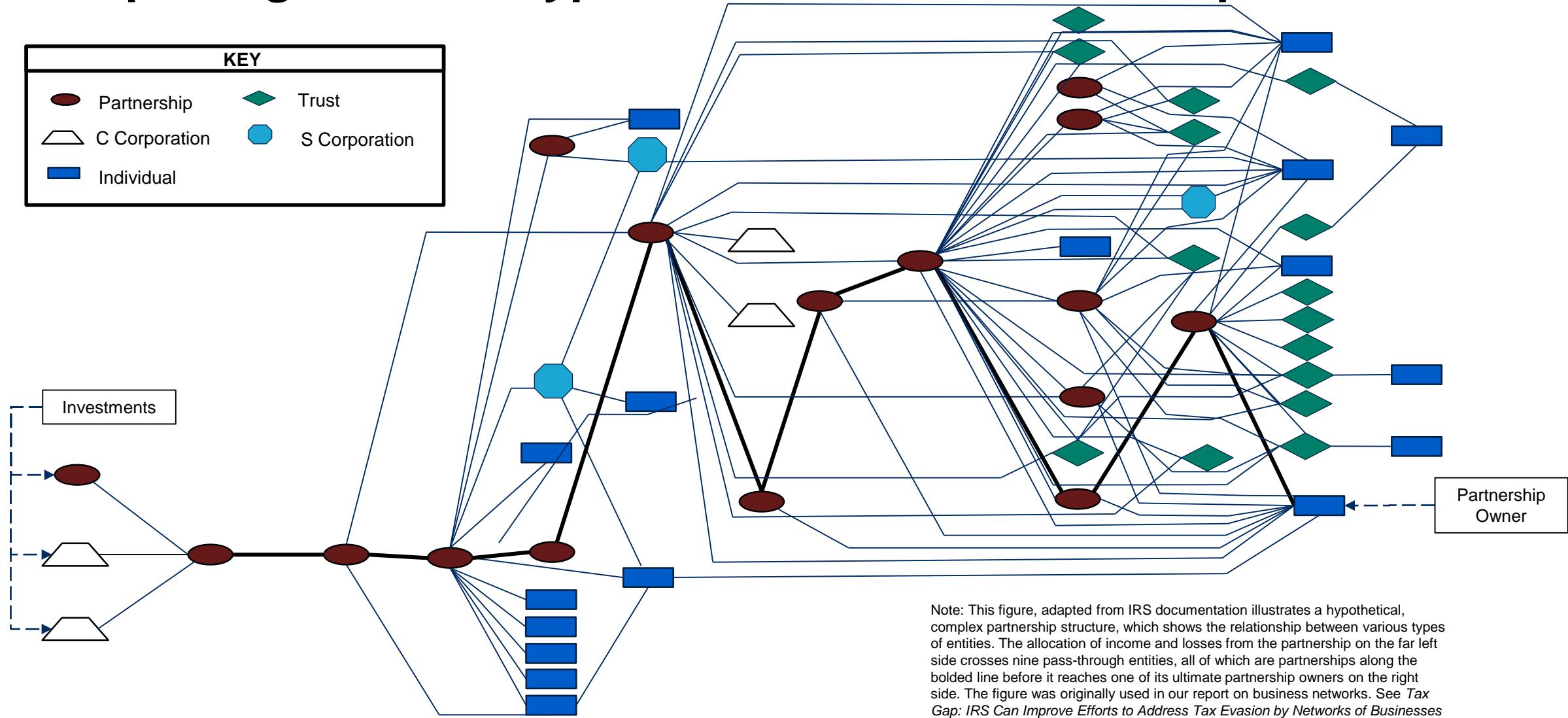
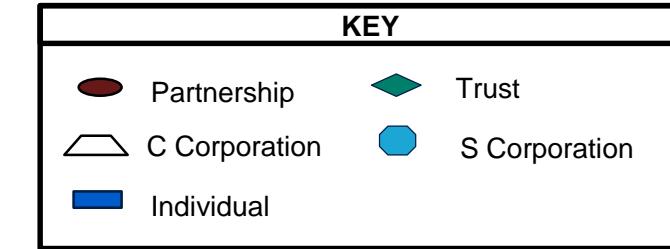
Tiered Partnership Drawbacks (Part 2)

- **Increases Cost/Risk** – Compliance cost, risk, timeliness, and accuracy.
- **State & Local Tax** – Nexus and withholding tax, visibility, and dependency on ultimate taxpayer posture, which is most relevant starting at lowest tier of structure and determined at multiple layers throughout the structure.
- **Changes in tax law** – New disclosure requirements (uncertainty) impact multiple tax entities – for example, TCJA (199A, 163(j)), state and local specific A&A/adjustments.

Tiered Partnerships: Reporting Risks



Reporting Risks in Hypothetical Tiered Partnership Structure

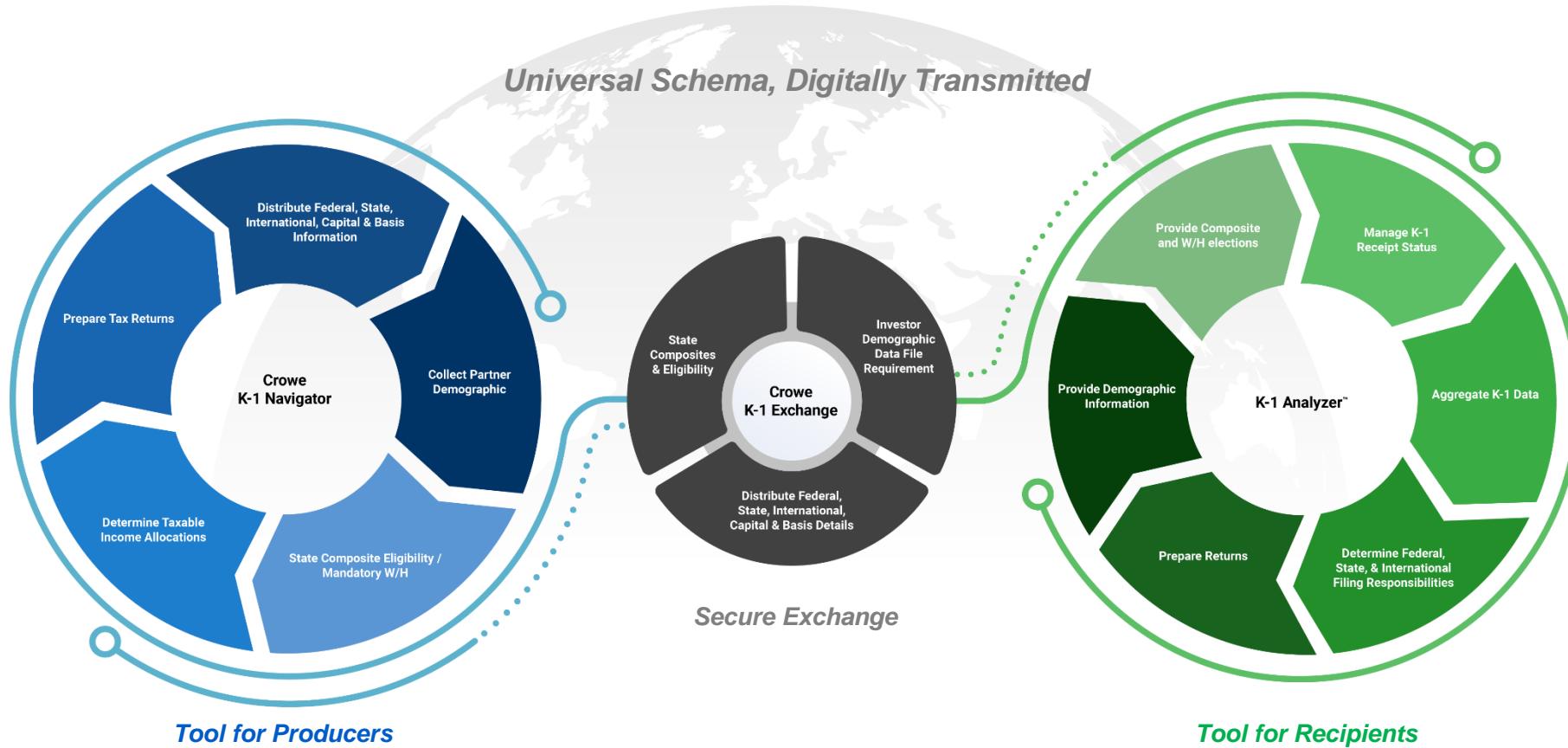


Note: This figure, adapted from IRS documentation, illustrates a hypothetical, complex partnership structure, which shows the relationship between various types of entities. The allocation of income and losses from the partnership on the far left side crosses nine pass-through entities, all of which are partnerships along the bolded line before it reaches one of its ultimate partnership owners on the right side. The figure was originally used in our report on business networks. See *Tax Gap: IRS Can Improve Efforts to Address Tax Evasion by Networks of Businesses and Related Entities*. GAO-10-968 (Washington, D.C.: Sept 24, 2010).

Tiered Partnerships: Digital K-1 Process



The Digital K-1 Process via the Crowe K-1 Advantage



K-1 Analyzer is a registered trademark of Thomson Reuters. Thomson Reuters and Crowe LLP entered into a strategic collaboration in 2019 to help tax professionals address the manual work related to K-1 forms.

What does this mean for Tiered Partnerships?



As Producers of K-1s

- See your flow-through **structure** in a systematic manner to facilitate **transparency, speed**, and **accuracy** in your process.
- **Standardize** your prep/delivery of K-1s through the Crowe K-1 Navigator and posting to the Crowe K-1 Exchange via the Digital K-1.

As Receivers of K-1s

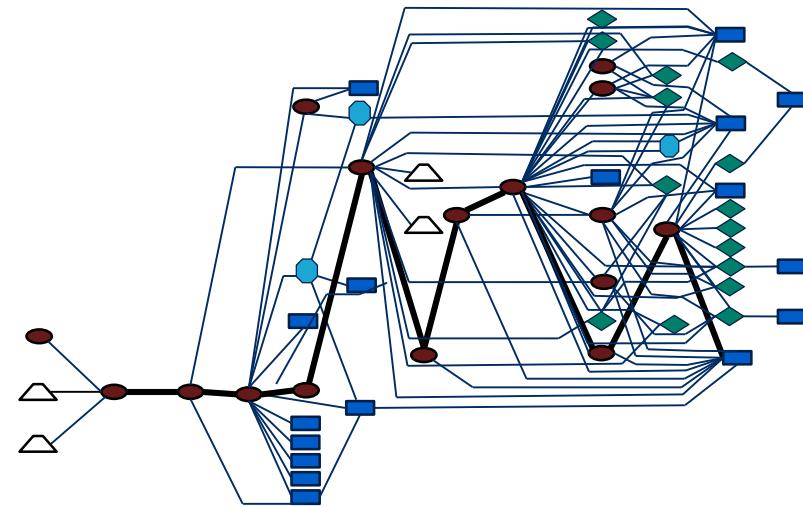
- **Centralize** the way you communicate with the producers of your K-1s that you are waiting on.
- **Standardize** how you collect, receive, and process your K-1s via the Digital K-1 getting to your most important activities of aggregation/analysis **quickly**.

Tiered Reporting

- Create visibility and streamline allocating/aggregating through the tiers **accurately and timely**.
- Maintain **consistent reporting/footnotes** throughout the tiers.

The Journey toward a Digital K-1

What it looks like today



What it feels like when we get into the work



A Digital K-1 can help us get here



Thank You

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Appendix

Mark your calendars! Upcoming Events

Event	Date
8986 and Related Topics on Partner's Share of Adjustments	July 22
Schedules K-2 and K-3	August 25
The Digital K-1	September 22
Launch Events/Training	October 16 – December 31

Other Reading/Listening Materials

- [The Crowe K-1 Advantage suite](#)
- [How AI and machine learning can help with K-1s \(Podcast\)](#)
- [Standardization and innovation will drive change in the K-1 reporting paradigm](#)
- [Improving the K-1 process \(Q&A with Neal Schneider\)](#)
- [Digital K-1: Move Forward Blue Sky Event \(Recorded Sessions from December 2020\)](#)