

FEBRUARY 21, 2022

IRS Offers Partial Relief for Schedules K-2 and K-3

On February 16, 2022, in response to practitioner and taxpayer feedback, the IRS published a [News Release](#) providing information on a new exception to the filing requirement of Schedules K-2 and K-3 for certain domestic partnerships and S corporations for the 2021 tax year.

If a partnership or S corporation meets **all** of the qualifications below, the pass-through entity does not need to file a 2021 Schedule K-2 and K-3 with the IRS or provide to its partners or shareholders. The domestic entity must have:

- No direct foreign partners (including foreign partnerships, foreign corporations, foreign individuals, foreign estates or foreign trusts) in tax year 2021
- No foreign activity (including foreign taxes paid or accrued or ownership of foreign assets that generate (previous, current, or can reasonably expect in the future) foreign source income) in tax year 2021
- No foreign reporting provided on the prior year tax return (tax year 2020), including:
 - Form 1065 Schedule K-1, Line 16 or Line 20c
 - Form 1120-S Schedule K-1, Line 14 or Line 17d
- No knowledge that the partners or shareholders need such information for tax year 2021
[Note: If the entity is notified by a partner or shareholder before the return is filed, this condition is not met, and the entity must file Schedule K-2 and K-3.]

This exception is provided as additional transition relief and is only available for tax year 2021.

For those pass-through entities that are not eligible for the relief described above, the new Schedule K-2 and K-3 filing requirements will apply for the 2021 tax year.

The IRS is still not prepared to accept these new forms for e-filing at this time. Entities required to e-file and include these new forms will either need to file an extension or complete the forms and upload as a PDF attachment.

Please visit the IRS [FAQ](#) page to help navigate these forms and this new relief.

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