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Rev. Proc. 2021-29: Process for partnerships applying for 30-year alternative depreciation recovery period for residential rental property

The IRS today released an advance version of Rev. Proc. 2021-29 providing an alternative process for eligible partnerships that are electing real property trades or businesses to file amended returns in order to apply a recovery period of 30 years under the alternative depreciation system for residential rental property placed in service before January 1, 2018.

[Rev. Proc. 2021-29](#) [PDF 66 KB] allows eligible partnerships to file amended partnership returns for tax years beginning in 2018, 2019, and 2020 using a Form 1065, *U.S. Return of Partnership Income*, with the "Amended Return" box checked, and to issue an amended Schedule K-1, *Partner's Share of Income, Deductions, Credits, etc.*, to each of its partners without having to file an administrative adjustment request (AAR) under section 6227.

Background

A provision of the "Taxpayer Certainty and Disaster Tax Relief Act of 2020" enacted December 27, 2020, as part of the "Consolidated Appropriations Act, 2021" (Pub. L. No. 116-260) retroactively allows a recovery period of 30 years under the alternative depreciation system (ADS) of section 168(g) for certain residential rental property that is placed in service before January 1, 2018, held by an electing real property trade or business, and not previously subject to the ADS.

The centralized partnership audit procedures enacted by the "Bipartisan Budget Act of 2015" (BBA) apply to all partnerships, unless the partnership makes a valid election under section 6221(b) not to have those procedures apply. Partnerships subject to the centralized partnership audit regime are referred to as "BBA partnerships." Section 6227 generally provides that a BBA partnership may file an administrative adjustment request (AAR) for any partnership-related item for any partnership tax year.

Summary

Rev. Proc. 2021-29 explains how an eligible BBA partnership can change its recovery period under section 168(g) without filing an AAR under section 6227. However, this option does not prevent a partnership from filing an AAR to obtain the benefits of the 30-year alternative depreciation recovery system or any other tax benefits to which the partnership is entitled.

Rev. Proc. 2021-29 further states that a BBA partnership that files an amended return pursuant to this revenue procedure is still subject to the centralized partnership audit procedures.

Rev. Proc. 2021-29 is intended to be implemented in tandem with Rev. Proc. 2021-28 which permits taxpayers to file an amended return, an AAR or a Form 3115, *Application for Change in Accounting Method*, to change their method of computing depreciation of certain residential rental property held by an electing real property trade or business to use a 30-year ADS recovery period and, if such property is included in a general asset account, to change their general asset account treatment for such property to comply with Reg. section 1.168(i)-1(h)(2). Read [TaxNewsFlash](#)

For purposes of Rev. Proc. 2021-29, “eligible partnerships” are BBA partnerships that filed Forms 1065 and furnished Schedules K-1 for the partnership tax years beginning in 2018, 2019, or 2020 and did so prior to the issuance of Rev. Proc. 2021-29. The filing and furnishing option in section 3.02 of the revenue procedure is only available to:

- BBA partnerships within the scope of section 3 of Rev. Proc. 2021-28 that have residential rental property within the scope of section 3 of Rev. Proc. 2021-28 and that choose to change either or both of their method of depreciation or general asset account treatment for such property by filing an amended Form 1065 in accordance with procedures in sections 4.01(2), 4.02(3), or 4.04(1) of Rev. Proc. 2021-28 as applicable,
or
- BBA partnerships within the scope of section 3.01(1) of Rev. Proc. 2020-22, that choose to make a late section 163(j)(7) election by filing an amended Form 1065 in accordance with procedures in section 4 of Rev. Proc. 2020-22.

Process

Rev. Proc. 2021-29 provides that a BBA partnership must clearly indicate the application of today’s revenue procedure on the amended return and write “FILED PURSUANT TO REV PROC 2021-29” at the top of the amended return and attach a statement with each Schedule K-1 furnished to its partners with the same notation.

The BBA partnership may file electronically or by mail—but the IRS noted that filing electronically may allow for faster processing of the amended return.

Rev. Proc. 2021-29 also includes special rules for BBA partnerships with returns under examination, BBA partnerships that previously filed AARs, and coordination with Notice 2019-46.

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