State Board of Equalization

OPERATIONS MEMO

Confidential

No.: 1120 Date: December 13, 2004 Date: October 21, 2009

SUBJECT: BOE IRIS Changes for Partnership Accounts Affected by RUPA, Offers in Compromise or Innocent Spouse Relief

I. PURPOSE

This operations memo provides information regarding enhancements to the Board of Equalization's (BOE's) Integrated Revenue Information System (IRIS). Enhancements to IRIS were made to facilitate the BOE's handling of accounts impacted by the Revised Uniform Partnership Act of 1994 (RUPA), offers in compromise (OIC) and requests for innocent spouse (IS) relief. IRIS was modified to:

- Accurately track changes to partners associated with a partnership,
- Separately notice and adjust each partner's liability, and
- Make adjustments for acceptance of an OIC or for relief of an IS.

II. BACKGROUND

RUPA required the BOE to modify its policies and procedures for handling partnership accounts, including registration, billings/notifications, and collections. Information regarding RUPA is provided in Compliance Policy and Procedures Manual (CPPM) sections 301.000, *Partnership Changes*, and 724.000, *Partnership Collections*. As explained in these sections, RUPA provides that partnerships are distinct and separate entities from their individual partners and allows for the continuation of a partnership even when there is a change in partners. CPPM section 301.000 provides information on documenting partnership changes, including the adding or dissociating of partners. CPPM section 724.000 identifies the key provisions of RUPA particularly as they pertain to collections.

III. REGISTRATION AND ACCOUNT MAINTENANCE PROCEDURES

Form BOE-400-PC, *RUPA Partner Change Information*, is used to document partnership changes, specifically, the adding or dropping of partners. The use of form BOE-400-PC is explained in CPPM section 301.000. Completed forms should be retained by the office in control of the account and included as part of the documentation when the dissociating partner has a liability and an arbitrary number is required for that partner.

The office in control of an account is responsible for processing partnership changes (i.e., adding or dissociating partners) by updating the Client Taxpayer System (CTS) in IRIS. The following sections explain the IRIS screens and processes used to associate and dissociate a partner.

A. <u>IRIS Screen Changes</u>

The "Inquire Partner Relationship" screen is used to <u>view</u> partner information for a partnership account. The screen is accessed by pressing the F2 key while displaying the registration information for a partnership account on either the TAR AI or TAR AM screens. For further information, see Exhibit A.

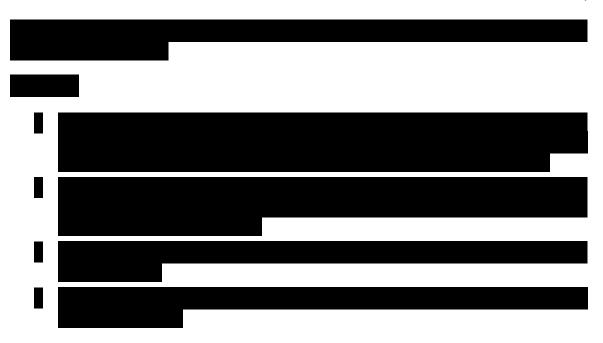
The "Maintain Partner Relationship" screen is essentially the same as the "Inquire Partner Relationship" screen except that it allows authorized staff to <u>update</u> partner information for a partnership account. The "Maintain Partner Relationship" screen is accessed by displaying information for a partnership's "Taxpayer Identification Number" (TIN) on the CTS CM screen, then pressing the F10 key.

B. Associating (or "Adding") a Partner to an Account

To associate, or add, a new partner (client) to a partnership:

- 1. Use the CTS CS screen to search for the partner being added.
- 2. If the partner has a TIN, link the existing partner's TIN to the partnership TIN.
- 3. If the partner does not have a TIN, create one and link it to the partnership TIN.





To dissociate a partner from a partnership:

- 1. On the CTS CS screen, input the account number in the "Acct #" field and press Enter. The CTS AL screen will be displayed.
- 2. Place the cursor on the "Sel" field next to the account and press F6. The CTS CM screen will be displayed.
- 3. Press F10. The "Maintain Partner Relationship" screen will appear.
- 4. Type a "C" in the "Act" (Action) field and input the date of dissociation in the End Date and Legal End Date fields.
- 5. Press F5 to update.

F. <u>Notice of Determination to Partnership and Partners</u>

IRIS functionality ensures copies of determinations issued to partnerships are sent to all partners associated with a partnership during the liability period. IRIS determines which partners were associated with a partnership during a particular period via the start date, end date, and legal end dates that exist for each partner. If the liability period is prior to a partner's start date, that partner will not be included on, or receive a notice. With regard to Consumer Use Tax (CUTS) accounts, a partner's start date must be the same as, or prior to, the purchase date in order for a notice to print.

IV. ARBITRARY ACCOUNTS FOR RUPA

An arbitrary account number with the prefix "96" is established to track an individual partner's liability when their liability is less than the total liability owed by a partnership. Use of "96" prefix accounts is limited to cases involving RUPA, OICs, and IS relief. This section provides information regarding arbitrary accounts established for RUPA purposes ("RUPA Account").

A. RUPA Accounts

Each individual partner, depending on that partner's period of association with a partnership, may be held responsible for all, part, or none of the total liability of a partnership. Establishing a RUPA Account allows BOE to track a partner's liability separately in IRIS so the partner is only held liable for those liabilities incurred while associated with a partnership.

For example, partners A, B, and C are partners in the partnership that has a third and fourth quarter 2008 liability. In early 2009, the BOE is informed that partner A dissociated from the partnership effective December 10, 2008 resulting in post-dissociation liability (December 11, 2008 through December 31, 2008) existing on the partnership account. A RUPA Account should be established for partner A. The liability on partner A's RUPA Account will only reflect liabilities incurred while the partner was associated with the partnership (i.e., through December 10, 2008).

- 1. The following conditions must exist before a RUPA Account may be created for a partner:
 - a. A final liability must exist. (For non-final liabilities, see instructions under "Audits.")
 - b. The partner owes *less* than the total amount owed by the partnership.
 - c. If RUPA rules apply with respect to collections, collection action was taken against the partnership assets and the liability was not satisfied. See CPPM section 724.023 for information on partnership collections.
 - d. The liability is attributable to a partnership. A partnership must have at least two partners and will dissolve on the date that it ceases to have at least two partners, unless at least one new partner joins the partnership within the following 90 days. For example, in a partnership consisting of partner A and partner B, if partner B leaves the partnership, partner C must join the partnership no later than 90 days following the date partner B dissociated from the partnership. Otherwise, the partnership is dissolved by partner B's dissociation. [Corporations Code sections 16101, subd. (9), and 16801, subds. (3) and (4).]
- 2. Before requesting a RUPA Account, the collector must:
 - a. Review the partnership account in IRIS, specifically the "Maintain/Inquire Partner Relationship" screen, and verify each person for whom the RUPA Account is being requested has been

added and/or dissociated. (An end date and legal end date should exist for each dissociated partner.)

b. Identify the partner(s) that owe less than the partnership. This is accomplished by reviewing each partner's period of association and the period(s) of liability remaining unpaid by the partnership.

When the above actions have been completed, the collector should request registration staff create a RUPA Account. A separate RUPA Account should be created for each partner liable for an amount less than the partnership. Requests involving collection accounts controlled by the Centralized Collection Section (CCS) must be referred back to that account's district of control since CCS does not have staff available to issue RUPA Accounts.

3. Establishing a RUPA Account and requesting a notice of demand

When establishing a RUPA Account in IRIS, staff must select "RUPA ARB" from the pop-up screen for the "96" prefix to generate. After the account is generated, the collector must identify the account number by inputting a comment on the primary (partnership) account in the BOE's Automated Compliance Management System (ACMS).

After a RUPA Account is established, a notice of demand should be issued to the partner identifying the specific liability for which they are liable. Demand notice requests are initiated by collection staff in ACMS as follows:

- a. Open the primary (partnership) account.
- b. From the "Send Letter" window, click on the "Follow-up" button.
- c. Set an appropriate follow-up date.
- d. Select the BOE-200-A, Special Procedures Action Request.
- e. Ensure that the form shows the primary account information.
- f. In the section marked "Other Request," identify the name of each partner for whom a RUPA Account was issued and for which a demand notice is being requested. Include each partner's RUPA Account number, mailing address and identify the period(s) of liability. The liability period(s) are determined based upon the dates the partner was associated with the partnership. A partner is liable for that portion of the partnership's liability that was incurred while the partner was associated with the partnership. That is, the liability that was incurred beginning with the partner's start date through, and including, the partner's end date.
- g. Make a permanent "Note" (not Non-ACMS Action) of the documentation attached to the BOE-200-A (Note: This keeps the follow-up date set in the first step intact).
- h. Attach to the BOE-200-A, any documentation such as copies of the BOE-400-PC, correspondence relating to association/dissociation and other relevant information or material.

- i. Submit the package to the collector's supervisor for review and approval.
- j. Make any required changes. After supervisory approval, send the documents to the Special Operations Branch (MIC: 55).

4. Establishing a Manual Case in ACMS

A RUPA Account is a secondary account and the liability that necessitated the account to be established is often "final" and subject to collection action. In such instances, the collector who requested the creation of the RUPA Account should establish the account in ACMS using the "Manual Account Set Up" process. This will ensure the RUPA Account will be assigned to the proper collector.

B. Audits

During an audit of a partnership account, the auditor may encounter a situation where the BOE was not notified of a change in partners that occurred during the audit liability period. When this occurs, the auditor must secure the information necessary to correct the BOE's registration records. The name, address, dates of association and dissociation, and other pertinent and helpful information must be obtained from the current partners or other sources.

When available, copies of partnership agreements should be incorporated into the audit working papers. These copies will serve as backup for any RUPA Accounts that may be created. Also, if the effective dates of association/dissociation are evident in the partnership agreement, they will serve as the basis for determining the audit liability of the partnership for the period each partner was active during the liability period.

Information discovered regarding partner association/dissociation will be entered on the back of the "Report of Field Audit" (report) under the "Type of Business Organization" heading. This information should be given to compliance staff for input into IRIS as soon as possible. The auditor should include in the report under the "General Comment" section, the name, current address, liability period, and the audit liability amount of the partnership for the period each partner was active during the liability period.

V. SPECIAL OPERATIONS BRANCH (SOB): PROCEDURES FOR ISSUING A DEMAND FOR IMMEDIATE PAYMENT FOR A RUPA ACCOUNT

A. Review and Processing

As explained in Section IV of this operations memo, district office or PSTD staff is responsible for creating RUPA Accounts when needed. As part of this process, the district will request the SOB (via form BOE-200-A created in ACMS) issue and send a demand for immediate payment to the partner.



SOB staff will issue a demand notice for a RUPA Account when all of the following conditions are met:

- 1. The partner owes *less* than the total liability owed by the partnership.
- 2. The partner for whom the RUPA Account was created was properly added or dissociated, and where appropriate, the end date and the legal end date have been input.

After the demand is issued, SOB staff will access ACMS and:

- 1. Open the primary (partnership) account.
- 2. Click the "Actions" menu on the menu bar and select "Summary..."
- 3. Select "RUPA Summary" from the "Internal Summary" drop down list.
- 4. Input the partner's name, RUPA Account number, the period the partner was associated with the partnership, and the liability amount.
- 5. Click on the "OK" button to permanently save the notes.

VI. ARBITRARY ACCOUNTS FOR OFFERS IN COMPROMISE (OIC) OR INNOCENT SPOUSE (IS) CASES

The Offers in Compromise Section is responsible for handling OIC and IS requests. An arbitrary account with account prefix "96" ("OIC/IS Account") is established in instances where an OIC or IS request is approved or granted and the BOE must provide the person with a paid-in-full statement. Use of an OIC/IS Account allows BOE to issue such a statement without affecting the primary account. An OIC/IS Account may be issued:

- A. For an individual partner's OIC on a partnership account when a RUPA Account was not previously created for that partner.
- B. For an OIC accepted on an entity type M (Husband and Wife Co-ownership) or N (Registered Domestic Partners) account where only one spouse or registered domestic partner makes an OIC.
- C. For entity type M or N accounts where IS relief has been granted.

Only OIC staff may create an OIC/IS Account, add or edit the end dates and legal end dates on OIC/IS Accounts coded entity type M or N, or utilize the "No Mail" (NM) indicator on the "Maintain Partner Relationship" screen. OIC/IS Accounts are established by selecting "RUPA Arb" on the "Type of Arbitrary" pop-up screen when creating the account in IRIS. The NM indicator is used to prevent a partner from receiving copies of statements mailed to the partnership after that partner's OIC is accepted. The NM indicator is also used to prevent IS accounts from receiving further statements after IS relief has been granted.

OIC staff will send a request to the BOE-ACMS email group to delete from the primary (partnership) account, the name of the person whose OIC was accepted or for whom IS relief was granted.





VIII. PAYMENTS RECEIVED FOR RUPA ACCOUNTS

A RUPA Account is a secondary account and any payments made by the partnership and applied to the primary (partnership) account will show as an adjustment, and not a payment, on the RUPA Account. Payments received from a partner with a RUPA Account should be applied to the RUPA Account and not the primary account. Payments applied to the RUPA Account will appear as adjustments on the primary account.

IX. OBSOLESCENCE

This operations memo becomes obsolete after its provisions are incorporated into the appropriate manuals.

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