

## Table of Contents

I.	INTRODUCTION .....	1
II.	CONSIDER APPROPRIATENESS OF PARTNERSHIP .....	2
A.	Keep Potential Future Audience in Mind .....	2
B.	Consider Whether Clients Are Ready for Partnership.....	3
C.	Evaluate Potential Assets.....	3
1.	ASSETS MAINTAINED OUTSIDE OF THE PARTNERSHIP .....	3
2.	PERSONAL USE ASSETS .....	3
3.	APPRAISALS FOR HARD TO VALUE ASSETS.....	4
4.	REVIEW OF TRANSFER RESTRICTIONS.....	4
D.	Evaluate Potential Partners .....	4
E.	Engage/Consult with Experienced Advisors .....	5
III.	PARTNERSHIP FORMATION.....	6
A.	Consider Separate Counsel for Participants.....	6
B.	Discuss Partnership Terms.....	6
C.	Ensure Agreement’s Schedules Are Complete.....	7
D.	Prepare Transfer Documents in Advance and File with Relevant State Authorities ....	7
E.	File for Employer Identification Number .....	8
F.	Create Partnership Accounts Timely .....	8
G.	Engage Partnership Accountant.....	8
H.	Reflect Contributions in Capital Accounts in Proportion to Fair Market Value of Assets Contributed.....	9
I.	Consider Deducting Partnership Set-Up Fees.....	9
J.	If Necessary, Amend Partnership Percentages as Quickly as Possible After Formation .....	9
K.	Be Prepared to Produce Documents in Your File to the IRS, If Necessary.....	9
IV.	PARTNERSHIP MAINTENANCE .....	10
A.	File Accurate Returns For Each Year In Existence .....	10
B.	File Any Required Annual/Bi-Annual Registration Statements.....	10
C.	Comply with Terms of Partnership Agreement.....	10
D.	Comply with Loan Terms, If Loans Are Made.....	11
E.	Distributions, If Made, Should Be Pro Rata .....	11
F.	Refrain from Use of Partnership Assets for Partners’ Personal Obligations .....	11
G.	Upon Transfers, Consider Whether to Make § 754 Election.....	12
H.	Avoid Irregular Transactions Between Partners and Partnership.....	12
I.	Keep in Mind Non-Tax Reasons Stated for Forming Partnership.....	12
V.	TRANSFERS OF PARTNERSHIP INTERESTS.....	13
A.	Generally.....	13
B.	By Gift .....	13
C.	By Sale .....	13
D.	At Death .....	13
E.	By Redemption .....	14

VI.	TRANSFER TAX REPORTING .....	14
A.	Obtain Appraisal from Independent, Qualified Appraiser.....	14
B.	Confirm with the Appraiser the Interest to Be Valued .....	14
C.	Consider Whether to Aggregate Interests .....	15
D.	Review Appraisal Closely for Facts .....	15
E.	Try to Live by Factual Information Provided to Appraiser .....	15
F.	Beware of Rounding on Appraisals and Tax Returns.....	15
G.	Understand IRS Settlement Guidelines .....	15
VII.	AUDIT .....	16
A.	Consider Bringing in Litigation Counsel.....	16
B.	Determine Whether a Document Destruction Policy Exists; If So, Suspend .....	16
C.	Consider the Burden of Proof .....	16
D.	Consider the Impact of Privileges.....	16
E.	Consider Whether Production of Privileged Information May Help Your Case.....	17
F.	Provide Responses to the IRS that Are True and Correct, to the Best of Your Knowledge.....	17
G.	Keep in Mind that Anything Stated or Written Can Be Treated as an Admission .....	18
H.	Produce Responsive Documents in Your Possession, Custody, or Control .....	18
I.	Keep Careful Track of Documents and Electronic Files Produced to the IRS.....	18
J.	Understand the IRS's Broad Summons Power .....	18
K.	File Protective Claims If Necessary.....	18
L.	Consider Whether it is Feasible to Keep Partnership in Place.....	19
M.	Treat Informal Interviews as Depositions.....	19