



U.S. Department of Justice
Tax Division

DJ
CMN

[Date]

Mr./Mrs./Ms. [Name]
[Address]

Re: TEFRA Partnership, LLC v. United States,
No. _____

Dear _____:

This refers to your offer dated _____, on behalf of _____ (referred to herein as "Taxpayers") to compromise the above-entitled case on the following terms:

1. The Taxpayers shall agree with the determinations set forth in the Notice of Final Partnership Administrative Adjustment (FPAA) issued in the name of _____, LLC for the taxable year ended _____. Accordingly, the Taxpayers concede that they are not entitled to deductions, credits, basis in assets, or other tax benefits or attributes of any kind in connection with _____, LLC. The Government concedes the following determinations set forth in such notice: _____, _____, and _____. Accordingly, the taxpayers will be entitled to [the deductions, credits, basis in assets, or other tax benefits or attributes to the extent conceded by the Government].
2. The Taxpayers concede the imposition of an accuracy-related penalty in an amount equal to _____% of the underpayment of tax attributable to the adjustments reflected in the FPAA in the name of _____, LLC or otherwise attributable to the disallowance of tax benefits claimed in connection with _____, LLC for the taxable year ended _____, under I.R.C. § 6662 and Treas. Reg. § 1.6664-2(f). Neither _____, LLC nor _____ [names of individual partners] may assert partner-level defenses to contest the imposition of the _____% accuracy-related penalty under the Settlement Offer, however, they may challenge the calculation of the computational adjustment.
3. Any underpayment of tax, penalties and interest arising with respect to this settlement will be satisfied in full in the following order:

- i. Through the application of the I.R.C. § 6226(e) deposit of \$ _____ (paid by the Taxpayers on _____) in accordance with Treas. Reg. § 301.6226(e)-1(d);
 - ii. To the extent any liability remains after the application of paragraph 3(i), through a cash payment by the Taxpayers as provided in paragraph 7, below, and any additional cash payment necessary to satisfy the entire deficiency resulting to the partners.
4. If any portion of the I.R.C. § 6226(e) deposit remains after application of paragraphs 3, 6 and 7, the Taxpayers shall receive a credit of the overpayment in accordance with I.R.C. § 6402 or a refund of such amount with interest in accordance with Treas. Reg. § 301.6226(e)-1(b).
5. _____'s [individual partners] basis in _____ [TEFRA Partnership] will be increased in the taxable year ending _____, under I.R.C. § 1367(a)(1)(A), to reflect the additional amount of income as adjusted pursuant to the above paragraphs. However, any costs or fees paid in connection with the transactions adjusted by the FPAA to _____ for the taxable year ended _____ are specifically not includible in _____'s [individual partner] basis in _____ [TEFRA Partnership].
6. The Taxpayers further concede the \$ _____ deduction for consulting fees claimed by _____ [TEFRA Partnership] or _____ [other person or entity that deducted fees for transaction at issue] for the _____ taxable year, and further agree to the imposition of an accuracy-related penalty under I.R.C. § 6662 and Treas. Reg. § 1.6664-2(f) in the amount of 20% with respect to any underpayment of tax resulting from the concession of the deduction for consulting fees. Neither Taxpayers nor _____ [individual partners] may assert partner-level defenses to contest the imposition of the 20% accuracy-related penalty under the Settlement Offer, however, they may challenge the calculation of the computational adjustment. [To perpetuate their agreement to the terms in this paragraph, the Taxpayers and the Internal Revenue Service will execute a closing agreement regarding the terms of this paragraph.]
7. Within 30 days of the receipt of this letter, which is the Taxpayers' receipt of the formal written acceptance by the Department of Justice, the Taxpayers will be required to make an additional deposit of \$ _____, which represents an estimate of the _____ % accuracy-related penalty. The Internal Revenue Service will treat the \$ _____ remittance as a deposit pursuant to IRC § 6603(a) and Revenue Procedure 2005-18, 2005-1 C.B. 798, for the Taxpayers' taxable year ending _____. The Taxpayers will not request to have the deposit returned to them prior to assessment of the computational adjustments resulting from the FPAA adjustments, as set forth in paragraphs 1 through 6, above. After the IRS assesses the computational adjustments, including tax, accuracy-related penalty, and interest, as set forth in paragraphs 1-6, above, the IRS will apply the deposits - as a payment - to the assessed liability. Taxpayers may challenge the computational adjustments as provided in the Internal Revenue Code.

8. Taxpayers agree to waive all restrictions on assessment and collection, and consent to the assessment and collection of any deficiency attributable to partnership items, affected items, penalties, additions to tax, and additional amounts that relate to the partnership items, as determined in this settlement agreement, plus any interest provided by law.

This offer has been accepted on behalf of the Attorney General. The Chief Counsel, Internal Revenue Service, has been notified of this action.

Please deposit with this office within 30 days of the date of this letter a cashier or certified check payable to "United States Treasury" in the amount of \$ _____, bearing [individual taxpayer]'s social security number. If you prefer to pay by electronic funds transfer, we can provide you with appropriate instructions. Enclosed are an original and one copy of a stipulation for dismissal of this case with prejudice. Please sign the original and return it to this office. When we receive the amount due, we will sign the stipulation and file it with the court, and return a signed copy to you.

Sincerely yours,

Assistant Attorney General
Tax Division

By:

DEBORAH S. MELAND
Chief, Office of Review

Enclosure

cc: Chief Counsel, Internal Revenue Service