On February 13, 2012 the IRS issued Revenue Procedure 2012-17 providing the requirements that partnerships must follow to distribute K-1s electronically. The requirements center on providing partners with a means to opt into electronic delivery. The partnership can forego paper K-1s only for those partners who have opted in and must continue to provide paper K-1s to all other partners.

Key Points

- Modeled after the electronic distribution requirements for Forms 1099 and W-2, Rev Proc. 2012-17 requires active enrollment by partners for electronic delivery. Partners will continue to receive paper copies of their tax information until they opt into electronic delivery. The Rev Proc. also mandates that recipients be able to opt-out of electronic delivery. For those who elect to opt-out, a paper copy must be furnished to them within 30 days.

- Allows organizations to utilize e-mail to distribute K-1s. However, they must have a process in place to track opt-ins and opt-outs. If the e-mail address provided by a recipient is invalid, the organization must track this information as well and revert to paper delivery. [PwC: While a convenient way to communicate, e-mail is not secure and can expose confidential data to unintended recipients.]

- Includes a requirement for document retention, which could be up to 15 months from the end of the tax year.

- Provides for penalties for failure to furnish K-1s within the Rev Proc. guidelines between $50 and $100 for each instance annually.

- Becomes effective as of February 13, 2012 and will be published on March 5, 2012 in Internal Revenue Bulletin 2012-10.

What It Means to Your Partnership

Reducing the expense of printing and mailing paper K-1s just became easier. However, while the IRS has significantly lowered the regulatory barrier, it has left in place a logistical barrier - requiring the partnership to limit electronic delivery only to those partners who opt-in. Across publicly traded partnerships, approximately 7-12% of partners access their K-1s electronically while the vast majority of partners simply wait until their K-1s appear in their mail. Partnerships that want to increase the number of partners who opt-into electronic delivery will need to develop compelling investor communication strategies that both create awareness and encourage participation.

PwC is evaluating the Revenue Procedure's requirements and plans to be compliant and able to provide electronic delivery of K-1s for tax year 2012.

Questions or comments?

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