Subchapter K "Geography"

- §700s - General day-to-day operating rules, including allocations
- §702s - Contributions
- §710s - Distribution
- §740s - Sales & Exchanges
- §750s - Special Rules
- §760s - Definitions

§704(b) Books & Capital Accounts

- §704(b) is the basis for which the partners share the economics of the partnership. Generally, the allocation and liquidation provisions of the partnership agreement are based on §704(b) books.
- §704(b) capital account is increased by: cash contributed, FMV of property contributed (net of liabilities), allocable §704(b) income and tax-exempt income.
- §704(b) capital account is decreased by: cash distributed, FMV of property distributed (net of liabilities), allocable §704(b) loss and non-deductible/capitalizable expenditures.
- The capital accounts may be revalued ("booked up") for contributions or distributions.
- Partners can have a negative capital account.

Basis - Inside v. Outside

- Inside - Partnership’s basis in assets
- Outside - Partner’s basis in their partnership interest

§705(a) - Partner’s Tax Basis ("Outside Basis")

- Tax basis is increased by: taxable income, tax-exempt income, depletion in excess of basis (non-oil and gas), contributions of money or property and increase in share of liabilities.
- Tax basis is decreased by: taxable losses, non-deductible expenses, depletion on oil and gas wells to extent of basis, distributions from partnership and decrease in share of liabilities.
- Tax basis is not adjusted for changes to the FMV of property or revaluation ("book-up") events.
- Used for calculation of gain or loss on sale of partnership interest, determine tax consequences of distribution of money, and determine limitation of deductibility of losses under §704(d).
- Partners cannot have a negative tax basis.

§704(c) Property

- Property with a disparity between the §704(b) basis (i.e., FMV) and the tax basis. Also referred to a built-in gain or built-in loss property.
- These disparities can arise from either (i) a contributions of built-in gain or loss property ("forward §704(c)"), or (ii) a revaluation of the partnership’s property for §704(b) purposes ("reverse §704(c) ").
- The recognized built-in gain or loss on a disposition of §704(c) property is allocated to the contributing partner.
- Three allocation methods available to address the disparity: (a) traditional, (b) tradition with cured allocations, or (c) remedial.
- The "mixing bowl" rules may apply on a subsequent distribution of §704(c) property or distributions of other property to a contributing partner (see §704(c)(3)(B) and §737).

§754 Election

- A non-revocable election that allows a partnership to cure disparities between inside basis and outside basis by adjusting the basis of partnership property (see §734(b) and §734(b) below).
- The election can be made in any year the inside/outside basis disparity is created, but applies to all future years.

§743(b) Basis Adjustment: Transfers by Sale, Exchange or Death of a Partner

- The basis of partnership property may be adjusted to reflect transferee partner’s outside basis. The adjustment is with respect to transferee partner only.
  - Buyer’s Outside Basis = Amount Paid + Liabilities
  - Buyer’s Inside Basis = Previously Taxed Capital + Liabilities
- §743(b) Basis Adjustment

$734(b) Basis Adjustment: Distributions of Property to Partners

Optional basis adjustments:
- Money received is greater than outside basis, then distributee recognizes gain and partnership increases basis in remaining assets by excess.
- Basis of property distributed is greater than the partner’s outside basis, then distributee’s basis in distributed partnership is limited and the partnership increases basis in remaining assets by excess.
- Outside basis is greater than the money (including unrealized receivables and inventory) received, then the distributee recognizes a loss and the partnership decreases basis in remaining assets by loss recognized, and an adjustment is made to the contributing partner.
- Partnership property received takes on basis greater than the basis of property when distributed, then distributee’s basis in distributed property is increased and the partnership decreases basis in remaining assets by the excess.
- Mandatory basis adjustments under §734(b) required for distributions where there is a substantial basis reduction, which is a downward adjustment of more than $250,000.

Contribution of Property - General Rules

- §721 - in general, no gain or loss when property is contributed for a partnership interest
- §722 - substituted basis
- §723 - carryover basis

Sale or Exchange of Partnership Interest – General Rules

- §731 - Generally, gain or loss on the sale of a partnership interest is capital in nature.
- §734 - The portion of gain on the sale of a partnership interest related to inventory and unrealized receivables or "hot assets" creates ordinary income as opposed to the general rule of capital gain.

$752 - Treatment of Certain Liabilities

- §752(a) - Liabilities assumed by a partner upon contribution of an encumbered property are treated as a cash contribution to the partner assuming the liability.
- §752(b) - Liabilities reallocated to other partners upon contribution of an encumbered property are treated as a deemed cash distribution to the contributing partner.

§707 - Disguised Sales of Property

- When property or services are contributed to a partnership and there is a related distribution of property or money, the transactions are presumed to be a “disguised sale” of partnership property rather than a tax free contribution and a distribution of property to the partner.

§708(b)(1)(B) - Technical Termination of a Partnership

- Technical termination of a partnership occurs when there is a sale or exchange of greater than 50% of the capital and profits of the partnership within a 12 month period.
- The partnership terminates at that point in the year; a short year return will need to be filed up to the termination and for the short year after the termination.
- Depreciation restarts for all assets on a technical termination except §752(b) properties. All partnership level elections need to be made for the new post-termination partnership. EIN for the new entity stays the same as the terminated partnership.

$7704 - PTPs and Qualified Income

- PTPs are defined in §7704(a) as a partnership whose interest is traded on an established securities market.
- Section 7704(a) of the Code generally defines PTPs as corporations, but they can avoid being taxed as such if 90% or more of their income is qualified income. Qualified sources include Interest, Dividends, Rents from o/Gains from the Sale of real property, income from the mining, production, refining, or transportation of a natural resource, and regulated investment company income. Further defined in a multitude of PLRs.