Sample Partner/Shareholder notification:

Dear Partner/Shareholder,

Pursuant to IRS requirements, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_(name of partnership/S corporation) has opted to not file Schedules K-2 and K-3 with its income tax returns because it meets an exception to filing these schedules. Schedules K-2 and K-3 are lengthy foreign information reporting forms that can significantly increase [the partnership’s/S corporation’s] income tax preparation costs and could delay delivery of your Schedule K-1. If prepared, Schedules K-2 and K-3 would be filed with the IRS by [the partnership/S corporation], and Schedule K-3 would be provided to you to assist you in filing your Form 1040.

The partnership/S corporation can only meet a Schedule K-2/K-3 filing exception if it has no, or limited, foreign activity. As such, because a filing exception is met, we do not believe that filing these schedules will have a material impact on the income tax returns of [the partners/shareholders].

However, the entity is required to provide Schedule K-3 to any partner who requests it. Because we do not believe that preparation of Schedule K-3 will have a material impact on your personal income tax filings, at entity’s discretion, we may pass along the additional cost of preparing Schedule K-3 to any partner/shareholder who requests that it be prepared.

Sincerely,