



441 G St. N.W.
Washington, DC 20548

March 19, 2014

The Honorable Ron Wyden
Chairman
Committee on Finance
United States Senate

The Honorable Carl Levin
Chairman
The Honorable John McCain
Ranking Member
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate

Large Partnerships: Characteristics of Population and IRS Audits

In recent years, the number of businesses organized as partnerships has increased significantly, rising 47 percent between tax years 2002 and 2011.¹ In tax year 2011, nearly 3.3 million partnerships accounted for \$20.6 trillion in assets and \$580.9 billion in total net income.² Also from 2002 to 2011, large partnerships—measured in terms of asset size and number of direct partners³—increased significantly as well.⁴ Between those tax years, large partnerships (with 100 or more direct partners and \$100 million or more in assets) increased more than 200 percent, accounting for \$2.3 trillion in total assets and \$69.1 billion in total net income by tax year 2011. As the size and number of these large partnerships has grown, Congress and others have raised concerns about the extent to which the Internal Revenue Service (IRS) is able to audit these entities and minimize compliance risk.

Due to the growth of large partnerships and the limited publicly-available data on them, it was requested that we provide information on the number and characteristics of large partnerships and on those large partnership returns that have been subject to IRS audit. Specifically, this report describes (1) the number and characteristics of large partnerships, and (2) the number of IRS audits of large partnership returns and the characteristics of those audits.

¹A partnership is a “pass-through” or “flow-through” entity for tax purposes because the income earned by partnerships is attributed to (or passed through to) the owners of the business; this income is—in general—taxed only once for partners who are taxable (as is done under the individual income tax system).

²Internal Revenue Service, “Partnership Returns: Selected Balance Sheet and Income Statement Items, Tax Years 1999-2011, Historical Table 11,” *Statistics of Income (SOI) Bulletin*, accessed February 18, 2014, <http://www.irs.gov/uac/SOI-Tax-Stats-Historical-Table-11>.

³Direct partners are those partners that have a direct interest in the large partnership during the tax year.

⁴The terms “large partnership” and “large, widely-held partnership” do not have a single, widely accepted definition. The Internal Revenue Code (IRC) does define an electing large partnership as a partnership that had 100 or more direct partners during the preceding tax year and makes an election. Electing large partnerships choose an alternative IRS reporting and auditing process that uses a Form 1065-B to report annual partnership tax information. See 26 U.S.C. § 775(a)(1).

This is an interim report; it will contribute to a broader body of work we are conducting on large partnerships and any risks related to their tax compliance. The graphics and data in this report provide a high level overview of the population of large partnerships and of those large partnership returns that have been audited by IRS. Our broader, ongoing work on large partnerships will provide a more in-depth analysis of such IRS data; it will explore why certain differences in the data exist, especially for data pertaining to the audited population of large partnership returns. Our ongoing work will also identify the challenges that auditing large partnership returns presents to IRS and evaluate various actions IRS is taking, both to address those challenges and to reduce the overall risk these entities may present to tax compliance.

For purposes of this report, we did not identify a statutory, IRS, or industry-accepted definition of a large partnership. Instead, we defined "large partnership" using a combination of criteria for partner size and asset size used by IRS. We defined large partnerships as those that reported having 100 or more direct partners⁵ and \$100 million or more in assets⁶ on their Form 1065, U.S. Return of Partnership Income, or on Form 1065-B, U.S. Return of Income for Electing Large Partnerships.⁷ A partnership may have qualified for this asset size threshold if it had an ownership interest in another partnership, meaning double counting of assets may exist among this population.⁸

In addition, IRS compiles and reports data from audits by predefined codes, known as activity codes. While IRS segregates its corporate audits by activity codes for the corporation's reported asset size, IRS does not segregate its audits of partnerships in this manner and the codes are generally less granulated than those that exist for corporations. As a result, IRS's activity codes do not have a category for "large partnerships."⁹ Therefore, to identify the population of large

⁵We used the "100 or more direct partners" threshold because it is consistent with the criterion that a partnership must meet to file a Form 1065-B. However, the number of direct partners may not capture the total partner size of a partnership structure if one or more partnerships have an ownership interest in another partnership. For example, a partnership may have few direct partners, but thousands of indirect partners if its direct partners are partnerships themselves, which in turn have a large number of partners.

⁶We used the "\$100 million or more in assets" threshold because it is consistent with how IRS's annual partnership study segregates large partnerships by asset size. See IRS Statistics of Income, *Partnership Returns, 2011* (Washington, D.C.: Fall 2013).

⁷Every partnership with any item of taxable income, deduction, or credit is required to file a Form 1065 or 1065-B showing these items. Foreign partnerships must do so if they have gross income derived from sources within the United States or gross income effectively connected with the conduct of a trade or business in the United States.

⁸When one partnership has an ownership interest in another, the value of that interest is included in the owner's assets. As a result, double counting of assets can occur in a given population of partnerships. For example, if partnership A owns a 50 percent interest in partnership B, which has total assets of \$10 million, then (depending on its accounting method), partnership A's total assets could include \$5 million that were also reported as part of partnership B's assets. Some of the large partnerships in our population may not have reached the \$100 million asset threshold without their ownership interests in other partnerships. The average asset size of this population is also higher than it would be without those ownership interests. We do not know the extent to which the large partnerships in our population hold ownership interests in other partnerships, nor do we know how many of those other partnerships may also be large partnerships.

⁹The activity codes for partnerships include 480, all partnership returns processed prior to January 1988; 481, 10 or fewer partners with gross receipts under \$100,000; 482, 10 or fewer partners with gross receipts of \$100,000 or more; and 483, 11 or more partners. Partnerships that pay an entity level tax at the conclusion of an IRS audit, such as an electing large partnership, have an activity code of 473. IRS plans to implement a new activity code structure for partnerships in fiscal year 2015 that would provide a more granulated breakout and allow IRS to report on

partnership returns subject to IRS audit, we had to merge certain databases as described below.

To determine the number and characteristics of large partnerships, we obtained data from the Business Return Transaction File (BRTF) on the number and characteristics of large partnerships that filed a Form 1065 or a 1065-B for tax years 2002 through 2011.¹⁰ We analyzed and reported BRTF data by the total number of partnerships that met these criteria during tax years 2002 to 2011. Over the same period of time, we analyzed the number of partnerships by asset and partner size brackets, by average partner and asset size, and by industry group. For figures that were developed as a result of our work on the number and characteristics of large partnerships, see enclosure I.

To determine the number of IRS audits of large partnership returns and the characteristics of those audits, we identified the population of large partnerships in BRTF for tax years 2002 to 2011 and merged that identified population with data from the Audit Information Management System (AIMS).¹¹ We then used the data to identify and report those partnership returns subject to IRS audit that were closed during fiscal years 2007 to 2013.¹² Once we identified the audited population of large partnership returns, we broke out the results between those audits that were traditional IRS field audits (in which IRS audited the books and records of a partnership return), and campus function audits (in which IRS usually passed audit adjustments through to the related partners' returns).¹³ We included campus function audits in our analysis to ensure consistency with IRS, as they include campus function audits when calculating audit coverage rates. We reported the number of audits completed by asset and partner size brackets. We also reported the audit results consistent with how IRS measures them, such as the audit coverage rate (partnership returns subject to audit as a percentage of the total partnership return population) and no change rate (those audits that resulted in no change to the tax return from the audit). Where data were available, we compared these measures for large partnership

partnership audit results by various asset sizes. IRS plans to report on this activity code structure beginning in fiscal year 2016.

¹⁰Return data from tax year 2011 was the most recent year of data available in BRTF.

¹¹Since we only identified the population of large partnerships in BRTF going back to 2002, the data we report from AIMS on the audited population of returns does not include returns that were filed before 2002. For example, if a return was filed prior to 2002 and then audited by IRS during fiscal years 2002 to 2013, it would not be included in the data we report. In addition, since there is a time lag from when IRS processes a partnership return to when that return is selected for audit and subsequently closed, we only report data from AIMS on the audited population for fiscal year 2007 to 2013.

¹²We report information on a fiscal year basis because IRS reports its tax enforcement information on a fiscal year basis in its annual data book. See Internal Revenue Service, *Data Book 2012*, Publication 55B (Washington, D.C.: March 2013). The fiscal year the audit is closed is not necessarily representative of the audit activity levels or the audit results for the year of the closure. In many cases, the audits were initiated and the majority of the audit work was done in prior years.

¹³IRS data includes two types of partnership return audits. A campus function audit is mainly an administrative support function used by IRS. While technically considered to be audits by IRS, campus function audits generally do not entail a review of the books and records of the taxpayer return in question, as do audits completed in the field. IRS staff said that the number of indirect partners of a partnership has more of an impact on IRS's campus function than on the field audits. IRS staff added that partnership returns filed between tax years 2002 and 2011, with between 100 and 1,000 total investors, which include both direct and indirect partners, averaged 44 direct partners. Those with between 1,001 and 100,000 total investors averaged 130 direct partners. IRS said these partnership structures can be very large and that special allocations within each individual partnership, which is a partner of the partnership structure, make it difficult to process the adjustments through to the taxable entities.

return audits to those listed in the *IRS Data Book* for corporate return audits of the same asset size.¹⁴ The average values we report in both objectives may be affected disproportionately by a few large outliers as the number of partnerships with 100 or more direct partners and \$100 million or more in assets and those that have been audited by IRS are relatively small. For figures and tables that were developed as a result of our work on IRS's audits of large partnership returns, see enclosure II. Where applicable, we noted IRS's comments below each figure and table in enclosures I and II.

For the purposes of this review, we determined that the data from BRTF, AIMS, and the *IRS Data Book* used in our analyses were reliable. Our data reliability assessment included reviewing relevant documentation, conducting interviews with knowledgeable IRS officials, and conducting electronic testing of the data to identify obvious errors or outliers.

We conducted this performance audit from January 2014 to March 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In summary, the number of large partnerships with 100 or more direct partners and \$100 million or more in assets increased from 720 in tax year 2002 to 2,226 in tax year 2011. Large partnerships also increased in terms of the average number of direct partners and average asset size. IRS had data on two categories of large partnership return audits. First, the number of completed field audits of large partnership returns increased from 11 in fiscal year 2007 to 31 in fiscal year 2013. Second, IRS counted audits closed through its campus function, which increased from 42 to 143 over the same period. Unlike field audits, campus function audits generally do not entail a review of the books and records of the large partnership return but rather were opened to pass through large partnership return audit adjustments to the related partners' returns. The percentage of IRS audits that resulted in no change to the taxpayer's return varied from fiscal year 2007 to 2013 but was 52 percent for campus function audits and 45 percent for field audits in fiscal year 2013.


Agency Comments

We provided a draft of this report to the Secretary of the Treasury and the Commissioner of Internal Revenue for comment. IRS provided technical comments that we incorporated, as appropriate. Treasury had no comments.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Chairmen and Ranking Members of other Senate and House committees and subcommittees that have appropriation, authorization, and oversight responsibilities for IRS. We will also send copies of this report to the Secretary of the Treasury and the Commissioner of Internal Revenue. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

¹⁴The IRS Data Book is only available through 2012, so we report data from fiscal years 2007 to 2012. See Internal Revenue Service, *Data Book 2012*, Publication 55B (Washington, D.C.: March 2013).

If you or your staff have any questions about this report, please contact me at (202) 512-9110 or whitej@gao.gov. Contact points for our offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were Tom Short, Assistant Director, Vida Awumey, Sara Daleski, Deirdre Duffy, Robert Gerhart, Hayley Landes, Veronica Mayhand, Robert Robinson, Cindy Saunders, Erik Shive, Albert Sim, A.J. Stephens, and Jason Vassilicos.

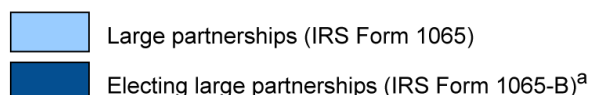
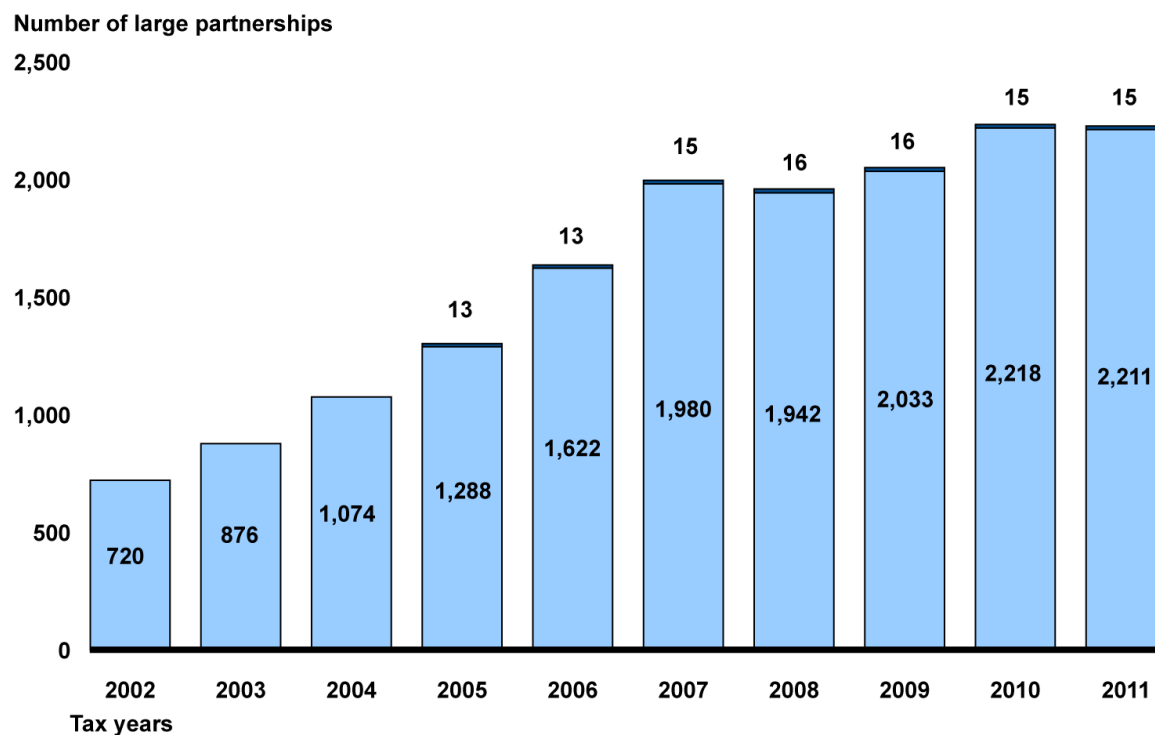
A handwritten signature in black ink that reads "James R. White". The signature is written in a cursive style with a large initial "J" and "W".

James R. White
Director, Tax Issues
Strategic Issues

Enclosures – 2

Enclosure I: Number and Characteristics of Large Partnership Returns

Figure 1: Large Partnerships by Form 1065 and 1065-B Tax Returns, Tax Years 2002 to 2011



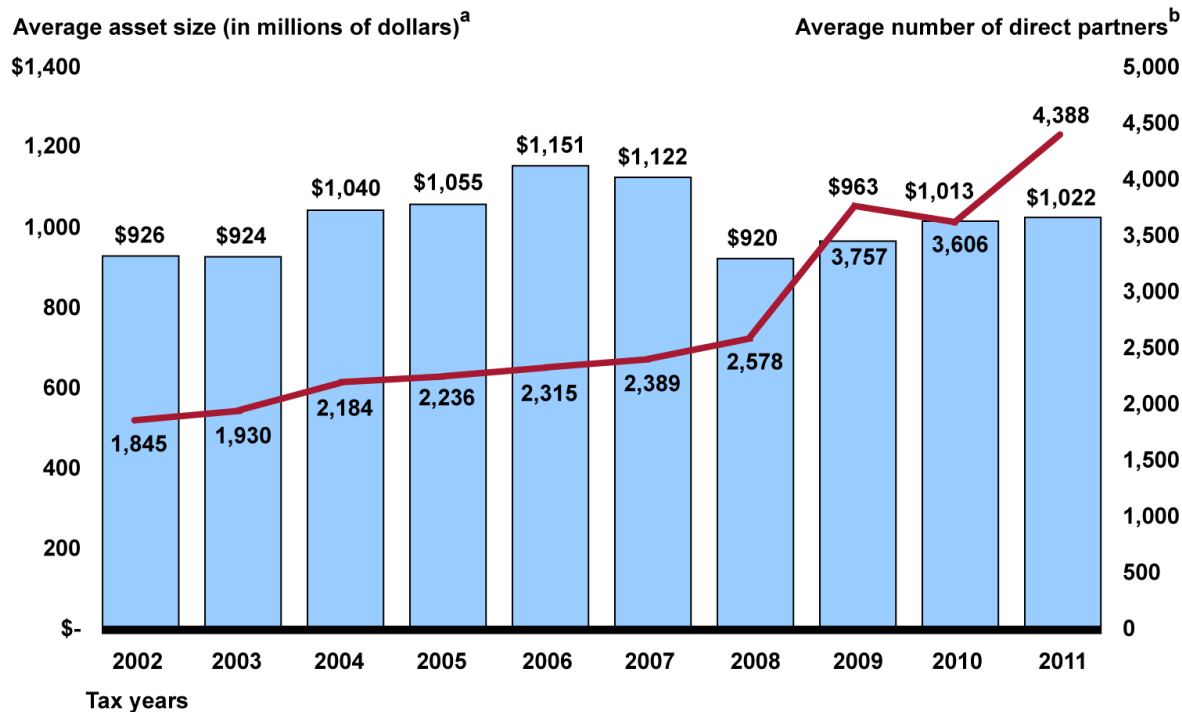
Source: GAO analysis of IRS data from Business Return Transaction File (BRTF), Compliance Data Warehouse (CDW).

Notes: This figure only includes data on partnerships that reported 100 or more direct partners and \$100 million or more in assets on their Form 1065 or 1065-B.

^aLarge partnerships may choose to elect into an alternative IRS reporting and auditing process that uses a Form 1065-B to report annual partnership tax information. These entities are known as electing large partnerships. To make the election, the partnership must have had 100 or more direct partners during the preceding tax year. (To avoid disclosure of information about specific taxpayers, electing large partnership values for 2002 to 2004 are not shown.)

IRS comments: Only 15 electing large partnerships had \$100 million or more in assets in tax year 2011. (For context, there were 105 partnerships that filed a Form 1065-B in tax year 2011. See IRS Statistics of Income, *Partnership Returns, 2011* (Washington, D.C.: Fall 2013).

Figure 2: Large Partnerships (Form 1065) by Average Asset Size and Number of Direct Partners, Tax Years 2002 to 2011



Average asset size
 Average number of direct partners

Source: GAO analysis of IRS data from Business Return Transaction File (BRTF), Compliance Data Warehouse (CDW).

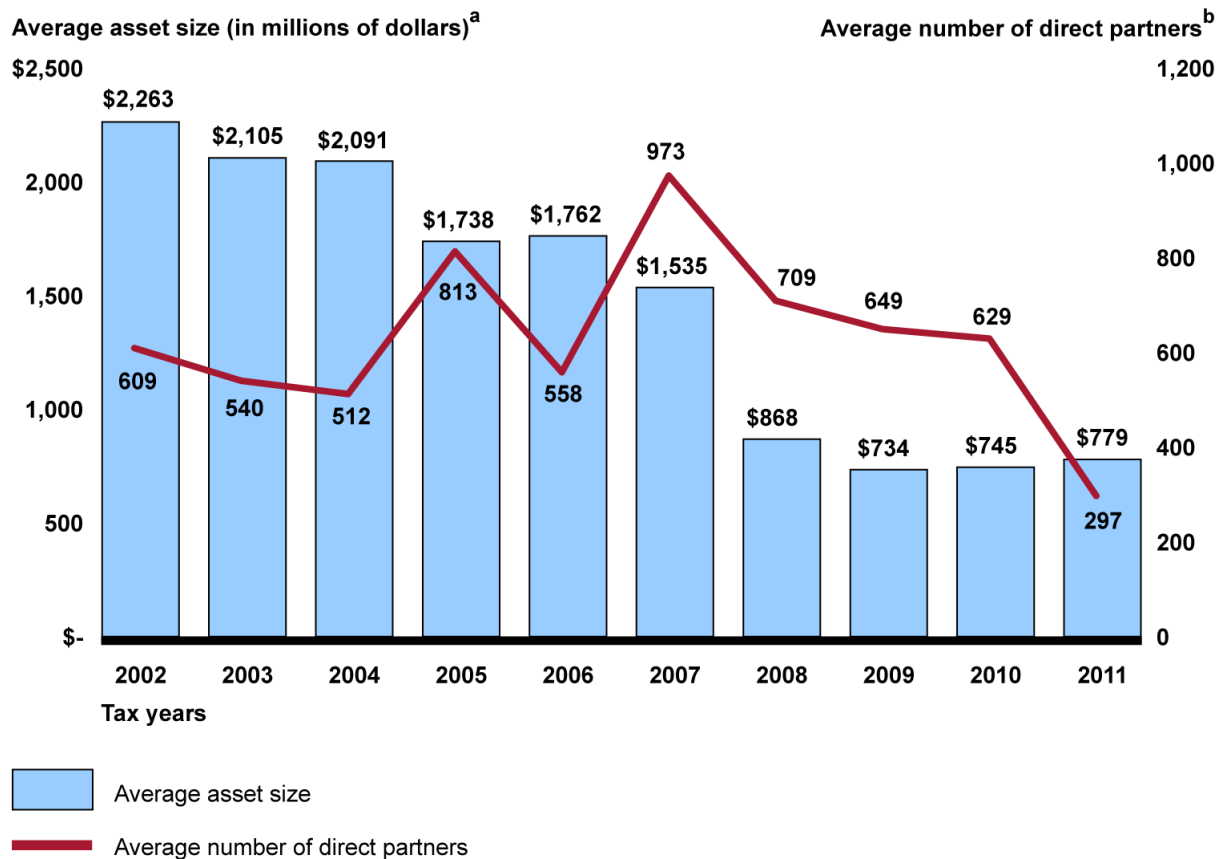
Notes: This figure only includes data on partnerships that reported 100 or more direct partners and \$100 million or more in assets on their Form 1065.

^aSome of the large partnerships may not have reached the \$100 million asset threshold without their ownership interests in other partnerships. The average asset size is also higher than it would be without those ownership interests.

^bDirect partners are those partners that have a direct interest in the large partnership during the tax year and are reported on Form 1065 or Form 1065-B.

IRS comments: The drop in the average asset size in 2008 may have been due to the economic recession.

Figure 3: Electing Large Partnerships (Form 1065-B) by Average Asset Size and Number of Direct Partners, Tax Years 2002 to 2011



Source: GAO analysis of IRS data from Business Return Transaction File (BRTF), Compliance Data Warehouse (CDW).

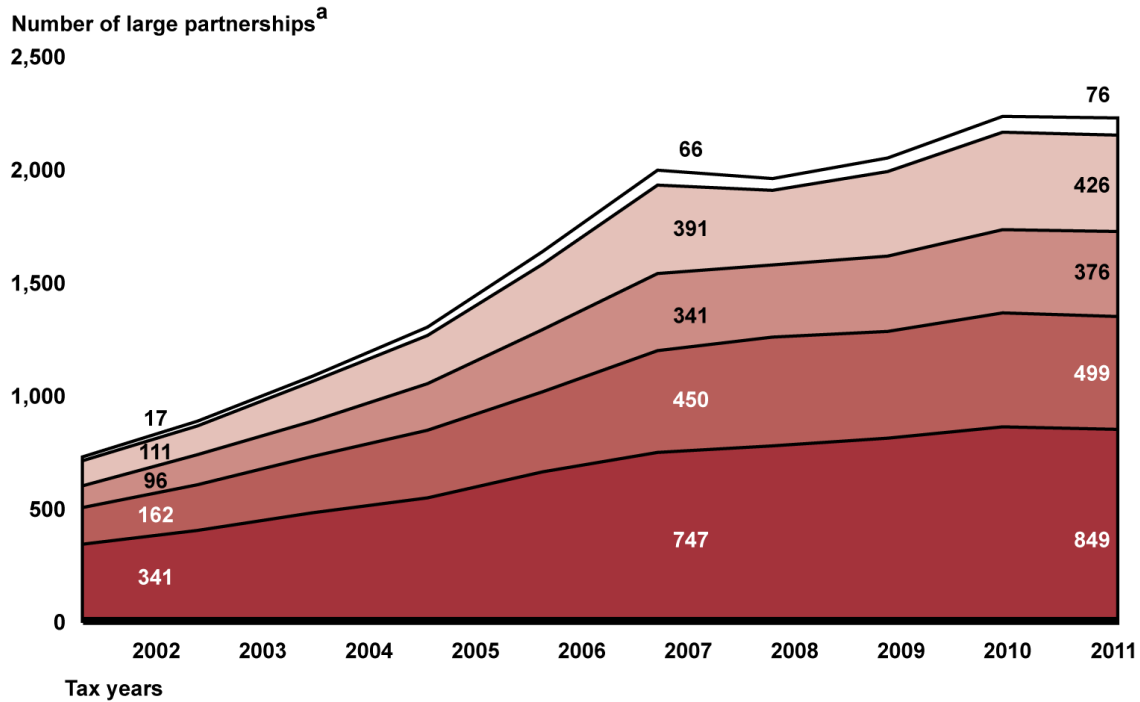
Notes: This figure only includes data on those partnerships that reported 100 or more direct partners and \$100 million or more in assets on their Form 1065-B. Large partnerships may choose to elect into an alternative IRS reporting and auditing process that uses a Form 1065-B to report annual partnership tax information. These entities are known as electing large partnerships. To make the election, the partnership must have had 100 or more direct partners during the preceding tax year.

^aSome of the large partnerships may not have reached the \$100 million asset threshold without their ownership interests in other partnerships. The average asset size is also higher than it would be without those ownership interests.

^bDirect partners are those partners that have a direct interest in the large partnership during the tax year and are reported on Form 1065 or Form 1065-B.

IRS comments: The drop in the average asset size in 2008 may have been due to the economic recession.

Figure 4: Large Partnerships by Asset Size, Tax Years 2002 to 2011



Asset size



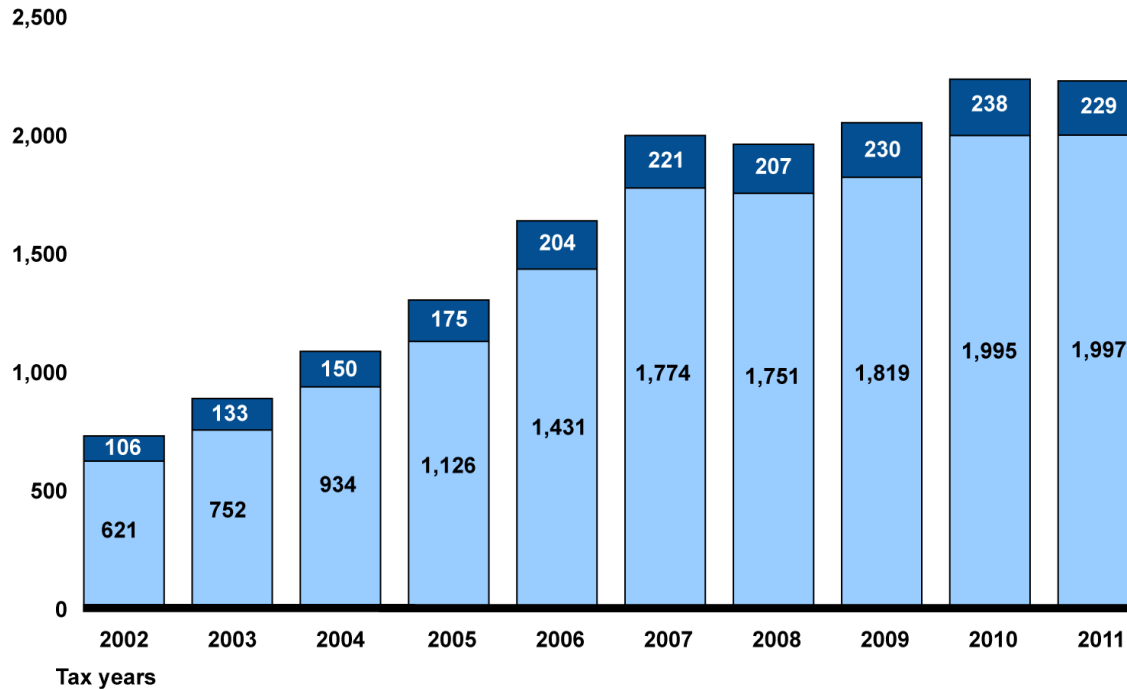
Source: GAO analysis of IRS data from Business Return Transaction File (BRTF), Compliance Data Warehouse (CDW).

Notes: This figure only includes data on partnerships that reported 100 or more direct partners and \$100 million or more in assets on their Form 1065 or 1065-B.

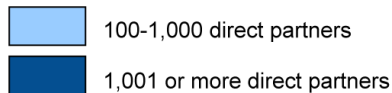
^aSome of the large partnerships may not have reached the \$100 million asset threshold without their ownership interests in other partnerships. The average asset size is also higher than it would be without those ownership interests.

Figure 5: Large Partnerships by Number of Direct Partners, Tax Years 2002 to 2011

Number of large partnerships by number of direct partners^a



Number of direct partners



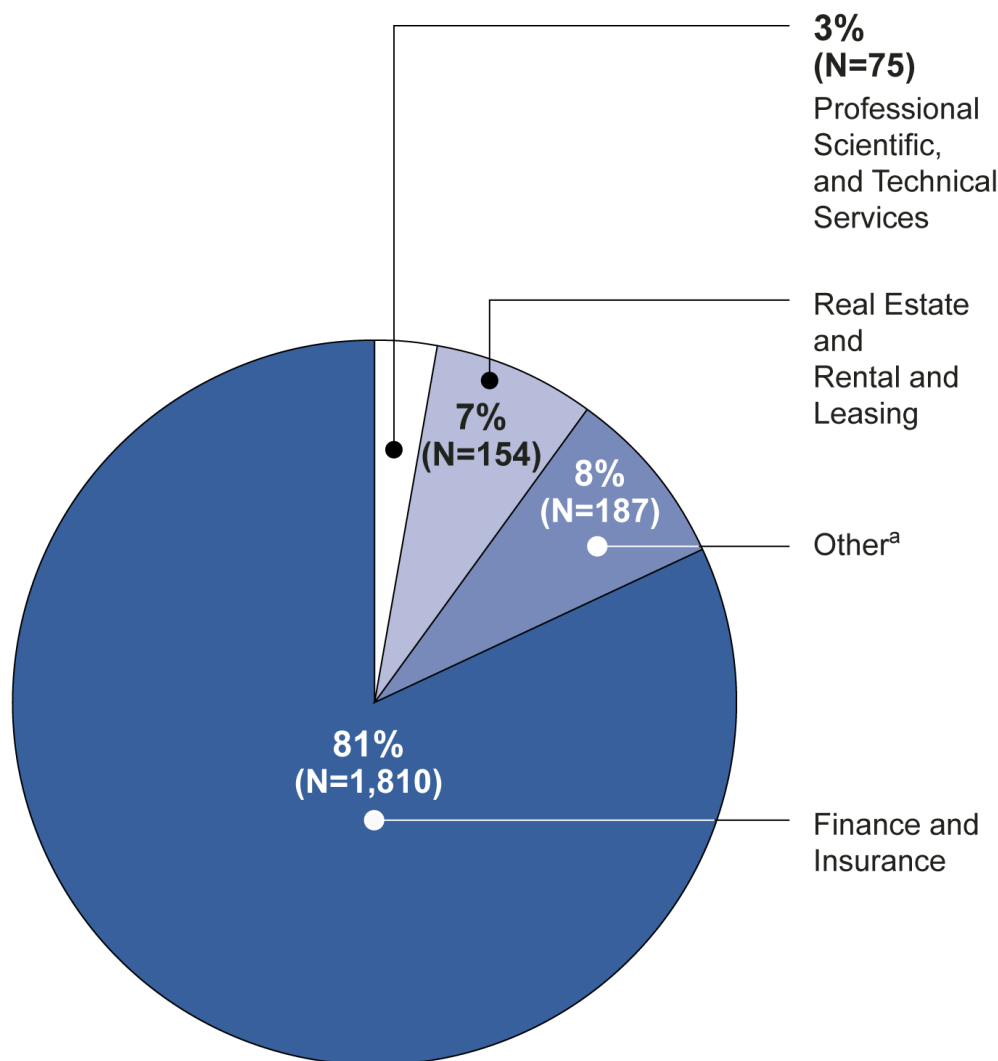
Source: GAO analysis of IRS data from Business Return Transaction File (BRTF), Compliance Data Warehouse (CDW).

Notes: This figure only includes data on partnerships that reported 100 or more direct partners and \$100 million or more in assets on their Form 1065 or 1065-B.

The direct partner break point of 1,000 for figure 5 was used as it is consistent with the threshold used by one IRS initiative under way to identify large partnerships as well as a legislative proposal for auditing large partnerships. We will discuss both of these further in our broader work on large partnerships.

^aDirect partners are those partners that have a direct interest in the large partnership during the tax year and are reported on Form 1065 or 1065-B.

Figure 6: Large Partnerships by Industry Group, Tax Year 2011



Source: GAO analysis of IRS data from Business Return Transaction File (BRTF), Compliance Data Warehouse (CDW).

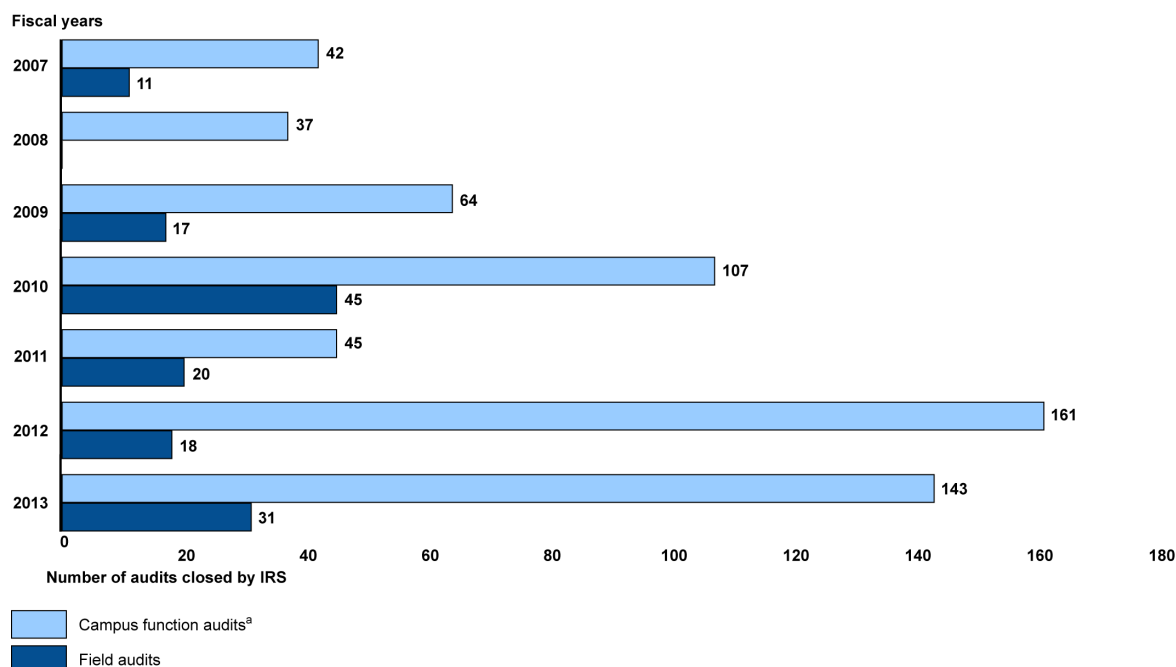
Notes: This figure only includes data on partnerships that reported 100 or more direct partners and \$100 million or more in assets on their Form 1065 or 1065-B. Results from tax year 2011 are generally consistent with average distribution of large partnerships by industry from tax years 2002 to 2011. Industry group percentages may not sum to 100 percent due to rounding.

^a“Other” includes the following industry groups: agriculture, forestry, fishing and hunting; mining; utilities; construction; wood product manufacturing; primary metal manufacturing; wholesale trade; retail trade; sporting goods, hobby, book, and music stores; transportation and warehousing; couriers and messengers; information; management of companies (holding companies); health care and social assistance; arts, entertainment, and recreation; accommodation and food services; and other services. Industry classifications are based on the North American Industry Classification System (NAICS). NAICS codes are self-reported by businesses and may involve a certain amount of judgment to determine the most appropriate NAICS code.

IRS comments: Although it accounts for a vast majority of the large partnerships, the Finance and Insurance group tends to account for a small percentage among all types of partnerships whereas the Real Estate and Rental group tends to account for a larger percentage. (For context, among all partnerships in tax year 2011, almost 50 percent were in the Real Estate and Rental and Leasing group and 9 percent were in the Finance and Insurance group. See IRS Statistics of Income, *Partnership Returns, 2011*, Washington, D.C.: Fall 2013.)

Enclosure II: Number of IRS Audits of Large Partnership Returns and the Characteristics of Those Audits

Figure 7: Audits of Large Partnership Returns Closed by IRS by Type of Audit, Fiscal Years 2007 to 2013



Source: GAO analysis of IRS data from Audit Information Management System (AIMS), Compliance Data Warehouse (CDW).

Notes: For audits closed in a particular year, IRS uses codes that predefine certain audited populations by fiscal year, known as activity codes. For example, all corporate audits can be segregated by codes for a corporation's reported asset size; however, audits of partnership returns are currently not segregated in this manner and the codes are generally less granulated than those that exist for corporations. As a result, IRS's activity codes do not have a category for "large partnerships." Therefore, in order to identify the population of large partnership returns subject to IRS audit, we had to merge certain databases, which presented certain data limitations (as identified previously). The number of audits closed in a given fiscal year may include multiple returns of the same taxpayer from different tax years that were closed in the same fiscal year.

This figure only includes data on partnership returns audited by IRS that reported 100 or more direct partners and \$100 million or more in assets on their Form 1065 or 1065-B. However, no partnerships that filed a Form 1065-B from tax years 2002 to 2011 had their tax return audited and closed by IRS from fiscal years 2007 to 2013. To avoid disclosure of information about specific taxpayers, the field audit value for 2008 is not shown.

^aCampus function audits are mainly an administrative support function used by IRS. While technically those audits opened in the campus function are considered audits by IRS, they generally do not entail a review of the books and records of the taxpayer return in question, in contrast to audits completed in the field. Although the number is not known, IRS officials noted that a small number of field audits are transferred and are closed as campus audits because of open audits at the campus of related returns.

Table 1: Audits of Large Partnership Returns Closed by IRS by Type of Audit and Asset Size, Fiscal Year 2013

Type of audit	Asset size		Total
	\$100 million to under \$1 billion	\$1 billion or more	
	Number of audits		
IRS campus function audits ^a	103	40	143
IRS field audits	17	14	31
Total IRS large partnership audits	120	54	174

Source: GAO analysis of IRS data from Audit Information Management System (AIMS), Compliance Data Warehouse (CDW).

Notes: This figure only includes data on partnership returns audited by IRS that reported 100 or more direct partners and \$100 million or more in assets on their Form 1065 or 1065-B. However, no partnerships that filed a Form 1065-B from tax years 2002 to 2011 had their tax return audited and closed by IRS from fiscal years 2007 to 2013. The number of audits closed in a given fiscal year may include multiple returns of the same taxpayer from different tax years that were closed in the same fiscal year.

Some of the large partnerships may not have reached the \$100 million asset threshold without their ownership interests in other partnerships. The average asset size is also higher than it would be without those ownership interests.

^aCampus function audits are mainly an administrative support function used by IRS. While technically those audits opened in the campus function are considered audits by IRS, they generally do not entail a review of the books and records of the taxpayer return in question, in contrast to audits completed in the field. Although the number is not known, IRS officials noted that a small number of field audits are transferred and are closed as campus audits because of open audits at the campus of related returns.

Table 2: Audits of Large Partnership Returns Closed by IRS by Audit Type and Number of Direct Partners, Fiscal Year 2013

Type of audit	Number of direct partners ^a		Total
	100 to under 201 direct partners	201 or more direct partners	
IRS campus function audits ^b	63	80	143
IRS field audits	15	16	31
Total IRS large partnership audits	78	96	174

Source: GAO analysis of IRS data from Audit Information Management System (AIMS), Compliance Data Warehouse (CDW).

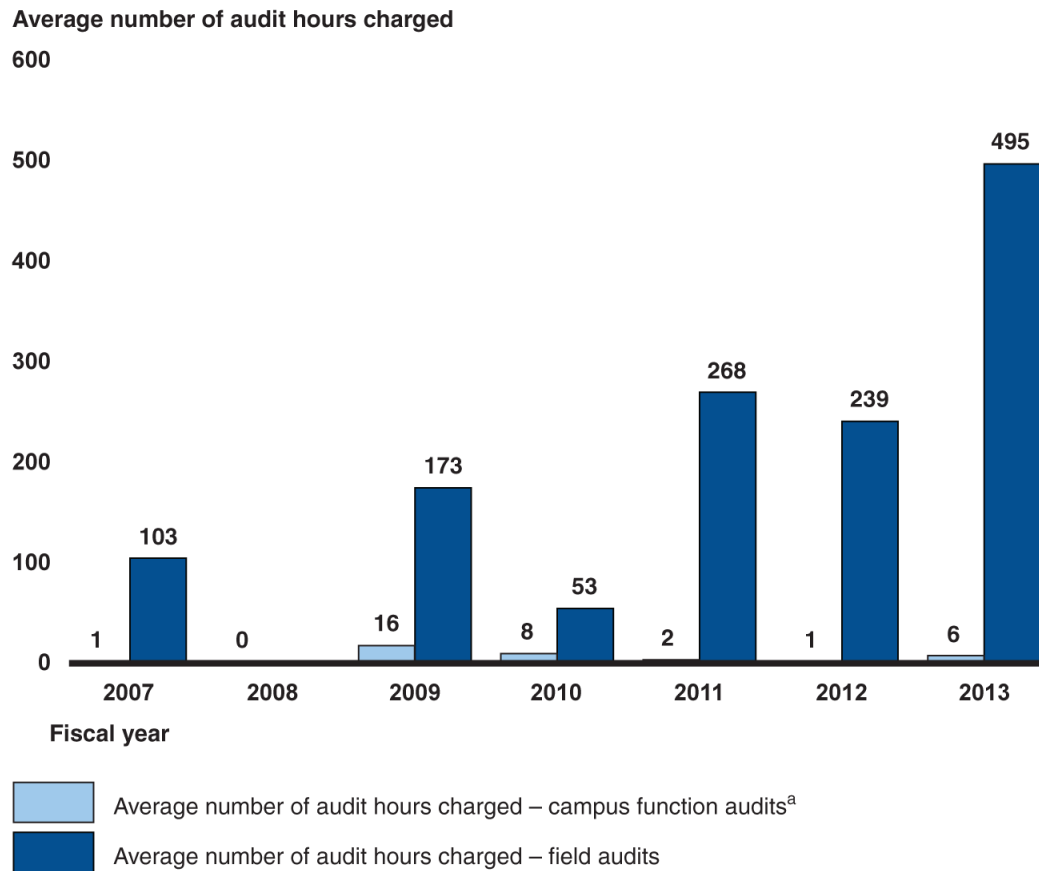
Notes: This figure only includes data on partnership returns audited by IRS that reported 100 or more direct partners and \$100 million or more in assets on their Form 1065 or 1065-B. However, no partnerships that filed a Form 1065-B from tax years 2002 to 2011 had their tax return audited and closed by IRS from fiscal years 2007 to 2013. The number of audits closed in a given fiscal year may include multiple returns of the same taxpayer from different tax years that were closed in the same fiscal year.

The direct partner break point of 200 for table 2 differs from that of figure 5 because we had to consolidate counts of audits of partnership returns to avoid disclosure of information about specific taxpayers.

^aDirect partners are those partners that have a direct interest in the large partnership during the tax year and are reported on Form 1065 or Form 1065-B. Beyond the number of direct partners, the campus function also would pass through the adjustments from auditing a large partnership to any indirect partners, including another partnership.

^bCampus function audits are mainly an administrative support function used by IRS. While technically those audits opened in the campus function are considered audits by IRS, they generally do not entail a review of the books and records of the taxpayer return in question, in contrast to audits completed in the field. Although the number is not known, IRS officials noted that a small number of field audits are transferred and are closed as campus audits because of open audits at the campus of related returns.

Figure 8: Average IRS Hours Charged on Audits of Large Partnership Returns by Audit Type, Fiscal Years 2007 to 2013

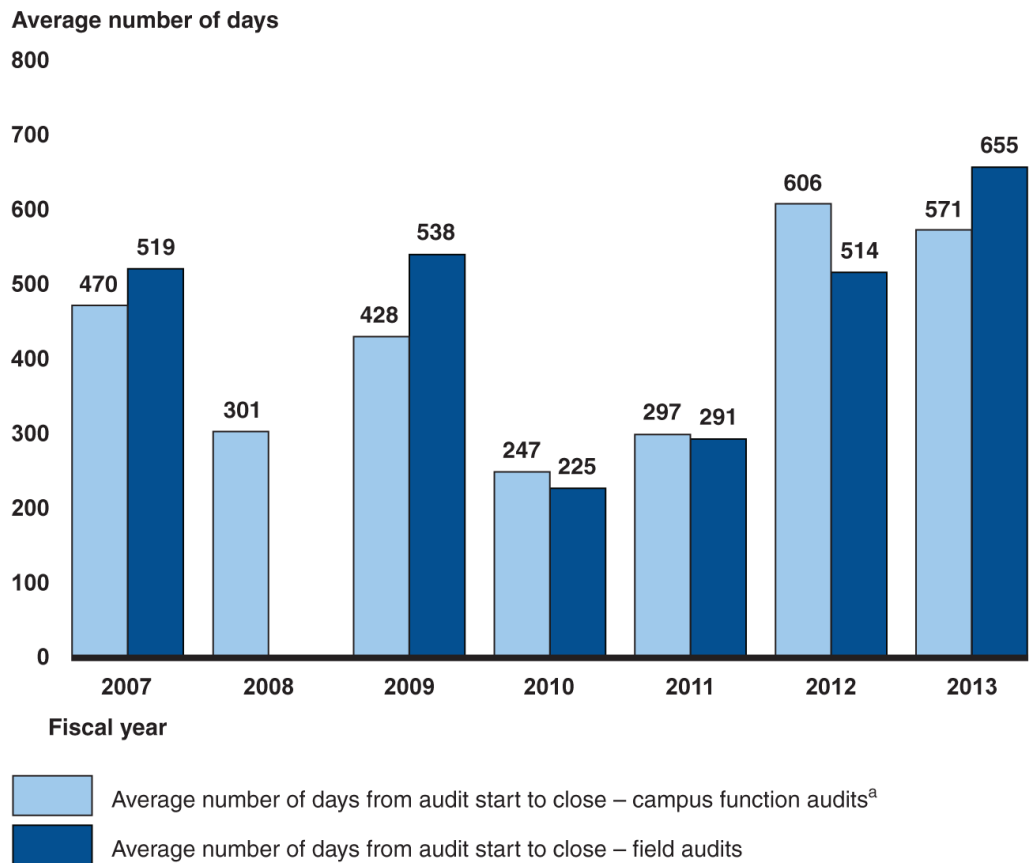


Source: GAO analysis of IRS data from Audit Information Management System (AIMS), Compliance Data Warehouse (CDW).

Notes: This figure only includes data on partnership returns audited by IRS that reported 100 or more direct partners and \$100 million or more in assets on their Form 1065 or 1065-B. However, no partnerships that filed a Form 1065-B from tax years 2002 to 2011 had their tax return audited and closed by IRS from fiscal years 2007 to 2013. To avoid disclosure of information about specific taxpayers, the field audit value for 2008 is not shown.

^aCampus function audits are mainly an administrative support function used by IRS. While technically those audits opened in the campus function are considered audits by IRS, they generally do not entail a review of the books and records of the taxpayer return in question, in contrast to audits completed in the field. Although the number is not known, IRS officials noted that a small number of field audits are transferred and are closed as campus audits because of open audits at the campus of related returns.

Figure 9: Average Number of Days That Audits of Large Partnership Returns Were Open at IRS by Type of Audit, Fiscal Years 2007 to 2013



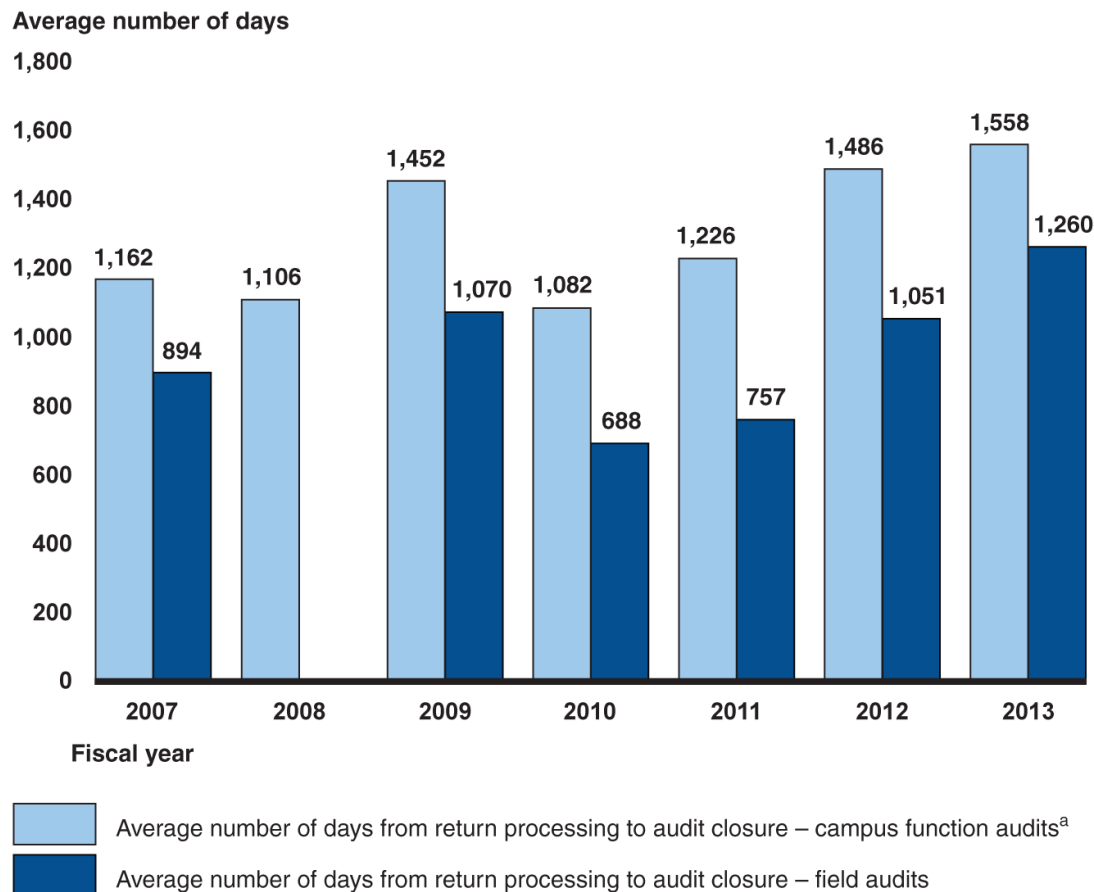
Source: GAO analysis of IRS data from Audit Information Management System (AIMS), Compliance Data Warehouse (CDW).

Notes: This figure only includes data on partnership returns audited by IRS that reported 100 or more direct partners and \$100 million or more in assets on their Form 1065 or 1065-B. However, no partnerships that filed a Form 1065-B from tax years 2002 to 2011 had their tax return audited and closed by IRS from fiscal years 2007 to 2013. To avoid disclosure of information about specific taxpayers, the field audit value for 2008 is not shown.

^aCampus function audits are mainly an administrative support function used by IRS. While technically those audits opened in the campus function are considered audits by IRS, they generally do not entail a review of the books and records of the taxpayer return in question, in contrast to audits completed in the field. Although the number is not known, IRS officials noted that a small number of field audits are transferred and are closed as campus audits because of open audits at the campus of related returns.

IRS comments: Campus function audits may take longer than field audits. The campus creates a package of returns linked to the field audit of a large partnership shortly after the field begins its work. These returns remain open in the campus until adjustments from the field audit can be passed through the linked returns. In addition, partner returns can be held in suspense for years if the partnership return ends up in court. While the field will count their partnership return audit as closed, the related partner returns may not close for years. The time in suspense on those cases will skew the data significantly considering partner returns from the late 1980s and early 1990s are still in suspense awaiting court decisions.

Figure 10: Average Number of Days from Return Processing to IRS Audit Closure for Audits of Large Partnership Returns by Type of Audit, Fiscal Years 2007 to 2013



Source: GAO analysis of IRS data from Audit Information Management System (AIMS), Compliance Data Warehouse (CDW).

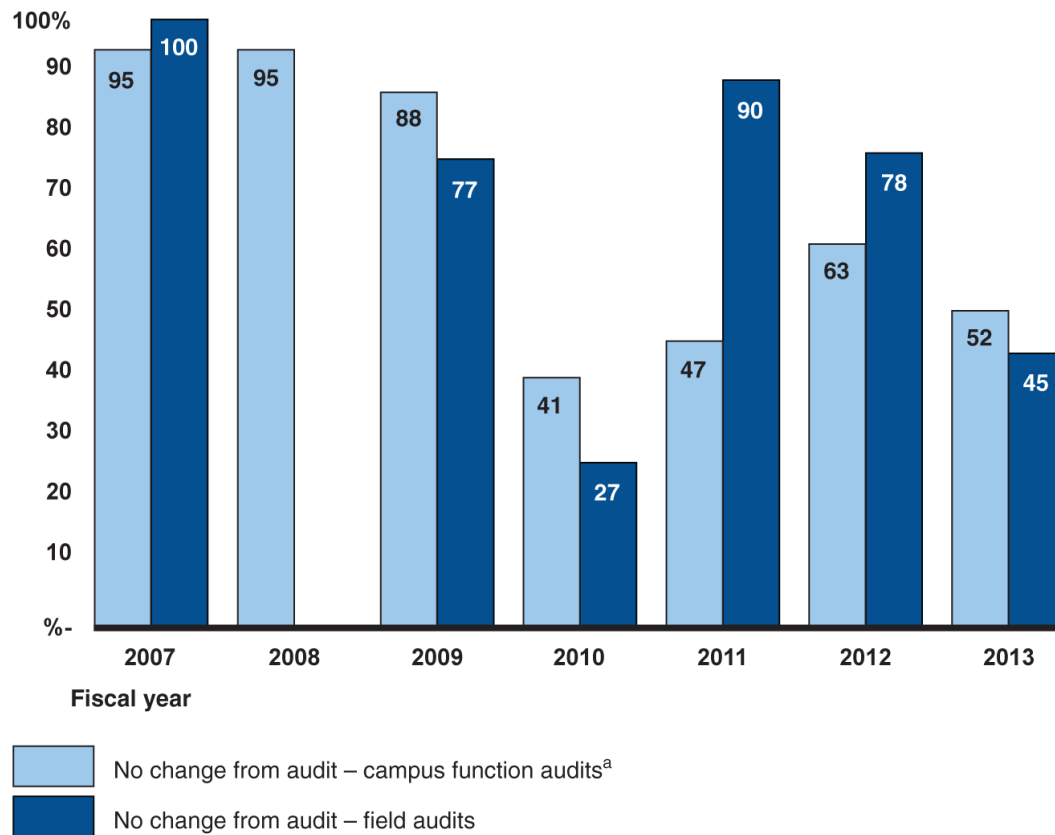
Notes: The average number of days from return posting to audit closure represents the average number of days from when a return is processed and posted to its IRS account until the return was closed from an audit. This figure only includes data on partnership returns audited by IRS that reported 100 or more direct partners and \$100 million or more in assets on their Form 1065 or 1065-B. However, no partnerships that filed a Form 1065-B from tax years 2002 to 2011 had their tax return audited and closed by IRS from fiscal years 2007 to 2013. To avoid disclosure of information about specific taxpayers, the field audit value for 2008 is not shown.

^aCampus function audits are mainly an administrative support function used by IRS. While technically those audits opened in the campus function are considered audits by IRS, they generally do not entail a review of the books and records of the taxpayer return in question, in contrast to audits completed in the field. Although the number is not known, IRS officials noted that a small number of field audits are transferred and are closed as campus audits because of open audits at the campus of related returns.

IRS comments: Campus function audits may take longer than field audits. The campus creates a package of returns linked to the field audit of a large partnership shortly after the field begins its work. These returns remain open in the campus until adjustments from the field audit can be passed through the linked returns. In addition, partner returns can be held in suspense for years if the partnership return ends up in court. While the field will count their partnership return audit as closed, the related partner returns may not close for years. The time in suspense on those cases will skew the data significantly considering partner returns from the late 1980s and early 1990s are still in suspense awaiting court decisions.

Figure 11: No Change Rates for Audits of Large Partnership Returns Closed by IRS, by Type of Audit, Fiscal Years 2007 to 2013

Percentage of large partnership audits closed by IRS with no change



Source: GAO analysis of IRS data from Audit Information Management System (AIMS), Compliance Data Warehouse (CDW).

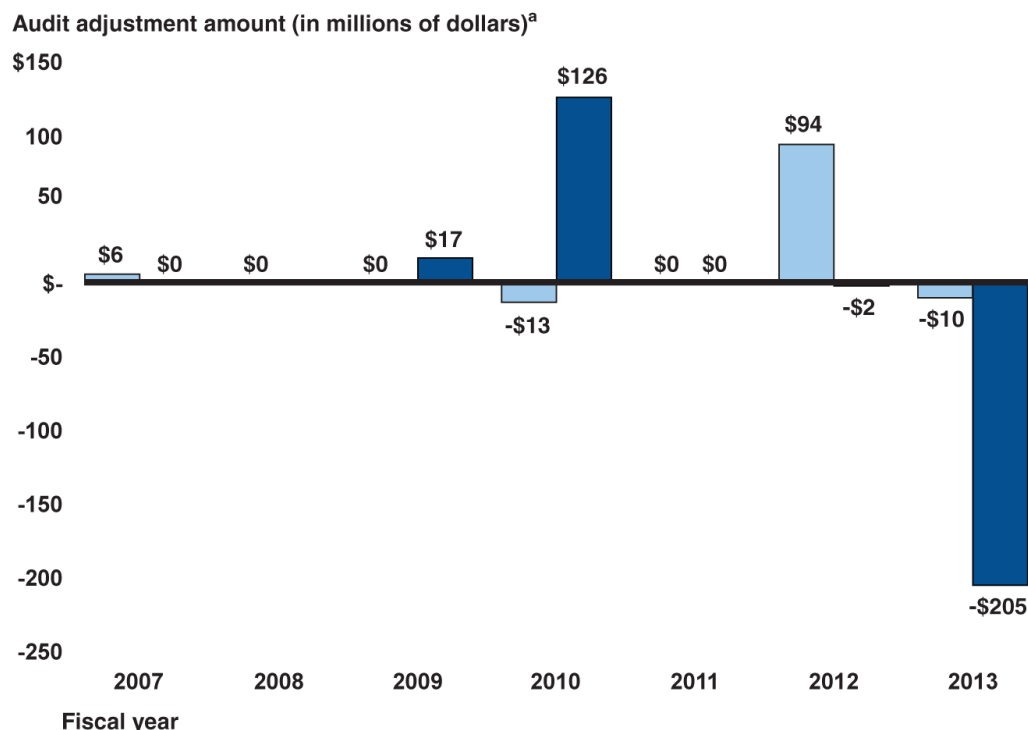
Notes: For entities, such as partnerships that pass through income to the partners of the business, the no change results from these audits meant that there were no changes made to the entities' reported income, loss, deductions, or credits reflected on the tax return or Schedule(s) K-1 for partners of the partnership. These instances would be included in the no change rate in the figure above. IRS also closes audits if no changes were made to the entities' reported income, loss, deductions, or credits reflected on the tax return or the Schedule(s) K-1 for partners of the partnership but a balance sheet item is adjusted or a related return is adjusted as a result of the audit. These instances are not included in the no change rate in the figure above.

This figure only includes data on partnership returns audited by IRS that reported 100 or more direct partners and \$100 million or more in assets on their Form 1065 or 1065-B. However, no partnerships that filed a Form 1065-B from tax years 2002 to 2011 had their tax return audited and closed by IRS from fiscal years 2007 to 2013. To avoid disclosure of information about specific taxpayers, the no change rate from field audit value for 2008 is not shown.

^aCampus function audits are mainly an administrative support function used by IRS. While technically those audits opened in the campus function are considered audits by IRS, they generally do not entail a review of the books and records of the taxpayer return in question, in contrast to audits completed in the field. Although the number is not known, IRS officials noted that a small number of field audits are transferred and are closed as campus audits because of open audits at the campus of related returns.

IRS comments: The drop in the no change rate for campus function audits in 2010 and 2011 reflects a revision made starting in late 2009 in which the campus function revised how no change audits were tracked. The lower no change rates for the campus function in 2010 and 2011 may also be due to a lower no change rate in the field in 2010.

Figure 12: Total Audit Adjustment Amount for Audits of Large Partnership Returns by Type of Audit, Fiscal Years 2007 to 2013



Audit adjustment amount – campus function audits (in millions of dollars)^b
 Audit adjustment amount – field audits (in millions of dollars)

Source: GAO analysis of IRS data from Audit Information Management System (AIMS), Compliance Data Warehouse (CDW).

Notes: This figure only includes data on partnership returns audited by IRS that reported 100 or more direct partners and \$100 million or more in assets on their Form 1065 or 1065-B. However, no partnerships that filed a Form 1065-B from tax years 2002 to 2011 had their tax return audited and closed by IRS from fiscal years 2007 to 2013. To avoid disclosure of information about specific taxpayers, the field audit value for 2008 is not shown.

^aThe audit adjustment amount is the net increase or decrease of adjustments made to income, deductions, and other required information items on Form 1065 or 1065-B as the result of an IRS audit.

^bCampus function audits are mainly an administrative support function used by IRS. While technically those audits opened in the campus function are considered audits by IRS, they generally do not entail a review of the books and records of the taxpayer return in question, in contrast to audits completed in the field. Although the number is not known, IRS officials noted that a small number of field audits are transferred and are closed as campus audits because of open audits at the campus of related returns.

IRS comments: In general, total audit adjustment amounts only include those to net income rather than changes IRS made to the balance sheet unless the changes ultimately have some tax effect.

Table 3: Audits of Large Partnership Returns as a Percentage of Total Large Partnership Returns by Audit Type and Asset Size, Fiscal Years 2007 to 2012

Large partnership audits by type	Fiscal year					
	2007	2008	2009	2010	2011	2012
IRS campus function audits ^a	2.6%	1.9%	3.3%	5.3%	2.0%	7.1%
IRS field audits	0.7%	d	0.9%	2.2%	0.9%	0.8%
Total large partnerships audits	3.3%	d	4.2%	7.5%	2.9%	7.9%
Large partnership audits by asset size						
\$100 million to under \$250 million	3.0%	1.9%	4.7%	6.1%	3.0%	7.6%
\$250 million to under \$500 million	4.3%	2.7%	5.0%	7.1%	3.0%	6.5%
\$500 million to under \$1 billion	d	d	d	9.5%	3.1%	11.9%
\$1 billion or more	4.0%	2.9%	3.7%	9.0%	2.6%	6.8%

Source: GAO analysis of IRS data from Business Return Transaction File (BRTF) and Audit Information Management System (AIMS), Compliance Data Warehouse (CDW).

Legend: d = Value not shown. To avoid disclosure of information about specific taxpayers, audit coverage rate values for the \$500 million to under \$1 billion asset class for 2007 to 2009 and field audit and total values for 2008 are not shown.

Notes: The audit coverage rate calculations are completed by dividing those partnership returns with \$100 million or more in assets and 100 or more direct partners, as reported on Form 1065 or 1065-B (which were audited in the current fiscal year by those returns filed in the previous calendar year). To the extent we changed the partner threshold of 100 or more direct partners, the audit coverage rates above would likely change. However, no partnerships that filed a Form 1065-B from tax years 2002 to 2011 had their tax return audited and closed by IRS from fiscal years 2007 to 2013. These calculations are consistent with how IRS completes audit coverage rate calculations.

The number of audits closed in a given fiscal year may include multiple returns of the same taxpayer from different tax years that were closed in the same fiscal year. The number of returns filed in the previous calendar year would not be adjusted in this case.

For audits closed in a particular year, IRS uses codes that predefine certain audited populations by fiscal year, known as activity codes. For example, all corporate audits can be segregated by codes for a corporation's reported asset size; however, audits of partnership returns are currently not segregated in this manner and the codes are generally less granulated than those that exist for corporations. As a result, IRS's activity codes do not have a category for "large partnerships." Therefore, in order to identify the population of large partnership returns subject to IRS audit, we had to merge certain databases, which presented certain data limitations (as identified previously).

Data reported for partnerships were not available in BRTF at the time of our report in order for us to do the fiscal year 2013 calculation.

^aCampus function audits are mainly an administrative support function used by IRS. While technically those audits opened in the campus function are considered audits by IRS, they generally do not entail a review of the books and records of the taxpayer return in question, in contrast to audits completed in the field. Although the number is not known, IRS officials noted that a small number of field audits are transferred and are closed as campus audits because of open audits at the campus of related returns.

Table 4: Audits of Large Corporate Returns as a Percentage of Total Large Corporate Returns by Total Population and Asset Size, Fiscal Years 2007 to 2012

Corporation audits by asset size	Fiscal year					
	2007	2008	2009	2010	2011	2012
\$100 million or more	21.4%	22.0%	21.3%	21.4%	23.6%	27.1%
\$100 million to under \$250 million	12.1%	12.8%	13.6%	14.7%	16.6%	23.2%
\$250 million to under \$500 million	14.3%	14.2%	15.8%	16.1%	17.4%	22.7%
\$500 million to under \$1 billion	18.5%	18.6%	18.1%	18.1%	20.6%	22.7%
\$1 billion to under \$5 billion	31.6%	31.2%	27.3%	28.6%	31.1%	31.4%
\$5 billion to under \$20 billion	62.9%	64.2%	48.7%	45.3%	50.5%	45.4%
\$20 billion or more	119.5%	127.1%	114.4%	98.0%	95.6%	93.0%

Source: IRS data book.

Notes: Audit coverage rate calculations in the IRS data book are completed by dividing the number of audits of corporate returns completed in the current fiscal year by the number of returns filed in the prior calendar year.

Corporate audit coverage rates are presented to provide context for similar asset size business entities to those presented for partnerships in table 3.

The percentage of returns audited may be greater than 100 percent of the returns filed in the previous calendar year since audits may be conducted in one fiscal year on returns filed in multiple prior calendar years.

The 2013 IRS Data Book was not available at the time of this report; therefore, we could not present the fiscal year 2013 audit rates for corporate returns.

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