

# TAX TECHNOLOGY VIEWPOINT

## *Observations from the Tax/IT Interface*

### Case Study – Partnership Allocations

May 2, 2016

---

Partner allocations under Subchapter K may well be the most difficult and challenging area within the Internal Revenue Code. This results from the collision of complicated underlying economics with complicated regulations intended to moderate the perceived potential for tax evasion.

Compliance with tax laws and regulations is an element of a general partner's or managing member's basic fiduciary responsibilities. The regulations allow considerable latitude and can be looked upon as a series of basic requirements surrounded by guidelines and examples. But flexibility leads to exposure.

When all factors are taken into account, a capable partnership allocation model is going to require the precision, control, flexibility and efficiency of a relational database for design and realization.

An effective tax technology tool must begin with subject matter experts' guidance as to the tasks to be accomplished by that tool. This initiates a recursive process between the tax specialists and system designers that can result in a generalized technology tool usable in many circumstances.

#### **Technical Tax Requirements**

##### **Step 1:**

**Evaluate and marshal those items that will require allocations to the partners.**

1. The first input to review is, surprise, Form 1065 Schedule K-1. Page 2 sets forth a myriad of potential reporting requirements.
2. Next up are the regulations under IRC Section 704. These contain defined terms that must be maintained in the partnership's records, many of which must be allocated out to the partners.
3. Finally, elements present in the "greater" partnership agreement must be recognized. This effort must include any and all changes, amendments and interpretations of the agreement itself as well as other documents, including but not limited to, contribution agreements, management agreements, tax protection agreements and ownership unit certificates.

##### **Step 2:**

**Consider the additional information that management may want to issue to the partners, for any variety of reasons.**

1. Holders of multiple classes of ownership interests may want a breakdown of reportable items by class.
2. Reconciliations between accounting methods used by the partnership may be appropriate. This can happen if capital accounts are presented on a basis other than what is shown in taxable income and/or GAAP financials.
3. If the partnership is reporting results on the K-1's that differ from projections or other prior guidance, explanatory reconciliations could be a good idea.

##### **Step 3:**

**Associate the various allocation methods that are called for by the greater partnership agreement with the allocable items determined in Step 1. Be sure to identify all metrics. Also associate or devise allocation methods and metrics for items that arose during Step 2.**

##### **Step 4:**

**Assemble the information needed to identify the partners/unitholders that will be receiving the allocations. Also quantify, for each of these, the allocation metrics identified in Step 3.**

# TAX TECHNOLOGY VIEWPOINT

## *Observations from the Tax/IT Interface*

### Case Study – Partnership Allocations

May 2, 2016

---

1. Some of these metrics, for example each partner's unit holdings, should be determinable as of year-end by reflecting changes to beginning balances from current year transactions
2. Other metrics may only be available with the partnership's final trial balance for the year.
3. If there have been changes in ownership, now is the time to consider the Varying Interest Rule, especially if tiered partnerships are present.

#### **Initial System Design Conclusions**

1. The working name for the system is KForm.
2. The data management aspect of the system must be built entirely, to the extent possible, on Microsoft SQL Server. SQL Server is capable of data handling capacity several magnitudes greater than foreseen for KForm. However, there are lesser versions available (for example, Express) that have limited but still usable capacities at lower cost (Express is free). Many enterprises are already running SQL Server.
3. The system, in order to have acceptable capabilities, can be menu driven to a great extent but there will be processes that will require some SQL (the language of databases) familiarity. The potential universe of allocation protocols is vast and 100% coverage in a strictly user interfaced execution is simply not possible. IRC Section 704(c) represents an allocation protocol under this conclusion.
4. That being said, the system must be able to deal with any number and complexity of allocation protocols
5. The system must be capable of handling any number of partners. However, a single instance of KForm must be capable of handling multiple partnerships, especially if these are part of a series with a single sponsor and/or some common partner overlap.
6. For a variety of reasons, including the varying interest rule and transferring capital balances and other tax attributes to transferees, the system should provide for daily allocations. Yes, that is potentially going to create a lot of data. Which means that there must be an archival reporting subset that is fully menu driven to allow for quick researching of any and all inquiries, including those that span reporting years.

7. Each allocation protocol is to be reduced to a set of percentages that will operate on the dollar amount of the item to be allocated. The manner in which these "percentage sets" are derived will vary depending on the results of Step 4 of the tax specialists' evaluations.
8. Allocations should be interactive and performed at SQL Server computational speeds.
9. There must be an extensive selection of parameterized reports available during preparation and in the archival reporting system. These reports should start at the most detailed level of data and advance up through full summarization into Schedule K-1 analogs.
10. Full audit trails should be identified and documented.

#### **System Example**

1. The following example is for a completely made-up partnership named Big Wolverine, which came into existence on 09/15/2013. Allocations are presented for its first (short) taxable year.
2. Everything shown is sourced either in a screen shot or a report within the system itself. What can be shown is a very small sample of what is out there in the database and other available reports. Custom reports can be easily implemented.
3. All amounts shown (except for those amounts presented on *pro forma* Schedules K) are in computer accounting format. All "signed numbers" are bracketed by parentheses. Unsigned numbers are Debits; signed numbers are Credits. Amounts are converted to "report format" for the *pro forma* K-1's
4. This example is presented to demonstrate only the core processes of the system. Once the allocation process has generated the detailed allocation records on a partner by partner basis, it is relatively easy to perform capital account analyses, transfers of attributes in the case of intra-year unit transactions between partners and miscellaneous reconciliations. Multi-year reports can also be generated from the archives.

# TAX TECHNOLOGY VIEWPOINT

## *Observations from the Tax/IT Interface*

### Case Study – Partnership Allocations

May 2, 2016

---

*Big Wolverine has three classes of ownership units, as set forth above. Each of these has certain allocation characteristics under the Agreement. In addition, there are allocations which refer to each class's outstanding book capital and/or elements thereof.*



Unitclass	Unitcategory	Metric
A01	Common Units	Units
P01	Preferred Units	Units
T01	Tracking Units	Units
A01Bk	Common Unit Book Capital	Dollars
P01Bk	Preferred Unit Book Capital	Dollars
T01Bk	Tracking Unit Book Capital	Dollars

*Under the Agreement, there are seven separate elements (referred to as “tranches” in the System) of income that are subject to distinct allocation protocols.*



Trancheid	Trancheshortname
10001	Ordinary income before admin charges
10002	Interest income - general
10003	Lower Tier #1 schedule K-1
10004	Tracked Asset 1 Sale
10005	Tracked Asset 2 Sale
10006	Admin charges
10007	Dividends

# TAX TECHNOLOGY VIEWPOINT

## *Observations from the Tax/IT Interface*

### Case Study – Partnership Allocations

May 2, 2016

*There are seven distinct allocation protocols, as set forth above. Numbers 10001 to 10006 are denominated in units, number 10007 is denominated in dollar amounts.*

Pctsetid	Pctsetname	Pctsetdescribe
10001	AllClass	Aggregate of all Classes
10002	ClassA01	Class A01
10003	ClassP01	Class P01
10004	ClassT01	Class T01
10005	P01_T01	Classes P01 and T01 combined
10006	A01_P01	Classes A01 and P01 combined
10007	AllCapContr	Capital contributions - all classes

*Big Wolverine had these results for its first (short) tax year beginning 09/15/13.*

<b>Schedule K-1</b> <b>(Form 1065)</b>  Department of the Treasury Internal Revenue Service		For calendar year 2013, or tax year beginning _____, 2013 ending _____, 20____																																																																																									
<b>Partner's Share of Income, Deductions, Credits, etc.</b> See back of form and separate instructions		<b>Part III Partner's Share of Current Year Income, Deductions, Credits and Other Items</b>																																																																																									
<b>Part I Information About the Partnership</b>		<table border="1"> <tr> <td>1</td> <td>Ordinary business income (loss)</td> <td>15</td> <td>Credits</td> </tr> <tr> <td></td> <td style="text-align: right;">5,610,000</td> <td></td> <td></td> </tr> <tr> <td>2</td> <td>Net rental real estate income (loss)</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">(350,000)</td> <td></td> <td></td> </tr> <tr> <td>3</td> <td>Other net rental income (loss)</td> <td>16</td> <td>Foreign transactions</td> </tr> <tr> <td>4</td> <td>Guaranteed payments</td> <td></td> <td></td> </tr> <tr> <td>5</td> <td>Interest income</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">123,450</td> <td></td> <td></td> </tr> <tr> <td>6a</td> <td>Ordinary Dividends</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">6,250,000</td> <td></td> <td></td> </tr> <tr> <td>6b</td> <td>Qualified dividends</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">250,000</td> <td></td> <td></td> </tr> <tr> <td>7</td> <td>Royalties</td> <td></td> <td></td> </tr> <tr> <td>8</td> <td>Net short term capital gain (loss)</td> <td></td> <td></td> </tr> <tr> <td>9a</td> <td>Net long-term capital gain (loss)</td> <td>17</td> <td>Alternative minimum tax (AMT) items</td> </tr> <tr> <td></td> <td style="text-align: right;">175,000</td> <td></td> <td></td> </tr> <tr> <td>9b</td> <td>Collectibles (28%) gain (loss)</td> <td></td> <td></td> </tr> <tr> <td>9c</td> <td>Unrecaptured section 1250 gain</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">218,750</td> <td></td> <td></td> </tr> <tr> <td>10</td> <td>Net section 1231 gain (loss)</td> <td>18</td> <td>Tax-exempt income and nondeductible expenses</td> </tr> <tr> <td></td> <td style="text-align: right;">1,750,000</td> <td></td> <td></td> </tr> <tr> <td>11</td> <td>Other income (loss)</td> <td></td> <td></td> </tr> </table>		1	Ordinary business income (loss)	15	Credits		5,610,000			2	Net rental real estate income (loss)				(350,000)			3	Other net rental income (loss)	16	Foreign transactions	4	Guaranteed payments			5	Interest income				123,450			6a	Ordinary Dividends				6,250,000			6b	Qualified dividends				250,000			7	Royalties			8	Net short term capital gain (loss)			9a	Net long-term capital gain (loss)	17	Alternative minimum tax (AMT) items		175,000			9b	Collectibles (28%) gain (loss)			9c	Unrecaptured section 1250 gain				218,750			10	Net section 1231 gain (loss)	18	Tax-exempt income and nondeductible expenses		1,750,000			11	Other income (loss)		
1	Ordinary business income (loss)	15	Credits																																																																																								
	5,610,000																																																																																										
2	Net rental real estate income (loss)																																																																																										
	(350,000)																																																																																										
3	Other net rental income (loss)	16	Foreign transactions																																																																																								
4	Guaranteed payments																																																																																										
5	Interest income																																																																																										
	123,450																																																																																										
6a	Ordinary Dividends																																																																																										
	6,250,000																																																																																										
6b	Qualified dividends																																																																																										
	250,000																																																																																										
7	Royalties																																																																																										
8	Net short term capital gain (loss)																																																																																										
9a	Net long-term capital gain (loss)	17	Alternative minimum tax (AMT) items																																																																																								
	175,000																																																																																										
9b	Collectibles (28%) gain (loss)																																																																																										
9c	Unrecaptured section 1250 gain																																																																																										
	218,750																																																																																										
10	Net section 1231 gain (loss)	18	Tax-exempt income and nondeductible expenses																																																																																								
	1,750,000																																																																																										
11	Other income (loss)																																																																																										
<b>Part II Information About the Partner</b>																																																																																											
A Partnership's Employer Identification Number <b>10001</b>																																																																																											
B Partnership's name, address, city, state, and zip code <b>Big Wolverine</b>																																																																																											
C IRS Center where partnership filed return																																																																																											
D <input checked="" type="checkbox"/> Check if this is a publicly traded partnership (PTP)																																																																																											
E Partner's identifying number																																																																																											
F Partner's name, address, city, state, and ZIP code <b>All Partners</b>																																																																																											
G <input type="checkbox"/> General partner or LLC member/Manager <input type="checkbox"/> Limited partner or other LLC member																																																																																											

# TAX TECHNOLOGY VIEWPOINT

## Observations from the Tax/IT Interface

### Case Study – Partnership Allocations

May 2, 2016

The system allows for the income tranches to be segmented into different allocation schemes. These tranches all resolve to line 1 of the K-1 but are allocated out in segments using five different percent sets.

<b>10001 Ordinary income before admin charges</b>						
PShipID	TrancheID	Segment	Dr (Cr)	TaxCode	%SetID	
10001	10001	09/15/2013 to 12/31/2013 108 days	(2,500,000.00) (23,148.15)/day	1.22 Ordinary business (income) loss	10002	ClassA01
10001	10001	09/15/2013 to 12/31/2013 108 days	(800,000.00) (7,407.41)/day	1.22 Ordinary business (income) loss	10007	AllCapContr
10001	10001	10/15/2013 to 12/31/2013 78 days	(750,000.00) (9,615.38)/day	1.22 Ordinary business (income) loss	10003	ClassP01
10001	10001	10/15/2013 to 12/31/2013 78 days	(1,500,000.00) (19,230.77)/day	1.22 Ordinary business (income) loss	10004	ClassT01
10001	10001	12/05/2013 to 12/31/2013 27 days	(120,000.00) (4,444.44)/day	1.22 Ordinary business (income) loss	10002	ClassA01
			<b>(5,670,000.00)</b>			
<b>10006 Admin charges</b>						
PShipID	TrancheID	Segment	Dr (Cr)	TaxCode	%SetID	
10001	10006	11/15/2013 to 12/31/2013 47 days	60,000.00 1,276.60/day	1.22 Ordinary business (income) loss	10005	P01_T01
			<b>60,000.00</b>			

All of Big Wolverine's rental loss and capital gains come from a lower tier partnership. Note that the capital gains are allocated on the dates of sales within the lower tier entity.

<b>10003 Lower Tier #1 schedule K-1</b>						
PShipID	TrancheID	Segment	Dr (Cr)	TaxCode	%SetID	
10001	10003	09/30/2013 to 12/31/2013 93 days	350,000.00 3,763.44/day	3.02 Net rental real estate income	10001	AllClass
10001	10003	10/17/2013 to 10/17/2013 1 days	(48,000.00) (48,000.00)/day	3.09a Net long-term capital gain (loss)	10005	P01_T01
10001	10003	11/25/2013 to 11/25/2013 1 days	(127,000.00) (127,000.00)/day	3.09a Net long-term capital gain (loss)	10005	P01_T01

This is one of the sales made by the partnership. The sale of Asset 1 (not shown here) generated \$175,000 of unrecaptured sec. 1250 gain and \$1,500,000 of sec. 1231 gain to arrive at the totals for the year.

<b>10005 Tracked Asset 2 Sale</b>						
PShipID	TrancheID	Segment	Dr (Cr)	TaxCode	%SetID	
10001	10005	12/12/2013 to 12/12/2013 1 days	(43,750.00) (43,750.00)/day	3.09c Unrecaptured section 1250 gain	10004	ClassT01
10001	10005	12/12/2013 to 12/12/2013 1 days	(250,000.00) (250,000.00)/day	3.10 Net section 1231 gain (loss)	10004	ClassT01

# TAX TECHNOLOGY VIEWPOINT

## Observations from the Tax/IT Interface Case Study – Partnership Allocations May 2, 2016

The example now follows allocations to Partner #9 as a representative sample, as this partner holds units during the year from each of the classes issued by the partnership. Note that Tax Capital is being tracked but not used for allocations. Here is the unit ownership history for Partner #9.

10001 Big Wolverine				Change	Balance
<b>10009 Alexander Waverly Testamentary Trust</b>					
A01	Common Units	09/15/2013	Initial Funding	19,000.00	19,000.00
A01Bk	Common Unit Book Capital	09/15/2013	Initial Funding	1,425,000.00	1,425,000.00
A01Tx	Common Unit Tax Capital	09/15/2013	Initial Funding	1,425,000.00	1,425,000.00
P01	Preferred Units	10/15/2013	Unit Issuances	5,700.00	5,700.00
P01Bk	Preferred Unit Book Capital	10/15/2013	Unit Issuances	285,000.00	285,000.00
P01Tx	Preferred Unit Tax Capital	10/15/2013	Unit Issuances	285,000.00	285,000.00
T01	Tracking Units	11/15/2013	Unit Transfers	3,000.00	3,000.00
T01Bk	Tracking Unit Book Capital	11/15/2013	Unit Transfers	75,000.00	75,000.00
T01Tx	Tracking Unit Tax Capital	11/15/2013	Unit Transfers	75,000.00	75,000.00

Here is the allocation of ordinary income to Partner #9 for 11/25/13. Allocations are made by units or dollars held as a percentage of total outstanding. This level of detail is deemed ideal for audit techniques based on stat sampling.

1.22 Ordinary business (income) loss											
Day	Class	Units/\$\$ Held	Units/\$\$ Outstdg	Tranche ID	Percent Set ID	Percent Set Name	Partner's Percent	Allocable (Income) Loss Segment		Per Day	Allocated Amount
11/25/2013	A01	1,425,000	38,542,500	10001	10007	AllCapContr	3.69722%	09/15/2013 to 12/31/2013		(7,407.41)	(273.87)
11/25/2013	A01	19,000	456,000	10001	10002	ClassA01	4.16667%	09/15/2013 to 12/31/2013		(23,148.15)	(964.51)
11/25/2013	P01	285,000	38,542,500	10001	10007	AllCapContr	0.73944%	09/15/2013 to 12/31/2013		(7,407.41)	(54.77)
11/25/2013	P01	5,700	63,900	10001	10003	ClassP01	8.92019%	10/15/2013 to 12/31/2013		(9,615.38)	(857.71)
11/25/2013	P01	5,700	109,800	10006	10005	P01_T01	5.19126%	11/15/2013 to 12/31/2013		1,276.60	66.27
11/25/2013	T01	75,000	38,542,500	10001	10007	AllCapContr	0.19459%	09/15/2013 to 12/31/2013		(7,407.41)	(14.41)
11/25/2013	T01	3,000	45,900	10001	10004	ClassT01	6.53595%	10/15/2013 to 12/31/2013		(19,230.77)	(1,256.91)
11/25/2013	T01	3,000	109,800	10006	10005	P01_T01	2.73224%	11/15/2013 to 12/31/2013		1,276.60	34.88
<b>Ordinary business (income) loss</b>											<b>(3,321.03)</b>

And here are the allocations from the lower tier partnership on 11/25/13.

3.02 Net rental real estate income											
Day	Class	Units/\$\$ Held	Units/\$\$ Outstdg	Tranche ID	Percent Set ID	Percent Set Name	Partner's Percent	Allocable (Income) Loss Segment		Per Day	Allocated Amount
11/25/2013	A01	19,000	565,800	10003	10001	AllClass	3.35808%	09/30/2013 to 12/31/2013		3,763.44	126.38
11/25/2013	P01	5,700	565,800	10003	10001	AllClass	1.00742%	09/30/2013 to 12/31/2013		3,763.44	37.91
11/25/2013	T01	3,000	565,800	10003	10001	AllClass	0.53022%	09/30/2013 to 12/31/2013		3,763.44	19.95
<b>Net rental real estate income</b>											<b>184.25</b>
3.09a Net long-term capital gain (loss)											
Day	Class	Units/\$\$ Held	Units/\$\$ Outstdg	Tranche ID	Percent Set ID	Percent Set Name	Partner's Percent	Allocable (Income) Loss Segment		Per Day	Allocated Amount
11/25/2013	P01	5,700	109,800	10003	10005	P01_T01	5.19126%	11/25/2013 to 11/25/2013		(127,000.00)	(6,592.90)
11/25/2013	T01	3,000	109,800	10003	10005	P01_T01	2.73224%	11/25/2013 to 11/25/2013		(127,000.00)	(3,469.95)
<b>Net long-term capital gain (loss)</b>											<b>(10,062.84)</b>

# TAX TECHNOLOGY VIEWPOINT

## *Observations from the Tax/IT Interface*

### Case Study – Partnership Allocations

May 2, 2016

*Here's an excerpt from a summarization report aggregating the daily allocations (presented earlier) to Partner # 10009 into the Schedule K-1 lines.*

1.22	Ordinary business (income) loss					
	Ordinary income before admin charges	A01	09/15/2013 to 12/31/2013	10009	Alexander Waverly Testamentary Trust	(134,787.63)
			12/05/2013 to 12/31/2013	10009		(5,000.00)
	Admin charges	P01	11/15/2013 to 12/31/2013	10009	Alexander Waverly Testamentary Trust	3,114.75
	Ordinary income before admin charges		09/15/2013 to 12/31/2013	10009		(4,272.34)
			10/15/2013 to 12/31/2013	10009		(66,901.41)
	Admin charges	T01	11/15/2013 to 12/31/2013	10009	Alexander Waverly Testamentary Trust	1,639.34
	Ordinary income before admin charges		09/15/2013 to 12/31/2013	10009		(677.46)
			10/15/2013 to 12/31/2013	10009		(59,074.91)
						<b>(265,959.65)</b>
3.02	Net rental real estate (income) loss					
	Lower Tier #1 schedule K-1	A01	09/30/2013 to 12/31/2013	10009	Alexander Waverly Testamentary Trust	12,209.73
	Lower Tier #1 schedule K-1	P01	09/30/2013 to 12/31/2013	10009	Alexander Waverly Testamentary Trust	2,957.27
	Lower Tier #1 schedule K-1	T01	09/30/2013 to 12/31/2013	10009	Alexander Waverly Testamentary Trust	937.87
						<b>16,104.87</b>
3.09a	Net long-term capital (gain) loss					
	Lower Tier #1 schedule K-1	P01	10/17/2013 to 10/17/2013	10009	Alexander Waverly Testamentary Trust	(2,491.80)
			11/25/2013 to 11/25/2013	10009		(6,592.90)
	Lower Tier #1 schedule K-1	T01	11/25/2013 to 11/25/2013	10009	Alexander Waverly Testamentary Trust	(3,469.95)
						<b>(12,554.64)</b>

*The system can show any partner's allocations on a facsimile K-1 for further review/evaluation in a familiar context.*

<p><b>Schedule K-1</b> <b>(Form 1065)</b></p> <p>Department of the Treasury Internal Revenue Service</p> <p>For calendar year 2013, or tax year beginning _____, 2013 ending _____, 20____</p> <p><b>Partner's Share of Income, Deductions, Credits, etc.</b> See back of form and separate instructions</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="4" style="background-color: #cccccc;">Part III Partner's Share of Current Year Income, Deductions, Credits and Other Items</th> </tr> </thead> <tbody> <tr> <td style="width: 5%;">1</td> <td style="width: 65%;">Ordinary business income (loss)</td> <td style="width: 10%; text-align: right;">265,960</td> <td style="width: 20%;">15 Credits</td> </tr> <tr> <td>2</td> <td>Net rental real estate income (loss)</td> <td style="text-align: right;">(16,105)</td> <td></td> </tr> <tr> <td>3</td> <td>Other net rental income (loss)</td> <td></td> <td>16 Foreign transactions</td> </tr> <tr> <td>4</td> <td>Guaranteed payments</td> <td></td> <td></td> </tr> <tr> <td>5</td> <td>Interest income</td> <td style="text-align: right;">5,606</td> <td></td> </tr> <tr> <td>6a</td> <td>Ordinary Dividends</td> <td style="text-align: right;">286,789</td> <td></td> </tr> <tr> <td>6b</td> <td>Qualified dividends</td> <td style="text-align: right;">11,472</td> <td></td> </tr> <tr> <td>7</td> <td>Royalties</td> <td></td> <td></td> </tr> <tr> <td>8</td> <td>Net short term capital gain (loss)</td> <td></td> <td></td> </tr> <tr> <td>9a</td> <td>Net long-term capital gain (loss)</td> <td style="text-align: right;">12,555</td> <td>17 Alternative minimum tax (AMT) items</td> </tr> <tr> <td>9b</td> <td>Collectibles (28%) gain (loss)</td> <td></td> <td></td> </tr> <tr> <td>9c</td> <td>Unrecaptured section 1250 gain</td> <td style="text-align: right;">2,859</td> <td></td> </tr> <tr> <td>10</td> <td>Net section 1231 gain (loss)</td> <td style="text-align: right;">16,340</td> <td>18 Tax-exempt income and nondeductible expenses</td> </tr> </tbody> </table>	Part III Partner's Share of Current Year Income, Deductions, Credits and Other Items				1	Ordinary business income (loss)	265,960	15 Credits	2	Net rental real estate income (loss)	(16,105)		3	Other net rental income (loss)		16 Foreign transactions	4	Guaranteed payments			5	Interest income	5,606		6a	Ordinary Dividends	286,789		6b	Qualified dividends	11,472		7	Royalties			8	Net short term capital gain (loss)			9a	Net long-term capital gain (loss)	12,555	17 Alternative minimum tax (AMT) items	9b	Collectibles (28%) gain (loss)			9c	Unrecaptured section 1250 gain	2,859		10	Net section 1231 gain (loss)	16,340	18 Tax-exempt income and nondeductible expenses
Part III Partner's Share of Current Year Income, Deductions, Credits and Other Items																																																									
1	Ordinary business income (loss)	265,960	15 Credits																																																						
2	Net rental real estate income (loss)	(16,105)																																																							
3	Other net rental income (loss)		16 Foreign transactions																																																						
4	Guaranteed payments																																																								
5	Interest income	5,606																																																							
6a	Ordinary Dividends	286,789																																																							
6b	Qualified dividends	11,472																																																							
7	Royalties																																																								
8	Net short term capital gain (loss)																																																								
9a	Net long-term capital gain (loss)	12,555	17 Alternative minimum tax (AMT) items																																																						
9b	Collectibles (28%) gain (loss)																																																								
9c	Unrecaptured section 1250 gain	2,859																																																							
10	Net section 1231 gain (loss)	16,340	18 Tax-exempt income and nondeductible expenses																																																						
<p><b>Part I Information About the Partnership</b></p> <p>A Partnership's Employer Identification Number <b>10001</b></p> <p>B Partnership's name, address, city, state, and zip code <b>Big Wolverine</b></p> <p>C IRS Center where partnership filed return</p> <p>D <input checked="" type="checkbox"/> Check if this is a publicly traded partnership (PTP)</p>	<p><b>Part II Information About the Partner</b></p> <p>E Partner's identifying number <b>10009</b></p> <p>F Partner's name, address, city, state, and ZIP code <b>Alexander Waverly Testamentary Trust</b></p>																																																								

TAX TECHNOLOGY VIEWPOINT  
*Observations from the Tax/IT Interface*  
Case Study – Partnership Allocations  
May 2, 2016

---

**Parting Observations**

1. This case study exhibits the ability of a databased system to perform extensive financial computations using a manageable volume of independent inputs. This is different from many systems (i.e. accounting systems) of original entry that aggregate and summarize substantial volumes of input data.
2. KForm is, essentially, an instance of a generalized design which begins with the decomposition of a financial entity (partnership income, etc.) into classified elements (allocable items) which are then assigned to defined entities (the partners) and then reassembled into required reports (line item details for Schedules K-1).
3. This generalized design can also be used for apportionment of income for state tax reporting. A reporting entity's income is broken down into apportionable items (state returns' line items) which are then assigned to each state using percentages and then reassembled into the amounts included on the state returns.
4. The design may also be valid for the allocation of expenses incurred by common service entities back to the component operating units.
5. I would also expect that there could be some utilization of the general design in the newly required and developing area of country by country reporting by multinationals.