

**Internal Revenue Service
Any Business Operating Unit**

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Department of the Treasury
Any Office

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Contact Hours:
8:00 - 4:30

Date:

Refer Reply to: AP:A:AX:MF

Tax Matters Partner
Begonia Partnership
First Kale Street
Anyplace, US XX001

Name of Partnership: Begonia Partnership
Partnership Identifying Number: 0X-XX12346

Taxpayer Identification No.: 0X-XX12346
Tax Year Ended:
December 31, 1999
Date FPAA Mailed to Tax Matters Partner:

Certified Mail # AAAA 1111 2222 3333 4441

Dear Partner:

NOTICE OF FINAL PARTNERSHIP ADMINISTRATIVE ADJUSTMENT

The law requires us to send a Notice of Final Partnership Administrative Adjustment (FPAA) to the partnership named above, for the tax year shown above, and to each partner who is entitled to receive this notice.

We are proposing adjustments to the partnership items of the partnership and tax year shown above. We will send the examination report outlining these adjustments to the Tax Matters Partner (TMP) of the partnership. (The TMP is the partner designated by the partnership to deal with the IRS.) He/she is also authorized to act for the partners who are not entitled to receive this notice. Any partner who wants a copy of the examination report should request it from the TMP. If the TMP is unable to provide you with a copy of the examination report, please contact the person named in the heading of this letter.

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Taxable Years Ending Before August 6, 1997:

The adjustments to the partnership items reported on the partnership tax return may cause an increase or decrease in the tax liability on your individual return. Form 870-P, *Agreement to Assessment and Collection of Deficiency in Tax for Partnership Adjustments*, is a summary of the proposed adjustments to the partnership return. You may compute your share of the proposed adjustments by multiplying each adjusted partnership item by your percentage interest for that partnership item.

Taxable Years Ending After August 5, 1997:

The adjustments to the partnership items reported on the partnership tax return may cause an increase or decrease in the tax liability on your individual return. The adjustments may include partnership level determinations regarding penalties and additions to tax that relate to adjustments to partnership items. Form 870-PT, *Agreement for Partnership Items and Partnership Level Determinations as to Penalties, Additions to Tax and Additional Amounts*, is a summary of the proposed adjustments to the partnership return. You can compute your share of the proposed adjustments by multiplying each adjusted partnership item by your percentage interest for that partnership item.

You have three options available to you.

1. If you agree with the adjustments:

Sign and return the enclosed Form 870-P/Form 870-PT. When you sign Form 870-P/Form 870-PT, you are agreeing to pay any additional tax and interest resulting from the adjustments to the partnership return. For tax years ending after August 5, 1997, you are also agreeing to any partnership level determination as to penalties, additions to tax and additional amounts that relate to adjustments to partnership items, if any. In addition, you are waiving your rights to participate in any administrative or judicial proceeding affecting partnership items and in partnership level determinations as to penalties, additions to tax and additional amounts that relate to adjustments to partnership items for the tax year in question. This is a binding settlement only if you sign and return Form 870-P/Form 870-PT and we sign on behalf of the Commissioner of Internal Revenue Service. When we sign the agreement form, the one-year extension of the period of limitations on assessments will begin under Internal Revenue Code section 6229(f). Once the agreement is signed by both parties, you may not file a claim to change the items in question or claim a refund/credit based on a readjustment.

Note: If you are the TMP of the partnership, see the section of this letter entitled, "*For the Tax Matters Partner of the Partnership*".

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2. If you do not agree with the adjustments:

If you are the TMP of the partnership and want to contest the adjustments in court, you must file a petition within 90 days from the date of this letter. During this 90-day period, no other partner may file a petition for judicial review. You can file your petition for readjustment of partnership items with:

1. the United States Tax Court;
2. the United States Court of Federal Claims; or
3. the District Court of the United States, in the district of the partnership's principal place of business.

A petition filed by the TMP precludes all other actions. If the TMP doesn't file a petition by the 90th day from the date the FPAA was mailed, any partner or any 5 percent group entitled to receive this notice may petition one of these courts. A "5 percent group" includes any group of partners who together have an interest of five percent or more in profits of the partnership. The petition must be filed after the 90th day, but on or before the 150th day from the date the FPAA was mailed to the TMP. If more than one petition is filed in Tax Court, the first petition filed will go forward. All other petitions (even those filed earlier in one of the other courts) will be dismissed. If no one files a petition in Tax Court, the first petition filed in one of the other courts will go forward and subsequent petitions will be dismissed.

Petitions filed with the United States Tax Court must be mailed to:

United States Tax Court

400 Second Street, N.W.
Washington, D.C. 20217

Attach a copy of this letter to the petition. The time in which you must file a petition with the court is fixed by law and the court cannot consider your case if your petition is filed late. If this letter is addressed to both a husband and wife, and both want to petition the Tax Court, both must sign the petition, or each must file a separate signed petition.

When a partner (including each member of a 5 percent group that files a petition) files a petition in either the appropriate District Court or the Court of Federal Claims, the partner filing the petition must deposit the amount that the partner's tax liability would be increased if the treatment of the partnership items on the partner's return were made consistent with the treatment of partnership items under the FPAA. If you reported the partnership items the way the partnership reported them on its return, you can generally determine the amount to deposit by taking your pro rata share of the partnership adjustments

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into account in recomputing your tax. You must deposit the appropriate amount with the IRS on or before the day you file your petition.

3. If you do nothing:

If a petition for readjustment is not filed in any of the courts listed in this letter, the FPAA becomes final, and we will bill you for any additional tax plus interest that you may owe under the FPAA. You will not be permitted to contest the treatment of the partnership items of the partnership under the FPAA in any refund claim or suit. The law allows the Service to bill you after 150 days from the mailing date of the FPAA to the TMP.

However, if a petition is filed in the Tax Court, and the Tax Court upholds the adjustments in whole or in part, we will not bill you until the Tax Court decision is final.

You may wish to contact the TMP of the partnership or your tax advisor to discuss this matter.

If you have any questions please write to the person whose name and address are shown in the heading of this letter. If you write, attach a copy of this letter to help identify your account. Also, include your telephone number and the most convenient time for us to call you in case we need additional information.

If you prefer, you may call the IRS contact person at the telephone number shown in the heading of this letter. If this number is outside your local calling area, there will be a long distance charge to you.

Thank you for your cooperation.

Sincerely,

Martin Marigold
Commissioner
By

Julia Orchid
Team Manager

Enclosures:
Form 870-PT
Copy of this letter

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FOR THE TAX MATTERS PARTNER OF THE PARTNERSHIP

If you are the Tax Matters Partner (TMP), you are entitled to make an agreement to bind non-notice partners to the treatment of the partnership items as shown on the enclosed schedule of adjustments. You must add the following statement above the signature blocks on the Form 870-P or Form 870-PT:

"The undersigned Tax Matters Partner is signing this offer on behalf of himself (herself) and all other partners whom he (she) has the authority to bind; a final agreement resulting from the co-signature of the Commissioner of Internal Revenue will be binding on all such other partners."

As the TMP, you may submit a petition, as described above for the partnership on behalf of all partners.

If you have any questions, you can call the IRS contact person at the telephone number shown in the heading of this letter. Thank you for your cooperation.

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Begonia Partnership
0X-XX12346

Tax Year Ended:
December 31, 1999

Explanation of Adjustments

(1) Other Income

It is determined that other income is \$93,000.00 and not \$60,000.00 as shown on your return. Accordingly, the amount reported as other income is increased by \$33,000.00.

(2) Depreciation Expense and Basis of Energy Property

It is determined that the basis of the new 5-year recovery property eligible for energy credit is \$400,000.00 instead of the \$600,000.00 shown on your return. Accordingly, the amount of property eligible for energy credit is decreased by \$200,000.00. It is further determined that the depreciation deduction of \$60,000.00, as shown in Exhibit 1, is allowable instead of the \$90,000.00 shown on your return. Therefore, ordinary income is increased by \$30,000.00.

(3) Repair Expense

The deduction of \$12,000.00 shown on your return is not allowed because it has not been shown that the amounts claimed were ordinary and necessary expenses paid or accrued during the taxable year in carrying on any trade or business. Accordingly, the repair expense is reduced by \$12,000.00.

(4) Section 1231 Gain

It is determined that your Section 1231 gain from the sale of assets is \$1,500,000.00 and not \$500,000.00 as shown on your return. Accordingly, the amount reported as Section 1231 Gain is increased by \$1,000,000.00.

(5) Negligence Penalty

It is determined that the partnership improperly took deductions and/or credits due to negligence or intentional disregard of rules and regulations. IRC Section 6662 is applicable at the individual partner level and is asserted in this proceeding.

(6) Capital Contributions Made During the 1999 Year

It is determined that the capital contributions made during the 1999 year were \$450,000.00 and not \$600,000.00 as shown on your return. Accordingly, the capital contributions are decreased by \$150,000.00.

(7) Forgiveness of Debt Income

It is determined that your forgiveness of debt income was \$1,500,000.00 and not \$500,000.00 as shown on your return. Accordingly, the forgiveness of debt income is increased by \$1,000,000.00.

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Begonia Partnership 0X-XX12346

Taxable Year Ended
December 31, 1999

FOR INFORMATION ONLY

The explanations below provide the reasons why the non-penalty affected items may be asserted after the partnership proceedings have been completed. A petition to any court should not contain a non-penalty affected item issue because the court will not have jurisdiction to consider non-penalty affected items at this time. A court will have jurisdiction to consider partnership related non-penalty affected items only after the partnership and penalty affected item proceeding has been completed and the notices of deficiency asserting the non-penalty affected items are issued.

IRC 704

It is determined that the partner's basis for the investment is less than the loss shown on the return. Therefore, the loss in excess of basis is not allowable.

IRC 108

It is determined that the partners are not insolvent. Therefore, the forgiveness of debt income is not subject to exclusion under IRC Section 108.