



TAX NEWS

IRS Kicks Off 2019 Filing Season, Provides Time Frame for Refunds—TS 2019 opened on time January 28, 2019. The IRS expects 9 out of 10 refunds to be issued within 21 days of filing. The first refunds that include the EITC and/or ACTC should be available in bank accounts or on debit cards starting February 27, 2019. [Page 2](#)

Revised Partnership Return Reflects CPAR Opt-Out Procedure—The 2018 version of Form 1065 reflects Centralized Partnership Audit Regime “CPAR” regulations. Under CPAR, an underpayment assessed as part of an audit is applied at the partnership level, in the assessment year, and at the highest individual rate. Partnerships meeting certain criteria may make an annual election to opt out of CPAR. Generally, these are partnerships that have 100 or fewer partners and no ineligible partners. If the election is made, partners are subject to audit under the general rules for individual taxpayers. The partnership must notify each partner within 30 days that the election has been made. [Page 2](#)

QUESTION OF THE WEEK

A retired taxpayer would like to get a reverse mortgage to help cover her expenses and provide her with an “extra cushion,” but she has concerns about how the process works. What are the tax implications of getting a reverse mortgage? How does the reverse mortgage get paid back, and could the bank take her home from her if it isn’t? [Page 3](#)

ORIGINAL INSIGHTS

Back to basics: Tax for families caring for aging parents — The tax effects of caring for family vary depending on the situation. [Full insight](#). View all insights at www.thetaxinstitute.com/insights/.

IRS KICKS OFF 2019 FILING SEASON, PROVIDES TIME FRAME FOR REFUNDS

IRS news release [IR-2019-07](#) announces the opening of the 2019 filing season on January 28, 2019. The IRS expects 150 million returns to be filed this year and noted that several million returns were received during the opening hours of the tax season.

As in prior years, 9 out of 10 refunds should be issued in less than 21 days. By law, refunds that include the EITC and/or ACTC cannot be issued before February 15. The earliest refunds should be available in bank accounts or on debit cards starting February 27, assuming the taxpayer chose direct deposit and no other issues are detected. The best way to check refund status is to use the online [Where's My Refund?](#) tool or the [IRS2Go Mobile App](#).

REVISED PARTNERSHIP RETURN REFLECTS CPAR OPT-OUT PROCEDURE

The 2018 revision of [Form 1065](#), U.S. Return of Partnership Income, and [instructions \(draft 12/13/18\)](#) reflect Centralized Partnership Audit Regime regulations and other recent changes. Eligible partnerships may choose to opt out of the new audit regime.

The Bipartisan Budget Act of 2015 introduced a new partnership audit process called the Centralized Partnership Audit Regime "CPAR" which is generally effective for partnership tax years beginning after 2017 (2018 for calendar year partnerships). Under CPAR, assessments made following a partnership audit are made at the partnership level using the highest individual rate and apply to the assessment year. Previously, partnerships were subject to the Tax Equity and Fiscal Responsibility Act of 1982 "TEFRA" whereby adjustments resulting from an audit were passed down separately to each partner.

Partnerships that meet certain requirements may elect to opt-out of CPAR. To qualify for the election, the partnership must have 100 or fewer partners, all of whom are eligible partners.

- The number of partners is determined by the number of Schedule K-1s required to be issued by the partnership plus the number of Schedule K-1s required to be issued by any S corporation partner to its own shareholders.
- Eligible partners are individuals, C corporations, S corporations, estates of deceased partners, and certain foreign entities. Partnerships with *any* of the following types of partners do not qualify for the election: a partnership, a trust, a disregarded entity (such as a single member LLC), a nominee, an estate of an individual other than a deceased partner, and a foreign entity that would not be treated as a C corporation were it a domestic entity.

See TAX in the News January 10, 2018 for a discussion of the CPAR final regulations.

New Form 1065 and opt-out election

The new Form 1065 has a checkbox (Schedule B, Box 25) for partnerships to elect out of CPAR. Eligible electing partnerships must also complete [Schedule B-2 \(Form 1065\)](#), *Election Out of the Centralized Partnership Audit Regime*. This schedule is used to list each eligible partner and, if one of the partners is an S corporation, each shareholder of the S corporation. See the [Schedule B-2 instructions](#) for specific instructions.

Eligible partnerships should consider whether the opt-out election is beneficial. If the election is made, partners are subject to audit under the general rules for individual taxpayers.

Under the opt-out election:

- Assessment adjustments would apply to the year under audit rather than the year the assessment is made. Without the election, for example, if a 2018 partnership return is audited in 2020 and the audit results in an underpayment, the assessment will apply to the partners in 2020.

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- Assessments are made at the partners' individual tax rates rather than the highest individual tax rate, which is currently 37%. Continuing with the example, without the election, a partner in the 24% bracket would have to pay his or her share of the assessment at the 37% rate.

All partnerships are subject to CPAR unless they are eligible to opt out and elect to do so. The election must be made annually. An electing partnership must notify each of its partners of the election within 30 days of making the election. The notification should be in the form and manner determined by the partnership.

Partnerships that are *not* electing out must complete the Designation of Partnership Representative information in the area just below Box 25. The partnership representative (PR) may be a partner or other person with a substantial U.S. presence and will have sole authority to act on behalf of the partnership. Note that partnerships no longer designate a tax matters partner (TMP).

Even though an electing partnership does not designate a representative, it is a good practice for the partnership to determine who will handle tax and financial matters and to keep that information in writing with the partnership agreement.

For more information, see "[Partnership Audit Procedures](#)" on www.thetaxinstitute.com.

QUESTION OF THE WEEK

Q. A retired client is thinking of getting a reverse mortgage. Her home is paid for and she's making "ends meet" with her social security, a retirement pension from her late husband, and a little investment income. However, some months it is difficult to cover everything. She would like the extra cushion the reverse mortgage would give her, but she also has some concerns. Are the proceeds taxable and is the loan interest deductible? Could the bank take her home from her? How is a reverse mortgage eventually paid back?

A. Although a reverse mortgage can provide your client with needed funds, it is a good idea to learn more about how the process works.

A reverse mortgage allows a homeowner to convert her home equity into cash without selling the home or getting a traditional mortgage or home equity loan. The homeowner must be at least 62, live in the home as her principal residence, and have little or no mortgage balance left on the home. Depending on the type of reverse mortgage, the lender may pay a lump sum or periodic payments to the homeowner.

For tax purposes the proceeds are treated as loan advances and not income to the homeowner. Reverse mortgages are also subject to interest and fees. The reverse mortgage principal and accrued interest generally become due and payable when the homeowner:

- Sells the home,
- Moves out of home (for example, to assisted living),
- Reaches the end of a pre-selected loan period, or
- Dies

Interest on the reverse mortgage is added monthly to the outstanding principal balance. Interest is not deductible while it accrues but, prior to the TCJA, it was deductible when the loan was paid. Under the TCJA, interest on a reverse mortgage is generally nondeductible home equity interest. That is, unless the proceeds of the reverse mortgage are used to substantially improve the borrower's main home securing the reverse mortgage, the interest is not deductible at all, even when it is paid.

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The homeowner is still responsible for maintaining the home, paying property taxes, and insuring the property. The lender can demand repayment if these things are not taken care of because the value of the property is potentially undermined under such circumstances. For that reason, federally insured reverse mortgages, known as home equity conversion mortgages (HECMs) require potential borrowers to meet with an [HECM counselor](#). The idea is to make sure the borrower understands the financial implications of the loan and the borrower's responsibilities.

For more information, see:

- [Home equity conversion mortgages for seniors](#) on HUD's website
- "Reverse mortgages" in [IRS Pub. 936](#), Home Mortgage Interest Deduction
- "[What is a reverse mortgage?](#)" and related articles in the Tax Research Center