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# Instructions for Schedule B-2 (Form 1065)



Department of the Treasury  
Internal Revenue Service

(December 2018)

## Election Out of the Centralized Partnership Audit Regime

Section references are to the Internal Revenue Code unless otherwise noted.

### Future Developments

For the latest information about developments related to Schedule B-2 (Form 1065) and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form1065](https://www.irs.gov/Form1065).

### What's New

**Bipartisan Budget Act.** The Bipartisan Budget Act of 2015 (BBA) created a new centralized partnership audit regime effective for partnership tax years beginning after 2017. Section 6221(b) (as amended by BBA) provides that certain partnerships with 100 or fewer partners may elect out of the centralized partnership audit regime. This schedule was created to allow partnerships to elect out of the centralized partnership audit regime.

### Purpose of Form

Partnerships with 100 or fewer partners can annually elect out of the centralized partnership audit regime if each partner for the tax year is an individual, a C corporation, a foreign entity that would be treated as a C corporation were it domestic, an S corporation, or an estate of a deceased partner. For purposes of determining whether the partnership has 100 or fewer partners, the partnership must include, in the count of partners, all shareholders of any S corporation that is a partner. If a partnership makes an election out of the centralized partnership audit regime, the partnership must complete and attach this form to the partnership return for the tax year the election is being made.

**Eligible partnership.** A partnership is an eligible partnership if it has 100 or fewer eligible partners for the tax year. Whether the partnership has 100 or fewer partners is determined by adding the number of Schedules K-1 required to be issued by the partnership for the tax year plus the number of Schedules K-1 required to be issued by any partner that is an S corporation to its shareholders for the tax year of the S corporation ending with or within the partnership tax year. A partnership is not an eligible partnership if

it is required to issue a Schedule K-1 to any of the following partners.

- A partnership.
- A trust.
- A foreign entity that would not be treated as a C corporation were it a domestic entity.
- A disregarded entity described in Regulations 301.7701-2(c)(2)(i).
- An estate of an individual other than a deceased partner.
- Any person that holds an interest in the partnership on behalf of another person.

### Who Must File

Partnerships, including Real Estate Mortgage Investment Conduits (REMIC), that elect out of the centralized partnership audit regime must complete this form for every tax year that the election is to be effective. If the form is not completed correctly, the IRS may determine that the election is not valid.

### How To File

This form must be attached to a timely filed (including extensions) Form 1065 (or Form 1066 in the case of a REMIC) for every tax year the partnership is electing out of the centralized partnership audit regime.

### Specific Instructions

**Part I—List of Eligible Partners.** In column 1 provide the name of the partner required to be furnished a Schedule K-1 from the partnership for the tax year. In column 2 provide the correct U.S. Tax Identification Number (TIN) of the partner. Inaccurate TINs will result in validation errors, and the IRS may determine that the election is not valid. In column 3 provide the entity type code for the partner. If the entity type is not one of the following codes, you may not elect out of the centralized partnership audit regime. The following are the entity type codes to be used in column 3.

- I—Individual
- C—Corporation
- S—S corporation
- E—Estate of deceased partner
- F—Foreign partner that would be treated as a C corporation if it were a domestic entity

If the partnership has more than 15 partners, use Part IV to continue the list of partners.

**Invalid entity types.** Entity types that will invalidate your election are the following.

- Partnerships,
  - Trusts,
  - Foreign entities not treated as C corporations if they were domestic entities,
  - Disregarded entities described in Regulations 301.7701-2(c)(2)(i),
  - Estates of individuals other than those of deceased partners, and
  - Persons that hold an interest in the partnership on behalf of another person.
- By completing Part I, you are making an affirmative statement that all of the partners in the partnership meet eligibility requirements under section 6221(b)(1)(C), as amended by BBA, and you have provided all of the information required on this schedule.

**Part II—List of S Corporation Shareholders.** For each S corporation that is a partner in the partnership, provide the name of the S corporation and the U.S. TIN of the S corporation. If there is more than one S corporation that is a partner in the partnership during the tax year, complete a separate Part II (and Part V, if applicable) of this Schedule B-2 for each additional S corporation partner. For each S corporation provide the correct name of each shareholder for the tax year of the S corporation ending with or within the partnership tax year, the correct U.S. TIN for each shareholder, and the type of entity code. The following are entity codes available for S corporation shareholders.

- I—Individual
- T—Trust
- E—Estate of deceased shareholder
- O—Other

The "Other" entity code includes pension plans under section 401(a), including Employee Stock Ownership Plans (ESOPs); section 501(c)(3) charitable organizations; or eligible disregarded entities.

If there are more than 12 shareholders for Part II, use Part V to continue the list of shareholders for that S corporation partner.

**Part III—Total Number of Schedules K-1 Required To Be Issued.** The number of Schedules K-1 are determined by adding the number of Schedules K-1 required to be issued by the partnership for the tax year plus the number of Schedules K-1 required to be issued by any partner that is an S corporation to its shareholders for the tax year of the S corporation ending with or within the partnership tax year. Part III adds the total number of Schedules K-1 required to be issued by the partnership (as listed in Part I and Part IV) and the number of Schedules K-1 required to be issued by any S corporation partners (as listed in

Part II and Part V) to determine the total number of partners in the partnership for the tax year.

**Line 1.** Enter the total number of partners reported on Part I and Part IV.

**Line 2.** Enter the total number of shareholders reported on Part II and Part V. Do not include the S corporation partner(s) in this count since those partners should be included on Line 1.

**Line 3.** Add Line 1 and Line 2 and report the sum on Line 3. This number should not exceed 100. If it does, this partnership is not eligible to elect out.

Include this total on Form 1065, Schedule B, Question 25.

**Part IV.** If the partnership is required to issue Schedules K-1 to more than 15 partners, complete Part IV—Continuation List of Eligible Partners.

**Part V.** Complete Part V if the Part II S corporation partner is required to issue Schedules K-1 to more than 12 shareholders. Always include the name of the S corporation partner and U.S. TIN for the partner at the top of the page for the grouping of shareholders that are listed. Use the same instructions provided under Part II.

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