

OUTLINE

PREFACE TO THE SIXTH EDITION.....	III
TABLE OF CASES	XVII
TABLE OF INTERNAL REVENUE CODE SECTIONS.....	XIX
TABLE OF TREASURY REGULATIONS.....	XXXI
TABLE OF REVENUE RULINGS AND PROCEDURES...XLV	

Chapter 1. Introduction to Partnership

Taxation	1
§ 1 Aggregate and Entity Concepts.....	1
§ 2 Transactional Approach.....	2
(a) General.....	2
(b) Partnership Operations.....	2
(c) Inside and Outside Basis	3
(d) Contributions and Distributions	4
(e) Transfers of Partnership Interests.....	6
(f) Adjustments to Inside Basis	6
§ 3 Limits on Flexibility.....	7
(a) General.....	7
(b) Form and Substance.....	7
(c) Tax Shelters	8
§ 4 Choice of Business Form.....	10
(a) General.....	10
(b) Hybrid Entities	13
(c) Passthrough Deduction: § 199A.....	14
§ 5 Capital Accounts.....	19
(a) General.....	19
(b) Partnership Contributions	19
(c) Relationship to Outside Basis	21

(d)	Taxable Income (Loss) and Cash Flow	23
(e)	Book/Tax Disparities	26
§ 6	Partnership Status	29
(a)	General.....	29
(b)	Joint-Profit Motive	31
(c)	Election Out	32
§ 7	Partnership Versus Corporation	34
(a)	General.....	34
(b)	Elective Regime	34
(c)	General Classification Rules.....	35
(d)	Foreign Organizations.....	37
(e)	Change in Classification	38
(f)	Series LLCs.....	38
§ 8	Publicly-Traded Partnerships	39
(a)	General.....	39
(b)	Safe Harbors	40
(c)	Passive-Income Exception.....	40
§ 9	Corporate Passthrough Entities.....	41
(a)	General.....	41
(b)	S Corporations	41
(c)	RICs, REITs and REMICs	42
§ 10	Anti-Abuse Rules.....	43
(a)	General.....	43
(b)	General Anti-Abuse Rule	44
(c)	Abuse-of-Entity Rule	46
(d)	Retrospective View	46
§ 11	Partnership Audit Rules	47
Chapter 2. Organization of a Partnership.....		51
§ 1	Overview	51
§ 2	Contributions of Unencumbered Property.....	52
(a)	General.....	52
(b)	Basis Consequences.....	53

(c) Holding Period	55
§ 3 Contributions of Encumbered Property	57
§ 4 Effect on Capital Accounts.....	62
§ 5 Character of Contributed Property	64
(a) General.....	64
(b) Recapture Property	66
§ 6 Investment Partnerships	66
§ 7 Conversion of Disregarded Entity	67
§ 8 Receipt of a Partnership Interest for Services	68
(a) Overview	68
(b) Capital or Profits Interest.....	72
(c) Receipt of a Vested Profits Interest.....	73
(d) Receipt of a Vested Capital Interest.....	76
(e) Receipt of a Nonvested Compensatory Interest.....	81
§ 9 Receipt of a Noncompensatory Partnership Option.....	87
§ 10 Debt-for-Equity Exchanges.....	89
Chapter 3. Partnership Tax Accounting.....	93
§ 1 Overview	93
§ 2 Determining Taxable Income	94
(a) Partnership Taxable Income.....	94
(b) Entity-Level Characterization.....	96
(c) Partnership Elections.....	97
§ 3 Adjustments to Outside Basis	99
(a) General.....	99
(b) Organization and Syndication Expenses	103
(c) Alternative Rule of § 705(b)	105
(d) Events Requiring Basis Determination.....	105

§ 4	Limitations on Losses	106
	(a) Section 704(d) Loss Limitation	106
	(b) Ordering Rules.....	108
	(c) Transfer of § 704(d) Suspended Losses	110
	(d) Other Limitations	112
§ 5	At-Risk Rules.....	114
	(a) General.....	114
	(b) Ultimate Liability Standard	116
	(c) Operation	118
	(d) Transfer of § 465 Suspended Losses.....	120
§ 6	Passive Loss Limitations	121
	(a) General.....	121
	(b) Material Participation.....	121
	(c) Oil and Gas Interests; Rental Real Estate	123
	(d) Coordination with §§ 704(d) and 465 ...	124
	(e) Significant Participation	124
	(f) Scope of Activity	125
	(g) Disposition	125
§ 7	Accounting Method.....	126
§ 8	Taxable Year.....	127
	(a) General.....	127
	(b) Election Out: §§ 444 and 7519.....	130
Chapter 4. Partnership Allocations		131
§ 1	Overview	131
§ 2	Economic Effect	134
	(a) Primary Test.....	134
	(b) Capital Account Analysis.....	134
	(c) Operation	138
	(d) Economic Effect Equivalence.....	142

§ 3	Maintenance of Capital Accounts.....	143
	(a) Basic Rules.....	143
	(b) Book/Tax Disparities.....	144
	(c) Transfers of Partnership Interests.....	145
§ 4	Alternate Economic Effect Test.....	145
	(a) General.....	145
	(b) Expected Distributions.....	149
	(c) Qualified Income Offset.....	151
§ 5	Substantiality.....	153
	(a) General.....	153
	(b) Shifting Allocations.....	153
	(c) Transitory Allocations.....	156
	(d) Overall-Tax-Effect Rule.....	159
§ 6	Partner's Interest in the Partnership.....	163
	(a) General.....	163
	(b) Special Partner's Interest Test.....	165
§ 7	Nonrecourse Deductions.....	166
	(a) General.....	166
	(b) Nonrecourse Debt Safe Harbor.....	167
	(c) Partnership Minimum Gain.....	170
	(d) Distributions of Nonrecourse Liability Proceeds.....	173
	(e) Partner Nonrecourse Debt.....	177
	(f) Conversion of Recourse Debt.....	177
	(g) Limited Liability.....	178
§ 8	Anti-Abuse Rules.....	179
§ 9	Depreciation Recapture.....	180
§ 10	Family Partnerships.....	182
	(a) General.....	182
	(b) Partner Status.....	182
	(c) Intrafamily Reallocation.....	184

Chapter 5. Contributed Property: Section	
704(c)	187
§ 1 Overview	187
§ 2 Traditional Method	188
(a) General.....	188
(b) Ceiling-Rule Limitation	190
§ 3 Traditional Method with Curative Allocations.....	192
(a) General.....	192
(b) Operation	193
§ 4 Remedial Allocation Method.....	197
(a) General.....	197
(b) Operation	197
(c) Special Rule for Depreciable Property.....	198
§ 5 Limits on Flexibility	202
(a) Choice of Methods.....	202
(b) Anti-Abuse Rules	203
§ 6 Revaluation of Property	207
(a) General.....	207
(b) Capital Account Adjustments	208
§ 7 Contributed Built-In Loss Property	211
(a) General.....	211
(b) Depreciable Property.....	213
(c) Transfer of Contributing Partner's Interest.....	214
§ 8 Distributions of Contributed Property	215
(a) General.....	215
(b) Like-Kind Property.....	217
§ 9 Accounts Receivable and Accounts Payable.....	218

Chapter 6. Partnership Liabilities	221
§ 1 Overview	221
§ 2 Definition of Liability and Assumption	223
(a) Definition	223
(b) Whose Liability	224
§ 3 Recourse Liabilities	225
(a) Economic Risk of Loss	225
(b) Constructive Liquidation	226
(c) Direct Payment Obligations.....	229
(d) Disproportionate Loss Sharing.....	231
(e) Partner Loans	234
(f) Pledge of Property as Security.....	235
(g) Disregarded Entities	235
(h) Time Value of Money.....	238
(i) Anti-Abuse Rules.....	239
(j) Revised Liability-Sharing Rules.....	240
§ 4 Nonrecourse Liabilities	242
(a) General.....	242
(b) Coordinating §§ 704(c) and 752	246
§ 5 Review Problem	252
 Chapter 7. Partner-Partnership	
Transactions	257
§ 1 Overview	257
§ 2 Scope of §§ 707(a) and 707(c)	258
(a) General.....	258
(b) Tax Consequences	259
(c) Payments for Services	259
(d) Timing of Income and Deduction.....	261
(e) Capital Expenditures	263
(f) Guaranteed Minimum	264

§ 3	Disguised Payments for Services:	
	§ 707(a)(2)	265
	(a) General.....	265
	(b) Section 707(a)(2) Payments	266
§ 4	Disguised Sales of Property Between Partners and Partnerships	270
	(a) General.....	270
	(b) Entrepreneurial Risk	271
	(c) Presumptions	272
	(d) Tax Consequences	273
	(e) Liabilities	275
	(f) Special Rule for Qualified Liabilities	278
	(g) Debt-Financed Distributions	279
§ 5	Disguised Sales of Interests.....	281
	(a) General.....	281
	(b) Consequences of § 741 Versus § 731 Treatment	281
§ 6	Sales or Exchanges with Respect to Controlled Partnerships.....	283
	(a) Loss Disallowance.....	283
	(b) Ordinary Income Treatment.....	284

Chapter 8. Transfers of Partnership

	Interests	287
§ 1	Overview	287
§ 2	Treatment of the Transferor Partner.....	288
	(a) Amount Realized	288
	(b) Allocation of Basis and Holding Period	289
	(c) Interim Adjustments	290
	(d) Look-Through Exceptions	291
	(e) Unrealized Receivables and Inventory.....	292

(f)	Mechanics of Look-Through Approach	293
(g)	Tiered Partnerships.....	297
(h)	Installment Sales.....	297
(i)	Exchange of Partnership Interests.....	298
(j)	Incorporation of Partnership	299
§ 3	Treatment of the Transferee Partner	300
(a)	Special Basis Adjustment	300
(b)	Share of Common Basis	305
(c)	Basis Allocation	308
(d)	Section 197 Intangibles	313
(e)	Effect on Capital Accounts	314
(f)	Coordinating §§ 704(c) and 743(b).....	314
(g)	Subsequent Transfers	317
(h)	Subsequent Distributions	317
(i)	Effect of § 732(d) Election	318
(j)	Tiered Partnerships.....	319
§ 4	Continuation of Partnership.....	319
(a)	General.....	319
(b)	Mergers and Divisions.....	320
§ 5	Distributive Share Allocations When Interests Shift.....	322
(a)	General.....	322
(b)	Closing of Taxable Year	322
(c)	Distributive Share Allocations	323
(d)	Allocable Cash Basis Items.....	325
(e)	Tiered Partnerships.....	327
(f)	Relationship of §§ 704 and 706.....	328
Chapter 9. Partnership Distributions		329
§ 1	Overview	329
§ 2	Current Distributions	331
(a)	General.....	331

	(b) Gain Recognition and Basis	332
	(c) Allocation of Basis	334
§ 3	Liquidating Distributions	336
	(a) General.....	336
	(b) Gain or Loss Recognition	337
	(c) Basis Allocation	338
	(d) Anti-Abuse Rules.....	339
§ 4	Treatment of Liabilities	340
§ 5	Distribution of Marketable Securities	342
	(a) General.....	342
	(b) Basis Consequences.....	343
	(c) Reduction for Net Unrealized Appreciation.....	344
	(d) Special Rules.....	345
§ 6	Section 732(d) Election.....	346
§ 7	Subsequent Dispositions of Distributed Property	348
§ 8	Inside Basis Adjustments	349
	(a) General.....	349
	(b) Recognized Gain or Loss	352
	(c) Shifts in the Basis of Distributed Property.....	356
	(d) Basis Allocation	359
	(e) Relationship of § 704(c)(1)(C) and § 734(b) Basis Adjustments	364
	(f) No Basis Reduction of Corporate Partner's Stock.....	365
	(g) Anti-Abuse Rule.....	367
§ 9	Effect on Capital Accounts.....	368
	(a) General.....	368
	(b) Optional Revaluation	370

§ 10 Distributions to Contributing Partners:

- § 737 373
 - (a) General..... 373
 - (b) Distributions Triggering Both
§§ 704(c)(1)(B) and 737..... 374
 - (c) Special Rules..... 377
- § 11 Disproportionate Distributions 377
 - (a) General..... 377
 - (b) Liquidating Distributions 381
 - (c) Current Distributions..... 386
 - (d) Exceptions and Safe Harbors..... 390
 - (e) Anti-Abuse Rule..... 390

Chapter 10. Death or Retirement of a Partner 393

- § 1 Overview 393
- § 2 Section 736(b) Payments..... 394
 - (a) General..... 394
 - (b) Excess Payments 396
 - (c) Basis Adjustments to Partnership
Assets 397
- § 3 Section 736(a) Payments..... 398
 - (a) General..... 398
 - (b) Payments to Service Partners 399
 - (c) Traditional Unrealized Receivables 400
 - (d) Goodwill..... 403
 - (e) Allocating Payments Between §§ 736(a)
and 736(b)..... 406
- § 4 Relationship Between §§ 736 and 751(b) 407
- § 5 Sale Versus Liquidation..... 408
 - (a) General..... 408
 - (b) Step-Transaction Doctrine 410
 - (c) Two-Person Partnerships..... 411

§ 6	Death of a Partner.....	413
	(a) Closing of Partnership's Taxable Year	413
	(b) Estate Tax Inclusion and Basis	413
	(c) Income in Respect of a Decedent	414
	(d) IRD Attributable to Partnership Interests	415
	(e) Inside Basis Adjustments	417
	INDEX.....	419