Volume 1

CHAPTER 1. EVALUATING THE ECONOMICS OF REAL ESTATE TRANSACTIONS

I. ECONOMICS OF REAL ESTATE

§ 1:1 Generally

II. RETURN ON REALTY INVESTMENTS

A. INTRODUCTION

§ 1:2 Generally

B. TRADITIONAL METHODS OF CALCULATING THE RETURN

- § 1:3 Generally
- § 1:4 Overview of 1986 Act changes
- § 1:5 Pre-1986 Act considerations
- § 1:6 Pre-1986 Act return examples
- § 1:7 —Time value of money
- § 1:8 —Adjusted rate of return method
- § 1:9 —Internal rate of return method
- § 1:10 —Rate of return: Example 1
- § 1:11 Post-1986 Act return examples

C. LEVERAGE

- § 1:12 Generally
- § 1:13 Effect of leverage on return
- § 1:14 Comparison of Pre- and Post-1986 Act leveraging

III. PROJECTIONS AND FINANCIAL FORECASTS

- § 1:15 New standards adopted
- § 1:16 Scope
- § 1:17 General versus limited use
- § 1:18 Compilations versus examinations
- § 1:19 Presentation requirements for financial forecasts
- § 1:20 Impact of guide

IV. TAX RATES

A. OVERVIEW OF RATE CHANGES

§ 1:21 Generally

B. INDIVIDUAL TAX RATES

§ 1:22 Generally

- § 1:23 1987 tax rates
- § 1:24 1988, 1989 and 1990 tax rates
- § 1:25 1991 and future tax rates
- § 1:26 2001 and beyond
- § 1:27 Cost of living bracket increases

C. CORPORATE TAX RATES

- § 1:28 Generally
- § 1:29 1987 tax rates
- § 1:30 1988 and future tax rates

D. ESTATES AND TRUSTS

- § 1:31 1987 tax rates
- § 1:32 1988, 1989, and 1990 rates
- § 1:33 1991 and future tax rates
- § 1:34 2001 and beyond

E. CAPITAL GAINS AND DIVIDENDS

- § 1:35 Individuals
- § 1:36 Corporations
- § 1:37 Passthrough entities
- § 1:38 Dividends

F. MAXIMUM CREDIT BENEFIT

§ 1:39 Generally

G. DIGITAL TRANSACTIONS

§ 1:40 Reporting requirements

CHAPTER 2. OVERVIEW OF SECURITIES LAWS AFFECTING REAL ESTATE SYNDICATIONS

I. INTRODUCTION: BASIC PRINCIPLES

- § 2:1 Federal and state law
- § 2:2 Liability despite exemption

II. INVESTMENT PARTICIPATIONS AS "SECURITIES"

- § 2:3 Section 5 registration
- § 2:4 "Security" defined

III. TRANSACTION EXEMPTIONS FROM REGISTRATION REQUIREMENTS OF THE 1933 ACT

- A. IN GENERAL; PRIVATE OFFERING EXEMPTION
- § 2:5 Generally
- § 2:6 Private offering exemption

B. REGULATION D

§ 2:7 Generally

Table of	Contents
----------	----------

- § 2:8 Scope
- § 2:9 Rule 504
- § 2:10 Rule 505
- § 2:11 Rule 506
- § 2:12 Rule 507
- § 2:13 Rule 508
- § 2:14 Accredited investors
- § 2:15 General conditions of Regulation D and information requirements—General conditions
- § 2:16 —Information requirements
- § 2:17 Notice of sales

C. SECTION 4(a)(5)

§ 2:18 Generally

D. WHO IS AN "ISSUER"?

- § 2:19 Regulation D
- § 2:20 Murphy
- § 2:21 Holschuh
- § 2:22 Comdisco ruling

E. DECISIONAL LAW APART FROM REGULATION D: SECTION 4(a)(2)

- § 2:23 Alternative
- § 2:24 Number of offerees
- § 2:25 Nature of offerees
- § 2:26 Access to or disclosure of information
- § 2:27 Size of offering
- § 2:28 Fifth Circuit
- § 2:29 Ninth circuit

F. PREVENTING RESALE

§ 2:30 Generally

IV. INTEGRATION OF "SEPARATE" PRIVATE OR INTRASTATE OFFERINGS

- § 2:31 Definition
- § 2:32 SEC five-factor test
- § 2:33 Regulation D
- § 2:34 Suggested guides

V. INTRASTATE OFFERING EXEMPTION

- § 2:35 Section 3(a)(11)
- § 2:36 Rule 147
- § 2:37 Issuer must be resident and doing business within state
- § 2:38 Residence of offerees and resales
- § 2:39 Rule is nonexclusive
- § 2:40 Existing law apart from Rule 147

- § 2:41 "Residency" requirement: Installment sales under Rule 147—Generally
- § 2:42 —Diplomat letter
- § 2:43 —SEC response: Substantial penalties test
- § 2:44 Rule 147 & Rule 147A
- § 2:45 Exemptions to facilitate intrastate and regional securities offerings—"Crowd Funding"

VI. REGULATION A: LIMITED EXEMPTION AVAILABLE FOR MAXIMUM OFFERING OF \$50,000,000

- § 2:46 Generally
- § 2:47 JOBS Act 2012

VII. CIVIL, ANTIFRAUD, AND CRIMINAL LIABILITIES

A. 1933 ACT

- § 2:48 Failure to register when no exemption available
- § 2:49 Exemption available but false statement or omission involved
- § 2:50 Willful violation

B. 1934 ACT

- § 2:51 Section 10(b)
- § 2:52 Rule 10b-5
- § 2:53 Installment sales

VIII. STATE REGISTRATION OF SECURITIES

- § 2:54 Registration
- § 2:55 Exemptions
- § 2:56 Liability provisions

IX. BROKER-DEALER PROBLEMS

A. REGISTRATION WITH SEC

- § 2:57 Generally
- § 2:58 "Broker" and "dealer" defined
- § 2:59 Engaged in "regular business"
- § 2:60 "Issuer exemption"
- § 2:61 Independent sales force
- § 2:62 Rule 3a4-1

B. FINRA MEMBERSHIP; RULE 2310

- § 2:63 FINRA membership
- § 2:64 Rule 2310

C. EXTENSION OF CREDIT: INSTALLMENT PAYMENTS

1. In General

- § 2:65 Section 7(c)
- § 2:66 Section 11(d)(1)

2. Regulation T

§ 2:67 Generally

- § 2:68 Federal reserve board ruling
- § 2:69 Regulation D offerings
- § 2:70 Public offerings
- § 2:71 —Scope of Rule 3a12-9
- § 2:72 —Rationale
- § 2:73 —NASAA guidelines
- § 2:74 Rule 15c2-5

D. STATE REQUIREMENTS FOR REGISTRATION AS A BROKER-DEALER

§ 2:75 Generally

X. INVESTMENT COMPANY ACT OF 1940

- § 2:76 Definitions
- § 2:77 Time lapses
- § 2:78 Two-tier partnerships

XI. INVESTMENT ADVISERS ACT OF 1940

- § 2:79 In general
- § 2:80 Definition
- § 2:81 Exemptions

XII. ROLLUP LEGISLATION

- § 2:82 Generally
- § 2:83 Limited Partnership Rollup Reform Act of 1993—S. 422
- § 2:84 —Definition of rollup
- § 2:85 —Proxy rules
- § 2:86 —Dissenters' rights in rollup transactions
- § 2:87 —Effective date
- § 2:88 SEC rules for rollup transactions
- § 2:89 —Introduction
- § 2:90 —Application of the rules
- § 2:91 —Disclosure requirements—Summary
- § 2:92 ——Risk factors and effects of the transaction
- $\S~2:93$ ——Comparative information
- § 2:94 ——Allocation of rollup consideration
- § 2:95 Background of, reasons for and alternatives to the rollup transaction
- § 2:96 ——Conflicts of interest
- § 2:97 ——Fairness of the rollup transaction
- $\S~2:98$ Reports, opinions and appraisals
- § 2:99 ——Source and amount of funds and transactional expenses
- § 2:100 ——Pro forma financial statements and selected financial data
- § 2:101 ——Federal income tax consequences
- $\S~2:102$ Other provisions of the transaction
- § 2:103 —Supplemental disclosure documents
- § 2:104 —Amendments to SEC rollup rules
- § 2:105 ——Definition
- § 2:106 ———Excluded transactions
- § 2:107 ———Transactions not excluded

§ 2:108	— — Definition of "regularly traded" for purposes of the rollup rules
	exclusion
§ 2:109	— — Proxy and tender offer rule revisions—Exemption for preliminary
	communications
§ 2:110	— — Notice provisions
§ 2:111	——Differential or contingent compensation
§ 2:112	— —Disclosure regarding appraisals, reports, and fairness options
§ 2:113	California Rollup Legislation—S.B. 1753
§ 2:114	—Background on S.B. 1753
§ 2:115	—Regulation of limited partnership rollup transactions—Definition of
	"rollup participant"
§ 2:116	— —Definition of "rollup transaction"
§ 2:117	—Eligible rollup transactions
§ 2:118	— —Dissenters' rights
§ 2:119	— — Voting rights
§ 2:120	-Management, equity ownership, compensation and fees
§ 2:121	 —Allocation of solicitation and transaction costs
§ 2:122	——Notice to be given by general partners and sponsors
§ 2:123	—No de minimis exemption for rollup transactions
§ 2:124	—Effect of National Securities Markets Improvement Act of 1996
§ 2:125	—Coordination with federal regulation of rollup transactions, FINRA
	rules, and New York and American stock exchange rules
§ 2:126	FINRA rollup rules on member participation in rollups—Previous FINRA
	rules
§ 2:127	—FINRA rollup rules—Application of the rollup rules
§ 2:128	— — Regulation of rollups under the FINRA rules
§ 2:129	New York and American Stock Exchange rollup rules

CHAPTER 3. FORM OF OWNERSHIP

I. SELECTING APPROPRIATE ENTITY

- § 3:1 Overview
- § 3:2 Publicly traded partnerships

II. TAXABLE CORPORATIONS

A. TAXATION

- § 3:3 Taxation generally § 3:4 General utilities rule Section 351 (organization) transactions § 3:5 § 3:6 —Control requirement § 3:7 -Preferred stock § 3:8 —Liabilities assumed § 3:9 ——Recourse vs. nonrecourse § 3:10 —Treasury stock § 3:11 Nonrecognition transactions generally § 3:12 Domestic production deduction § 3:13 —General statutory provisions
- § 3:14 —Construction "performed in the United States"
- -Engineering and architectural services § 3:15
- § 3:16 —Mineral extraction

TABLE OF CONTENTS

TABLE OF	CONTENTS
§ 3:17	Liquidating sales and distributions
§ 3:18	Reorganizations
§ 3:19	
§ 3:20	Liquidations of controlled subsidiaries
§ 3:21	Small corporations
§ 3:22	Spin offs
§ 3:23	—Active business requirement
§ 3:24	—Valid business purpose
§ 3:25	—Anti-Morris trust Regulations/ Section 355(e)
§ 3:26	Mergers and acquisitions
§ 3:27	LIFO accounting—Wineries
§ 3:28	Loss limitation rules; related parties
§ 3:29	—Contribution of loss property
§ 3:30	—Section 338 elections
§ 3:31	—Loss corporations
§ 3:32	—Built-in loss
§ 3:33	Nonliquidating distributions
§ 3:34	Liquidations of S corporations
§ 3:35	Net operating losses
§ 3:36	—Overview of 1986 Act changes
§ 3:37	Transfers to foreign corporations Comparets against reduction transactions (CEPTs)
§ 3:38 § 3:39	Corporate equity reduction transactions (CERTs) Corporate inversions
§ 3:40	Accumulated earnings tax
\$ 0.40	Accumulated earnings tax
В.	COOPERATIVE HOUSING CORPORATIONS
§ 3:41	Definition of tenant-stockholder
§ 3:42	Depreciation
§ 3:43	Real property taxes
§ 3:44	Increase in adjusted basis by nondeductible maintenance payments
§ 3:45	Proportionate share
§ 3:46	Application of Section 277
III. S	CORPORATIONS
	IN GENERAL
§ 3:47	Distinction from partnership taxation
§ 3:48 § 3:49	Self-employment tax Basis and borrowings
8 0.40	Dasis and borrowings
В.	QUALIFICATION RULES
	1. In General
§ 3:50	General rules
§ 3:51	ESOP allocations
§ 3:52	Single class of stock Regulations
§ 3:53	Inadvertent termination and election
§ 3:54	—Improper S election

Electing small business trusts

2. Reporting Income

§ 3:56 Separately stated items

§ 3:55

- § 3:57 Character of income
- § 3:58 Limitation on losses and deductions
- § 3:59 Accumulated adjustments account
- § 3:60 LIFO benefits recapture
- § 3:61 Liquidation distributions

IV. REAL ESTATE INVESTMENT TRUSTS

A. OVERVIEW

§ 3:62 Generally

B. REIT QUALIFICATION REQUIREMENTS

1. In General

- § 3:63 Overview
- § 3:64 Share ownership
- § 3:65 Distributions

2. Nature of Assets

- § 3:66 Tests
- § 3:67 Temporary investments
- § 3:68 Qualified REIT subsidiary

3. Sources of Income

- § 3:69 75% test—In general
- § 3:70 —Tenant services income
- § 3:71 ——Services customarily furnished
- § 3:72 —Taxable REIT subsidiary (TRS)
- $\S~3:73$ —Independent contractor (IK) rules
- § 3:74 —Shared appreciation mortgages (SAMs)
- § 3:75 95% test
- § 3:76 30% test
- § 3:77 Certain rules for qualifying income

C. TAXATION OF REITS

- § 3:78 In general
- § 3:79 Capital gains accounting
- § 3:80 Prohibited transactions and REIT taxable income
- § 3:81 Deficiency dividends
- § 3:82 Excise tax
- § 3:83 No earnings and profits from pre-REIT years

D. TAXATION OF SHAREHOLDERS OF REITS

§ 3:84 Generally

E. LIQUIDATING DISTRIBUTIONS

§ 3:85 Generally

V. EXECUTIVE SUMMARY OF REIT TAXATION RULES AND UPREIT STRUCTURES

A. IN GENERAL

§ 3:86 Overview

§ 3:88	Introduction Structure of a REIT REIT election
В.	ANNUAL INCOME TESTS
§ 3:90 § 3:91 § 3:92 § 3:93	75-percent income test 95-percent income test 30-percent income test Special rules for REIT qualifying income
C.	ASSET TESTS
	Generally 75-percent assets test 25-percent assets test
D.	DISTRIBUTION TEST
\$ 3:97 \$ 3:98 \$ 3:99 \$ 3:100 \$ 3:101 \$ 3:102 \$ 3:103	Deductible distributions 95-percent distribution requirement Capital gains "Relation back" of dividends paid deduction Special timing of dividend rule Deficiency dividends Excise tax
E.	TAXATION OF REITS
§ 3:104 § 3:105 § 3:106	REIT taxable income REIT level taxation—Foreclosure property —Prohibited transactions
F.	TAXATION OF SHAREHOLDERS OF A REIT
§ 3:107 § 3:108	
	2. Tax-Exempt Shareholders
§ 3:109	Generally
§ 3:110 § 3:111	3. Foreign Shareholders United States taxation of REIT distributions Sales of REIT shares
G.	RECORD-KEEPING REQUIREMENTS
§ 3:112	Generally
Η.	NEW REIT STRUCTURES
§ 3:113 § 3:114 § 3:115	

	Tax Aspects of Real Estate Investments
§ 3:116 § 3:117	—Exceptions—Diversification causes gain recognition The Up-REIT solution
VI. NO	ON-REIT PROVISIONS
§ 3:120 § 3:121	Generally Passive activity loss limitations Miscellaneous business expense limitations REMIC rules Tax-exempt controlled entity Foreign tax changes
VII. M	IISCELLANEOUS FORMS OF OWNERSHIP
§ 3:125 § 3:126	Nominee corporations Personal residence trusts Financial asset securitization investment trusts (FASITs) Marketing (farming) cooperatives
CHAP	TER 4. PARTNERSHIP TAXATION
I. INT	RODUCTION
\$ 4:2 B1 \$ 4:3 Pi \$ 4:4 E1 \$ 4:5 C1 \$ 4:6 E1 \$ 4:7 Fc	verview usiness considerations tfalls lection out of partnership provisions ross-references to Post-1987 Act developments affecting partnerships lecting large partnerships (ELPs) oreign partnerships—Reporting requirements mall/Closely-Held Partnerships & Businesses
II. PA	RTNERSHIP STATUS
A.	PARTNERSHIP VERSUS ASSOCIATION
§ 4:10 "	Generally Check the box" 1996 Final Regulations Antiabuse rule
В.	CORPORATE GENERAL PARTNERS
§ 4:12	Generally
C.	ADVANCE RULING REQUIREMENTS—REVENUE PROCEDURE 89-12
§ 4:14 I § 4:15 (Generally Limited liability characteristic—Net worth Continuity of life characteristic Centralized management and free transferability characteristics

§ 4:17

Conditions required for all rulings

§ 4:18 —1% interest of general partners § 4:19 —Minimum capital

§ 4:20 § 4:21	—Required checklist Summary of changes made by Revenue Procedure 89-12
D.	LIMITED LIABILITY COMPANIES
	1. Overview
§ 4:22 § 4:23 § 4:24 § 4:25 § 4:26	Generally "Series" LLC organizations Tax Matters Partner Self-employment tax Employment tax liability, generally—FICA and FUTA
	2. Basic Characteristics
\$ 4:27 \$ 4:28 \$ 4:29 \$ 4:30 \$ 4:31 \$ 4:32	Articles of organization Eligible members Transferability of member interest Limited liability Management Dissolution
	3. Entity Comparison
§ 4:33	Generally
\$ 4:34 \$ 4:35 \$ 4:36 \$ 4:37 \$ 4:38 \$ 4:39 \$ 4:40	4. Federal Tax Treatment As a Partnership Criteria for achieving partnership status —Limited liability —Centralized management —Continuity of life —Transferability of interests Federal income tax treatment Conversion of limited partnership to LLC
v	5. State Tax Consequences; State Limited Liability Legislation
§ 4:41 § 4:42 § 4:43	State income tax consequences Status of legislation among the states Survey of limited liability legislation
III. S	SUBCHAPTER K: PARTNERSHIP TAXATION
A.	GENERAL RULES
\$ 4:44 \$ 4:45 \$ 4:46 \$ 4:47	Distributive share of income and loss Taxable year Partnership termination Contributions
В.	DISTRIBUTIONS
\$ 4:48 \$ 4:49 \$ 4:50 \$ 4:51	Generally 1996 Proposed Regulations 1996 Final Regulations Intangible property

C. IMPORTANCE OF BASIS

4	^ .	T • 1	D .
1.	Overview;	Inside	Basis

- § 4:52 Generally
- § 4:53 Inside basis

2. Outside Basis

- § 4:54 Elements
- § 4:55 Loss limitation
- § 4:56 Tacking of holding period
- § 4:57 Effect of death on basis
- § 4:58 Section 351 contributions

3. Debt in Outside Basis

a. Prior Law

- § 4:59 Generally
- § 4:60 Pre-1989 Regulations
- § 4:61 Raphan
- § 4:62 Congressional reaction

b. December 1988 Regulations

(1) Background; Overview

- § 4:63 Background
- § 4:64 Overview

(2) Recourse Liabilities

- § 4:65 Generally
- § 4:66 Definition of "related person"
- § 4:67 Zero value liquidation test
- § 4:68 Economic risk of loss
- § 4:69 —Obligation to make capital contribution
- § 4:70 ——General partnerships
- § 4:71 ——Limited partnerships
- § 4:72 —Guarantees and subrogation
- § 4:73 —Deferred payments—Present value analysis
- § 4:74 —Deficit restoration obligation
- § 4:75 Nonrecourse loans from partners or affiliates
- § 4:76 Pledge of assets
- § 4:77 Pledge of partnership interests
- § 4:78 Net worth of guarantor
- § 4:79 Contingent indemnification agreements
- § 4:80 "Bad boy" clauses
- § 4:81 Disguised guarantees
- § 4:82 —Master lease arrangements
- § 4:83 —Tenant equity participation
- § 4:84 —Construction completion guarantees
- § 4:85 —Guarantees of interest
- § 4:86 Bifurcation/wraparound mortgages

(3) Nonrecourse Liabilities

§ 4:87 Stacking

§ 4:88 § 4:89	—Minimum gair —704(c) basis la				
§ 4:90	—Residual basis layering				
	(4)	Shifts Between Recourse and Nonrecourse Debt			
§ 4:91	Generally	Similar Detween Recourse and Ivaniceourse Dest			
8 4.91		m: 15 · 1:			
	(5)	Tiered Partnerships			
§ 4:92	Generally				
	(6)	Effective Date and Transition Rules			
§ 4:93	Generally				
§ 4:94	Related person				
§ 4:95		ed loan basis shift election			
§ 4:96		recourse characterization			
§ 4:97		e-January 30, 1989 related person loans			
§ 4:98		loans and guarantees			
§ 4:99		y 29, 1984 loans			
§ 4:100	—Pre-March 1,				
§ 4:101	——Direct par				
§ 4:102	— —Direct par	tner guarantees			
		ember 1989 Amendments to Regulations			
§ 4:103	Generally				
§ 4:104	Effective dates	1			
§ 4:105	Definition of "re				
§ 4:106	Interest guarar				
§ 4:107	De minimis rul				
	d. 1991	Reproposed Section 752 Regulations			
	(1)	Background			
§ 4:108	Generally				
	(2)	Summary of Changes			
§ 4:109	Effective date e	election			
§ 4:110	General anti-ak	ouse rule			
§ 4:111	Interest guarar				
§ 4:112	Valuation of ple				
§ 4:113	_	ninimis exception			
§ 4:114		s of nonrecourse liabilities			
§ 4:115	Does DRO crea	te economic risk of loss?			
	(3)	Detailed Analysis			
		(a) Effective Date Rules			
		(i) 1991 Regulations			
§ 4:116	General effective	ve date rule			
§ 4:117	Election				
§ 4:118		n 708 deemed termination			
§ 4:119	Chart of Section	n 704(b)/Section 752 effective date rules interplay			
		(ii) Temporary Regulations			
§ 4:120	Election				

§ 4:121 § 4:122	Transition rule Effect of Section 708 deem	ned termination
	(iii)	Decision to Elect into Temporary Regulations or 1991 Regulations
§ 4:123 § 4:124	Benefit of layering rules Alternative elections	
	(iv)	Effect of Material Modification of Debt Under Effective Date Rules
\$ 4:125 \$ 4:126 \$ 4:127 \$ 4:128 \$ 4:129 \$ 4:130 \$ 4:131	Generally General anti-abuse rule Interest guarantees Valuation of pledged prope 10-percent de minimis exc Partners' shares of nonrec Does DRO create economic	eption ourse liabilities
	(4) Conclusi	on
§ 4:132	Generally	
	e. The Final Reg	gulations Under Section 752
	(1) Backgrou	und
§ 4:133	Generally	
	(2) Summar	y of Changes
\$ 4:134 \$ 4:135 \$ 4:136 \$ 4:137 \$ 4:138 \$ 4:139 \$ 4:140 \$ 4:141	Partners' shares of nonrect 10-percent de minimis excluderes Interest guarantees Pledged or contributed production Deficit capital account res General anti-abuse rule Effective date rules—Finat—Temporary Regulations	eption operty toration obligations
	(3) Detailed	Analysis
	(a) Cha	nges
\$ 4:142 \$ 4:143 \$ 4:144 \$ 4:145 \$ 4:146 \$ 4:147 \$ 4:148	Partners' shares of nonrection of the state of nonrection of the state of nonrection of the state of the stat	pperty—Pledged property
		ctive Date Rules
	, ,	Final Regulations
§ 4:149 § 4:150 § 4:151	General effective date rule Election Effect of Section 708 deem	e

§ 4:179 Generally

	(ii) Temporary Regulations				
§ 4:152	Election				
§ 4:153	Transition rule				
§ 4:154	Effect of Section 708 deemed termination				
	(iii) Decision to Elect into Temporary Regulations or Final Regulations				
§ 4:155	Benefit of layering rules				
§ 4:156	Alternative elections				
	(iv) Effect of Material Modification of Debt Under Effective Date Rules				
§ 4:157	Generally				
	(4) Conclusion				
§ 4:158	Generally				
	f. Debt Versus Contingent Purchase Price Versus Equity Interest				
§ 4:159	Contingent purchase price				
§ 4:160	Participating mortgages: Equity interests				
	4. Adjustments to Inside Basis				
§ 4:161	General rule				
§ 4:162	Section 754 election				
§ 4:163	Section 708 termination				
§ 4:164	Section 732(d) election				
D.	TRANSFERS OF PARTNERSHIP INTERESTS				
§ 4:165	Generally				
§ 4:166	Sale of partnership interests				
§ 4:167	Exchanges of partnership interests				
E.	LIQUIDATION OF PARTNERSHIP INTEREST				
§ 4:168	Recognition of gain by partnership and continuing partners				
§ 4:169	Recognition of gain by retiring partner				
§ 4:170	—Allocation of total payments between Section 736(a) and Section 736(b)				
§ 4:171	—Deferral of ordinary income				
§ 4:172	Closing of partnership year				
§ 4:173	Recap of differing income tax consequences of sale and liquidation				
§ 4:174	Criteria for characterization as sale or liquidation				
§ 4:175	Estate tax consequences for deceased partner—Gross estate				
§ 4:176	—Income in respect of a decedent Tax consequences of a forfeiture termination—Viewed as sale of				
§ 4:177	partnership interest of decedent				
§ 4:178	—Viewed as a liquidation of partnership interest				
F.	MERGERS AND ACQUISITIONS				

IV. TRANSACTIONS BETWEEN PARTNERS AND PARTNERSHIP

A 4	τ	71	DI	7T	$\mathbf{E}\mathbf{W}$
\mathbf{A}	. , ,	/ P	N. 1	/ III	r, vv

§ 4:180	General	lу
---------	---------	----

B. COMPENSATING SERVICE PARTNERS

1.	Prior	Law:	Payment	for	Services

- § 4:181 Generally
- § 4:182 Partnership interest as compensation
- § 4:183 Benefits of current income inclusion
- § 4:184 Valuation issues
- § 4:185 Management fees as guaranteed payments

2. 1984 Act: Payments to Partners for Services or Property

- § 4:186 Current law; legislative history
- § 4:187 —Section 83 election
- § 4:188 —Deferred compensation

3. Campbell Decisions—Receiving Partnership Profits Interests for Services

- § 4:189 Lower court decision
- § 4:190 Campbell reversal
- § 4:191 —Receipt of an interest as a taxable event—Services rendered directly to partnership
- § 4:192 ——Court of appeals analysis
- § 4:193 —Valuation issue
- § 4:194 Campbell reversal—Capital interest vs. profits interest

C. DISGUISED SALES—FINAL SECTION 707(A)(2)(B) REGULATIONS ISSUED

1. Background

- § 4:195 Law prior to the 1984 Act
- § 4:196 1984 Act—Section 707(a)(2)(B)

2. 1991 Proposed Regulations/1992 Final Regulations

a. In General

- § 4:197 Background
- § 4:198 General rules
- § 4:199 2004 Proposed Regulations
- § 4:200 2014 Proposed Regulations

b. Effect of Characterization As a Disguised Sale

- § 4:201 Generally
- § 4:202 Present value rule
- § 4:203 Special allocation of imputed interest deduction required
 - 3. Presumptions Relating to Guaranteed Payments, Preferred Returns, Distributions of Operating Cash Flow and Reimbursements of Preformation Expenses
- § 4:204 Generally

§ 4:205 § 4:206 § 4:207	Guaranteed payments for capital and preferred returns Distributions of operating cash flow Reimbursements of preformation expenditures
	4. Treatment of Liabilities
\$ 4:208 \$ 4:209 \$ 4:210 \$ 4:211 \$ 4:212 \$ 4:213	Generally "Qualified liabilities" Liabilities other than "qualified liabilities" —Share of recourse liabilities —Share of nonrecourse liabilities Distribution of post-contribution financing proceeds
	5. Disclosure Requirements
§ 4:214	Generally
	6. Effective Dates
§ 4:215	Generally
	7. Summary of Changes Made by Final Regulations
\$ 4:216 \$ 4:217 \$ 4:218 \$ 4:219 \$ 4:220 \$ 4:221 \$ 4:222 \$ 4:222 \$ 4:223 \$ 4:224 \$ 4:225 \$ 4:226 \$ 4:227 \$ 4:228 \$ 4:229 \$ 4:230 \$ 4:231	Generally Section 708(b)(1)(B) terminations Value rule in multiple property contributions Net cash flow definition Reasonable preferred returns and guaranteed payments/loans Accrued but unpaid items Preformation expenditures Precontribution borrowings —Share of nonrecourse liabilities —Trade payables —Netting of qualified and nonqualified liabilities —Refinancing —Tiered partnerships and related parties Disclosure Effective date election OID/sale problem PRECONTRIBUTION GAIN OR LOSS: SECTION 704(C)
D.	
§ 4:232	1. Overview
§ 4:232	Generally Conoral Pulse/1902 Proposed Postulations
	2. General Rules/1992 Proposed Regulations a. General Rules
8 4 000	
§ 4:233 § 4:234	Pre-1984 Act law Current law
	b. 1992 Proposed Regulations
	(1) In General
§ 4:235 § 4:236 § 4:237	Background The ceiling rule Applicable property

§ 4:238 § 4:239	Built-in gain or loss Reasonable method requirement
	(2) Method 1: The Traditional Method
\$ 4:240 \$ 4:241 \$ 4:242 \$ 4:243 \$ 4:244 \$ 4:245	Generally Traditional method examples Required tax depreciation allocations Required gain allocation on sale Liquidation of the partnership Unreasonable use of the traditional method
	(3) Method 2: The Traditional Method with Curative Allocations
§ 4:246 § 4:247 § 4:248	Generally Reasonable curative allocations—Example Unreasonable curative allocations—Example
	(4) Method 3: The Deferred Sale Method
§ 4:249 § 4:250 § 4:251 § 4:252 § 4:253	Generally Partner level triggering events Partnership level triggering events Character of deferred gain or loss Deferred sale method—Example
	(5) Exceptions and Special Rules
\$ 4:254 \$ 4:255 \$ 4:256 \$ 4:257 \$ 4:258 \$ 4:259	Anti-abuse rule De Minimis rule Aggregation Tiered partnerships Effective date IRS request for comments
Ü	(6) Ceiling Rule Issues
§ 4:260 § 4:261 § 4:262	Generally Ceiling rule distortions Curative allocations
	(7) Contributions of Multiple Properties
§ 4:263 § 4:264 § 4:265	Generally Multiple properties contributed by one partner Contributions by multiple partners
	(8) Deferred Sale Method Issues
\$ 4:266 \$ 4:267 \$ 4:268 \$ 4:269 \$ 4:270 \$ 4:271	Generally Example: Deferred sale method vs. traditional method Basis bifurcation Dealer property Distribution triggering rules—Coordination with Section 737 Disposition triggering rules—Coordination with Section 704(c)(1)(B)
J - /-	c. 1993 Final Section 704(c) Regulations
	(1) In General
§ 4:272	Generally
-	·

§ 4:273 § 4:274	Background—General rules —Ceiling rule
	(2) Reasonable Methods
\$ 4:275 \$ 4:276 \$ 4:277 \$ 4:278	Generally Traditional method Traditional method with curative allocations Remedial allocation method
	(3) Other Provisions
\$ 4:279 \$ 4:280 \$ 4:281 \$ 4:282 \$ 4:283 \$ 4:284 \$ 4:285 \$ 4:286 \$ 4:287	Anti-abuse limitation Consistency requirement Effect on transferees Nonrecognition transactions Accounts payable Tiered partnerships Small disparities Aggregation Securities partnership aggregation
	(4) Curative Allocations
\$ 4:288 \$ 4:289 \$ 4:290 \$ 4:291 \$ 4:292 \$ 4:293 \$ 4:294 \$ 4:295	Generally Distortions Curative allocation Amount permitted Timing Type of allocations Drafting curative allocations Tax planning opportunities
§ 4.290	
\$ 4:296 \$ 4:297 \$ 4:298 \$ 4:299 \$ 4:300 \$ 4:301 \$ 4:302	Overview Basis bifurication Amount of allocation Type of income Anti-abuse rule Section 752—Allocation of nonrecourse liability rules Comparison of methods
	(6) Conclusion
§ 4:303	Generally d. 1995 Proposed Regulations
§ 4:304	Generally
	e. 1995 Final Regulations
§ 4:305 § 4:306 § 4:307	Generally Application of Section $704(c)(1)(B)$ and section 737 Regulations Final Section $704(c)$ Regulations
	3. Five-Year Distribution Rule (1989 Act)
§ 4:308	Generally

4. Distributions to Contributing Partner—Section 737 (1992 Act)

8	4:309	Generally	7

V. PARTNERSHIP ALLOCATIONS

	A.	IN	GENERAL;	OVERVIEW
--	----	----	----------	-----------------

- § 4:310 Generally
- § 4:311 Relevance of prior law and finding list for subsequent developments— 1985 Economic Effect Regulations
- § 4:312 —1986 Nonrecourse Debt Regulations
- § 4:313 —1988 Temporary Regulations
- § 4:314 —1989 Amendments to Temporary Regulations
- § 4:315 —1991 Final Debt Regulations (and 1992 Amendments)
- § 4:316 —Case law and rulings
- § 4:317 Historical background—Section 704 and Prior Regulations

B. APPLICABLE CASES AND RULINGS ON ALLOCATIONS

- § 4:318 Generally
- § 4:319 Allocation cases
- § 4:320 Other decisions of interest

C. FINAL 704(B) REGULATIONS CONCERNING ECONOMIC EFFECT AND ALLOCATION OF DEDUCTIONS ATTRIBUTABLE TO PARTNERSHIP DEBT

1. Executive Summary

- § 4:321 Generally
- § 4:322 Alternate economic effect test adopted
- § 4:323 Partners' interests in partnership test clarified
- § 4:324 Capital account maintenance rules
- § 4:325 Book value capital accounts
- § 4:326 Effective dates

2. Detailed Analysis

a. In General

- § 4:327 Summary of changes; Cross-references
- § 4:328 Effective dates

b. Substantial Economic Effect

- (1) Overview
- § 4:329 Generally

(2) Economic Effect

- (a) Overview
- § 4:330 Generally

(b) Primary Economic Effect Test

- § 4:331 Generally
- § 4:332 Deficit repayment obligation

Table of	Contents
----------	----------

§ 4:333	—Promissory notes
§ 4:334	—Related party guarantees
§ 4:335	Liquidation defined
§ 4:336	Purchase of interest
	(c) Economic Effect Equivalence Test
§ 4:337	Generally
	(d) Alternate Economic Effect Test
	(i) In General
§ 4:338	Overview
§ 4.336 § 4:339	Account reduction items
§ 4.339 § 4:340	Qualified income offset
3 1.010	(ii) Minimum Gain
8 4.941	
§ 4:341 § 4:342	Generally Staged admissions
§ 4.342 § 4:343	Investment in nonbasis items
§ 4.343 § 4:344	Final Nonrecourse Regulations
o .	(iii) Other Open Issues Under Alternate Economic
	Effect Test
§ 4:345	Overview
§ 4:346	Calculating account reduction items
§ 4:347	Qualified income offset may void qualified allocations
§ 4:348	Interplay with interests in partnership test
	(e) Partners' Interests in Partnership Test
§ 4:349	Generally
	(f) Reallocation Examples
§ 4:350	Generally
	(3) Substantiality
§ 4:351	Generally
§ 4:352	Present value test
§ 4:353	Offsetting allocation test
§ 4:354	Substantiality safe harbor
	c. Capital Account Maintenance Rules
	(1) Requirements
§ 4:355	Generally
§ 4:356	General requirements
§ 4:357	Specific requirements
	(2) Adjustments to Reflect Fair Market Value
	(a) Overview; Optional One-Time Restatement
§ 4:358	Overview
§ 4:359	Optional one-time restatement
	(b) Other Optional Restatements
§ 4:360	Generally

§ 4:361 § 4:362 § 4:363	Admission of new investors Liquidation of partnership interest Installment sales of property in liquidation
	(c) Mandatory Market Value Adjustment
§ 4:364 § 4:365 § 4:366	Generally Book-tax allocations Examples
	d. Impact of Final Regulations on Existing and New Partnerships
§ 4:367 § 4:368 § 4:369	Generally Fully subscribed partnerships Partnerships in offering stage
	e. Deductions Attributable to Debt
	(1) Overview
§ 4:370 § 4:371	Background Significant features of the Final Nonrecourse Regulations
	(2) Determine Existence of Nonrecourse Liabilities
§ 4:372 § 4:373	Generally Determining amount of partnership minimum gain and partner loan
§ 4:374 § 4:375 § 4:376	minimum gain —Partnership minimum gain —Partner loan minimum gain Special rules for fair market value capital accounts
5	(3) Nonrecourse Deductions
§ 4:377	Generally
3 4.011	(4) Nonrecourse Deduction Allocation Tests
\$ 4:378 \$ 4:379 \$ 4:380 \$ 4:381 \$ 4:382 \$ 4:383	Generally Requirements to be satisfied Significant item consistency requirement —Effect of deficit repayment obligation —Book items versus tax items Minimum gain chargeback
	(5) Decreases in Minimum Gain
\$ 4:384 \$ 4:385 \$ 4:386 \$ 4:387 \$ 4:388 \$ 4:389	Generally Partner's share of minimum gain —Special rule for revaluations —Income and gain items comprising minimum gain chargeback Drafting the minimum gain chargeback Refinancing problem cured
	(6) Partner Funded or Guaranteed Liabilities
§ 4:390 § 4:391	Special allocation required Effect on capital accounts

§ 4:392	Partner loan minimum gain chargeback
	(7) Tax Planning Under the Final Nonrecourse Regulations
§ 4:393 § 4:394	Partner loan versus contribution Specially allocated depreciation under nonrecourse loans
	(8) Retroactive Versus Prospective Treatment
§ 4:395	Generally
	f. Other Changes Made to the Final Regulations
§ 4:396	Generally
	g. 1988 Regulations
§ 4:397	Overview
§ 4:398	Loans by related persons
§ 4:399	—Economic risk of loss
§ 4:400	—Definition of "related person"
§ 4:401	—Effective date issues
§ 4:402 § 4:403	Minimum gain chargebacks —Mandatory chargebacks
§ 4:404	—Partner loan chargebacks
§ 4:405	Refinancing problem cured
§ 4:406	Tiered partnerships
§ 4:407	Effective dates
§ 4:408	Sample QIO/minimum gain chargeback clauses
	h. 1989 Amendments to Regulations
§ 4:409	Generally
	i. 1991/1992 Final Regulations
	(1) Introduction
§ 4:410	Generally
§ 4:411	Background: The partnership allocation rules
§ 4:412	—Definition of minimum gain
§ 4:413 § 4:414	—Allocations of nonrecourse deductions and minimum gain chargebacks Effective date of 1991 Final Regulations
§ 4:414 § 4:415	Newly required minimum gain chargebacks
§ 4:416	Required language for all partnership agreements
	(2) Detailed Analysis of the 1991 Final Regulations
	(a) Changes Made by 1991 Final Regulations
§ 4:417	Generally
§ 4:418	Mandatory minimum gain chargeback and exceptions
§ 4:419	—No net decrease in minimum gain
§ 4:420	—Revaluations
§ 4:421	—Nonrecourse debt becoming recourse
§ 4:422	—Recourse debt becoming nonrecourse
§ 4:423	—Contributions repaying debt or increasing property basis
§ 4:424 § 4:425	—IRS discretionary waiver
A /1・/17/5	—Expansion of chargeback requirement

§ 4:426 § 4:427	Permanent nonrecourse exemption for grandfathered related party debt Deficit restoration obligations/qualified income offset
	(b) Planning Techniques and Sample Partnership Agreement Clauses
§ 4:428 § 4:429 § 4:430 § 4:431	Generally Language protecting against partial sale distortion Capital account savings clause Sample qualified income offset and minimum gain chargeback provisions
	3. Substantial Economic Effect Flow Chart
§ 4:432	Generally
§ 4:433	4. Effective Date Chart/Sections 752 and 704(b) Generally
D.	INVESTMENT TAX CREDIT
§ 4:434 § 4:435 § 4:436	Generally Foreign tax credits Tax credits generally
E.	RETROACTIVE ALLOCATION OF DEDUCTIONS
§ 4:437 § 4:438 § 4:439 § 4:440	Generally Varying interest rule Tiered partnerships Retroactive deficit repayment obligations
F.	MISCELLANEOUS ALLOCATION ISSUES
§ 4:441 § 4:442	Rulings on partnership tax allocations Depreciation recapture
VI. R	ESYNDICATION OF PARTNERSHIP INTERESTS
A.	RESYNDICATION FORMAT
§ 4:443 § 4:444 § 4:445 § 4:446	Overview Types of resyndications Form of entity Tiered partnerships
В.	SELLER AND BUYER OBJECTIVES
	1. Seller Concerns
\$ 4:447 \$ 4:448 \$ 4:449 \$ 4:450 \$ 4:451	Cash payment at closing—Prior law —1984 Act; 1986 Act Participating mortgages Wraparound mortgage Deferral of interest payments
	2. Buyer Concerns
§ 4:452	Generally

TABLE OF CONTENTS

CONTENTS
Debt in inside basis
Debt in outside basis
Basis step up: Interest purchase
—Section 754 election
—Section 708 termination
—Low income housing
Preexisting liabilities: Interest purchase
Retroactive allocations of deductions—Retroactive allocations
—Tiered partnerships
DISCHARGE OF INDEBTEDNESS

§ 4:462	Generally
§ 4:463	Insolvency of partnership
§ 4:464	REIT foreclosures
§ 4:465	Accrued but unpaid interest

CHAPTER 5. AT-RISK RULES FOR REAL ESTATE

I. INTRODUCTION

§ 5:1 Section 465 loss limitation rules § 5:2 Investment tax credit at-risk rules

II. AT-RISK RULES APPLIED TO REAL ESTATE

A. IN GENERAL

- § 5:3 Introduction: Pre-1986 Act real property exception § 5:4 At-risk rules extended to real estate: 1986 Act
- § 5:5 Effective dates

B. QUALIFIED NONRECOURSE FINANCING EXCEPTION

1. Definition

- Generally § 5:6 § 5:7 Holding real property § 5:8 Business of lending money § 5:9 Related party financing § 5:10 Seller financing § 5:11 Government financing § 5:12 Convertible debt § 5:13 Borrowed by the taxpayer
 - 2. Activities
- § 5:14 Holding real property
- § 5:15 Aggregation

3. Special Rules for Partnerships—Personal Liability

- Coordination with Sections 752 and 704(b) § 5:16
- Application at partnership and partner level § 5:17

4. Coordination with Passive Loss Rules

Generally § 5:18

5. Structuring Considerations

§ 5:19 Generally

CHAPTER 6. PASSIVE ACTIVITY LOSSES AND CREDITS

I. INTRODUCTION

- § 6:1 Overview of passive loss restrictions
- § 6:2 Post-1986 developments—Passive loss Regulations issued
- § 6:3 Net investment income tax

II. PASSIVE LOSS RULES IN A NUTSHELL

- § 6:4 Generally
- § 6:5 Defer the deduction of losses
- § 6:6 From passive activities
- § 6:7 To the extent passive losses
- § 6:8 Exceed passive income
- § 6:9 From all passive activities
- § 6:10 For individuals, estates and trusts, personal service corporations, and closely held C corporations
- § 6:11 Unless an exemption applies
- § 6:12 Tax credits from passive activities

III. ANALYSIS OF PASSIVE LOSS RULES

A. OVERVIEW

§ 6:13 Generally

B. DETERMINE APPLICABILITY TO TAXPAYER

- § 6:14 Generally
- § 6:15 Partners and S corporation shareholders
- § 6:16 Personal service corporations
- § 6:17 Closely held corporations
- § 6:18 Consolidated group treatment
- § 6:19 Change in status

C. DETERMINE WHICH ACTIVITIES ARE PASSIVE ACTIVITIES

1. Overview

§ 6:20 Generally

2. Rental Activities

- § 6:21 Generally
- § 6:22 Single-activity election
- § 6:23 Importance of rental activity status
- § 6:24 Service versus rental activity
- § 6:25 Dealer issues
- § 6:26 Interest; Partnership payments for services
- § 6:27 Regulatory authority
- § 6:28 —Ground lease

§ 6:29	—Related party leases	
	3. Trade or Business with No Material Participation	
\$ 6:30 \$ 6:31 \$ 6:32 \$ 6:33 \$ 6:34 \$ 6:35 \$ 6:36 \$ 6:37 \$ 6:38 \$ 6:39	Generally Definition of "material participation" Recap of significant considerations —General rule —Helpful factors —Special rules Material participation by certain corporations Material participation by limited partners "For profit" activities Estates and trusts	
§ 6:40	Change in status	
§ 6:41	Spouse participation	
	4. Oil and Gas Interests; Research and Development	
§ 6:42 § 6:43	Working interests in oil and gas properties Research and development	
D.	DETERMINE PASSIVE ACTIVITY TAX ITEMS	
	1. In General; Carryforwards	
§ 6:44 § 6:45	Generally Carryforwards	
	2. Types of Tax Items: Passive Versus Nonpassive	
	a. Passive Activity Items	
	(1) Overview; Passive Activity Income	
§ 6:46	Overview	
§ 6:47	Passive activity income	
	(2) Passive Activity Losses (PALs)	
	(a) Overview; Interest Expense	
§ 6:48	Overview	
§ 6:49	Interest expense	
	(b) Disposition Rules	
§ 6:50	Generally	
§ 6:51	Installment sales as disposition	
§ 6:52 § 6:53	Special rules for estates and gifts Character of PALs	
§ 6:54	Unusable disposition losses	
§ 6:55	Scope of rule; Illusory dispositions	
§ 6:56	Limited partnership interests	
§ 6:57	Apportioning suspended losses among activities	
§ 6:58	Benefit limited to economic loss	
	(3) Passive Activity Credits (PACs)	
§ 6:59	Generally	

§ 6:60 § 6:61 § 6:62	Applying the PAC limitation Special disposition rules for PACs Coordination with other credit limitations	
	b. Nonpassive Income	
\$ 6:63 \$ 6:64 \$ 6:65 \$ 6:66 \$ 6:67 \$ 6:68	Generally Portfolio income—Definition —Ordinary course of business exception —Installment sales —Significance for closely held corporations Nonportfolio, nonpassive income	
	c. Self-Charged Interest	
\$ 6:69 \$ 6:70 \$ 6:71 \$ 6:72 \$ 6:73 \$ 6:74 \$ 6:75 \$ 6:76 \$ 6:77 \$ 6:78 \$ 6:79 \$ 6:80 \$ 6:81 \$ 6:82 \$ 6:83	The problem The solution —Loans by owner to passthrough entity —Loans by passthrough entity to owner Borrowing to make self-charged loans Loans involving multiple activities Varying the applicable percentage using special allocations Circumstances preventing the application of the self-charged interest rules—Passthrough entity loans only —Owner's share limitation —Tiered entities—10% qualifying indirect interest —Brother/sister passthrough entity loans —Fiscal year entities/capitalized interest —Fees and rents —Election out Original issue discount and imputed interest	
§ 6:84 § 6:85	Effective dates Management fees	
, 0.00	d. Personal Services of Partners	
§ 6:86	Generally	
	e. Regulatory Authority: Other Items Deemed Nonpassive	
\$ 6:87 \$ 6:88 \$ 6:89 \$ 6:90	Generally Master limited partnerships Service partnerships—Significant participation activities Trade or business	
E.	APPLICATION OF LIMITATIONS AND EXEMPTIONS	
§ 6:91	 Overview Generally \$25,000 Exemption for Rental Real Estate Activities 	
§ 6:92	a. Overview; Adjusted Gross Income Phase-Out Overview	
§ 6.92 § 6:93	Adjusted gross income (AGI) phase-out	
	b. Active Participation Requirement	
§ 6:94	Generally	

§ 6:130 Generally

\$ 6:95 \$ 6:96 \$ 6:97 \$ 6:98 \$ 6:99 \$ 6:100	Limited partners 10% requirement Separate returns Estates and trusts No participation requirement for certain credits Change in involvement
	c. NOL Treatment
§ 6:101	Generally
	d. Computation
\$ 6:102 \$ 6:103 \$ 6:104 \$ 6:105 \$ 6:106 \$ 6:107	Generally Deduction equivalence Net rental realty income (loss) Combine other passive activities Proration Ordering rule for credits
	3. Delayed Applicability to Low-Income Housing
\$ 6:108 \$ 6:109 \$ 6:110 \$ 6:111 \$ 6:112 \$ 6:113 \$ 6:114	Generally Certification requirement Relief period Estates Disallowance of credit Mixed use projects Multiple buildings
	4. Phase-In Percentages for "Pre-Enactment Interests"
\$ 6:115 \$ 6:116 \$ 6:117 \$ 6:118 \$ 6:119 \$ 6:120 \$ 6:121 \$ 6:122	Generally Applicable percentage Nonexempt portion excluded Alternative minimum tax Investment income Preenactment interests Preenactment loss-post-enactment income Coordination with \$25,000 exemption
IV. ST	TRUCTURING CONSIDERATIONS
-	Passive income activities Hybrid offerings Corporations as investors Operating businesses
v. Po	ST-1986 PASSIVE LOSS DEVELOPMENTS
A.	IN GENERAL
§ 6:127 § 6:128 § 6:129	Generally Material participation/blue book Interest allocation Regulations issued
В.	IRS REGULATORY ACTION

§ 6:131 § 6:132	Master limited partnerships (MLPs) Trade or business
C.	CONDOMINIUM HOTELS
§ 6:133	Generally
D.	PRE-1986 INSTALLMENT SALES: TECHNICAL CORRECTIONS
§ 6:134	Generally
E.	GUARANTEED CASH RETURN
\$ 6:135 \$ 6:136 \$ 6:137 \$ 6:138 \$ 6:139	Generally Cumulative return Guarantees —Guarantee of gross receipts versus guarantee of profit —Guaranteed distribution versus guaranteed profit
F.	ABA PASSIVE LOSS COMMENTS
\$ 6:140 \$ 6:141 \$ 6:142 \$ 6:143 \$ 6:144 \$ 6:145 \$ 6:146	Generally Liquidations PALs as corporate attributes C corporation electing S corporation status Consolidated returns Personal service corporations Working capital reserves
G.	PROPOSED LEGISLATION ALLOWING DEDUCTIBILITY OF CASH LOSSES
§ 6:147	Generally
VI. PA	ASSIVE LOSS REGULATIONS ISSUED
A.	SCOPE OF PASSIVE LOSS REGULATIONS
§ 6:148 § 6:149	Effect of 1988 Regulations Review of passive loss limitations
В.	DEFINITIONS
\$ 6:150 \$ 6:151 \$ 6:152 \$ 6:153 \$ 6:154 \$ 6:155 \$ 6:156 \$ 6:157	1. Rental Activity Defined Tangible property requirement Exceptions to rental activity status —Seven-day rule —Thirty day/significant services rule —Extraordinary services rule —Incidental rentals —Non-exclusive use —Contributed use property
	2. Trade or Business Defined
§ 6:158	Generally

	\sim	•	
a. ۱	Over	view	7

b. Alternative Tests for Material Participation

- § 6:160 Generally
- § 6:161 500 hours test
- § 6:162 Substantially all participation test
- § 6:163 100 hours/most participation test
- § 6:164 Significant participation test
- § 6:165 Longstanding participation (five-year) test
- § 6:166 Personal service activity (three-year) test
- § 6:167 Facts and circumstances test

c. Definition of Participation

- § 6:168 Generally
- § 6:169 Participation as investor
- § 6:170 Non-customary owner services
- § 6:171 Spousal participation

d. Material Participation of Partners

- § 6:172 Generally
- § 6:173 Limited partner participation
- $\S 6:174$ —Interest as general partner
- § 6:175 —Certain material participation activities
- § 6:176 Fiscal year partnerships

e. Pre-1987 Material Participation

§ 6:177 Generally

f. Recordkeeping

§ 6:178 Generally

C. CHARACTERIZATION RULES

1. Overview

- § 6:179 Generally
 - 2. Portfolio and Service Income
- § 6:180 General rule
- § 6:181 Dealer investment property
- § 6:182 Service income
- § 6:183 Retirement plan distributions

3. Trading Personal Property (Securities)

- § 6:184 Generally
 - 4. Royalties from Intangibles
- § 6:185 General rule
- § 6:186 Licensing by passthrough entity
- § 6:187 Owner development services

	5. Income Recharacterization Rules
\$ 6:188 \$ 6:189 \$ 6:190 \$ 6:191 \$ 6:192 \$ 6:193	Generally Significant participation activities Rental of self-developed property Self-rented property Non-depreciable property rents Lending business/equity-financed lending rule
	6. Preferred and Guaranteed Returns
§ 6:194	Generally
	7. Special Disposition Rules
\$ 6:195 \$ 6:196 \$ 6:197 \$ 6:198 \$ 6:199 \$ 6:200	Generally Sale of passive activity—General rule —Multiple activities—Allocation required — —Twelve-month rule —Substantially appreciated interest in property Pre-1987 installment sales
	8. Partners and S Corporation Shareholders
\$ 6:201 \$ 6:202 \$ 6:203 \$ 6:204 \$ 6:205 \$ 6:206 \$ 6:207 \$ 6:208	Sale of interest —Deemed sale rule —10-percent test —Transition rule —Tiered entities Retirement payments and earned income Fiscal year entities Limited partner material participation rules
D.	OIL AND GAS ISSUES
\$ 6:209 \$ 6:210 \$ 6:211 \$ 6:212 \$ 6:213 \$ 6:214 \$ 6:215	General rule—Working interests Rules of application—Well-by-well determination —Limited liability — —Effect of indemnity — —Interest as both general and limited partner — —Change of limited liability status — —Spouse rule
E.	AFFILIATED CORPORATIONS FILING CONSOLIDATED RETURNS
§ 6:216	Generally
F.	EFFECTIVE DATE AND TRANSITION RULES
§ 6:217	Generally

VII. SECOND INSTALLMENT OF IRS PASSIVE LOSS REGULATIONS DEFINING ACTIVITY

A. IN GENERAL

§ 6:218 Background

\$ 6:219 \$ 6:220 \$ 6:221	Review of passive activity loss limitations The activity Regulations—An overview Business and rental operations
В.	UNDERTAKING RULES
\$ 6:222 \$ 6:223 \$ 6:224 \$ 6:225	Generally Location Ownership by the same person Income producing operations versus support operations
C.	AGGREGATION AND INTEGRATION
	1. Overview
§ 6:226	Generally
	2. Aggregation
\$ 6:227 \$ 6:228 \$ 6:229 \$ 6:230 \$ 6:231	Control by the same interests Similar undertakings —Lines of business
	3. Integration
\$ 6:232 \$ 6:233 \$ 6:234	Generally Operation of trade or business activities Common control
	4. Aggregation of Professional Service Undertakings
§ 6:235 § 6:236 § 6:237	Generally Common control Significant similar or related services
D.	RENTAL UNDERTAKINGS
§ 6:238	Generally
E.	ELECTIONS
\$ 6:239 \$ 6:240 \$ 6:241	Generally Election to treat nonrental undertakings as separate activities Rental real estate
F.	OIL AND GAS OPERATIONS
§ 6:242	Generally
G.	SPECIAL RULES
§ 6:243 § 6:244	Consolidated groups Publicly traded partnerships
Н.	EFFECTIVE DATE AND TRANSITIONAL RULES
§ 6:245	Generally

I. AMENDMENTS TO THE 1988 REGULATION

- § 6:246 Generally
- § 6:247 Self-developed property recharacterization rule
- § 6:248 Rental activity
- § 6:249 Carryover of disallowed deductions and credits
- § 6:250 Disposition of property
- § 6:251 Dealer property
- § 6:252 Liquidation of a partnership interest
- § 6:253 Material participation rule
 - J. LINES OF BUSINESS DETERMINED UNDER REVENUE PROCEDURE 89-38, 1989-1 C.B. 920
- § 6:254 Generally
 - K. 1990 AMENDMENT: EXEMPTION FOR CASUALTY LOSSES
- § 6:255 Generally

VIII. THIRD INSTALLMENT OF IRS PASSIVE LOSS REGULATIONS DEFINING ACTIVITY

- § 6:256 The new Regulations—An overview
- § 6:257 Activity defined
- § 6:258 Grouping rules
- § 6:259 Grouping rules for rental activities
- § 6:260 Grouping limitations
- § 6:261 Requirement of consistency
- § 6:262 Prevention of tax avoidance
- § 6:263 Partnership or S corporation activities
- § 6:264 Dispositions
- § 6:265 C corporation activities
- § 6:266 Section 469(c)(7)—Exception for rental real estate activities
- § 6:267 1995 Proposed Regulations
- § 6:268 1995 Final Regulations

CHAPTER 7. DEPRECIATION AND TAX CREDITS

I. DEPRECIATION

- A. INTRODUCTION
- § 7:1 Generally
 - B. PRE-1986 ACT METHODS OF DEPRECIATION
 - 1. Pre-1981 Act Depreciation
- § 7:2 Generally
 - 2. Accelerated Cost Recovery System (ACRS)
- § 7:3 Generally
- § 7:4 Effective dates of 1984 Act and 1985 Act
- § 7:5 Components and substantial improvements

§ 7:7	Partnerships Foreign real property Antichurning rules Sale-leaseback and certain other transfers	
	3. Depreciation Recapture	
\$ 7:10 \$ 7:11 \$ 7:12 \$ 7:13 \$ 7:14	Introduction 1981 Act and 1984 Act changes —Residential real property —Nonresidential real property S corporations; natural resource property	
	4. Personal Property	
§ 7:15	Generally	
(C. 1986 ACT	
	1. In General	
§ 7:16	Generally	
	2. Classes of Property	
\$ 7:17 \$ 7:18 \$ 7:19 \$ 7:20 \$ 7:21 \$ 7:22 \$ 7:23 \$ 7:24 \$ 7:25 \$ 7:26	In general Three-year class Five-year class Seven-year class Ten-year class Tifteen-year class Twenty-year class Twenty-seven and one-half-year class Thirty-one and one-half-year class Adjustment of class lives 3. Prescribed Depreciation Methods	
§ 7:27	Generally	
	4. Averaging Conventions and Short Taxable Year R	ules
	a. Conventions Generally	
§ 7:28	Generally	
	b. Short Taxable Years	
\$ 7:29 \$ 7:30 \$ 7:31 \$ 7:32 \$ 7:33 \$ 7:34 \$ 7:35 \$ 7:36 \$ 7:37	Generally Placed-in-service and disposition conventions Recovery year vs. taxable year Half-year convention; short year rule Mid-quarter convention; short year rule Depreciation allowance —Allocation method —Simplified method Effective dates 5. Component Method; Salvage Value	
§ 7:38	Generally	

6. Improvements

- § 7:39 Generally
- § 7:40 Leasehold improvements

7. Expensing in Lieu of ACRS

§ 7:41 Generally

8. Alternative Depreciation System

- § 7:42 Generally
- § 7:43 Foreign use property
- § 7:44 Tax-exempt use property
- § 7:45 Tax-exempt bond financed property
- § 7:46 Imported property
- § 7:47 Election to use alternative system
- § 7:48 Computing earnings and profits
- § 7:49 Alternative minimum tax computations

9. Miscellaneous Special Rules

- § 7:50 Luxury Cars
- § 7:51 Antichurning rules
- § 7:52 Depreciation recapture
- § 7:53 General asset accounts
- § 7:54 Useful life
- § 7:55 —Allocating interest expense
- § 7:56 Tax-free exchanges
- § 7:57 Restaurants and retail outlets

II. EFFECTIVE DATES

A. GENERAL RULE

- § 7:58 In general
- § 7:59 Election to use modified ACRS for certain pre-1987 property

B. GENERAL TRANSITION RULES

- § 7:60 Binding contracts
- § 7:61 Special transitional rules; self-constructed property
- § 7:62 Special transitional rules; equipped buildings
- § 7:63 Special transitional rules; plant facilities
- § 7:64 Placed in service windows
- § 7:65 Sale-leaseback
- $\S~7{:}66~$ Special rules applicable to the ITC; 35% reduction
- § 7:67 Special rules applicable to the ITC—Full basis adjustment

III. EXHIBITS

- § 7:68 Exhibit I: Comparison of real property depreciation
- § 7:69 Exhibit II: Comparison of pre-1986 Act personal property ACRS

IV. TAX-EXEMPT ENTITY LEASING

§ 7:70 Generally

V. TAX CREDITS GENERALLY

- § 7:71 Section 38 business tax credit
- § 7:72 Energy production credit
- § 7:73 Energy savings credits
- § 7:74 —Residential properties

VI. REHABILITATION TAX CREDIT

- § 7:75 Introduction
- § 7:76 Prior law
- § 7:77 1986 Act; basic rules
- § 7:78 1986 Act—Passive loss rules
- § 7:79 —Effective dates

VII. LOW INCOME HOUSING CREDIT

A. PRIOR LAW

- § 7:80 Generally
 - B. 1986 ACT
 - 1. In General
- § 7:81 Generally
 - 2. Credit Computation
- § 7:82 In general
- § 7:83 Credit percentages
 - 3. Qualified Basis
 - a. General Rule; Applicable Fraction
- § 7:84 In general
- § 7:85 Applicable fraction
 - b. Eligible Basis
- § 7:86 In general
- § 7:87 Existing buildings
- § 7:88 Reduction for federal grants
- § 7:89 Adjusted basis
- § 7:90 Time of determination
- § 7:91 Comparability
- § 7:92 Mixed use property
- § 7:93 Rehabilitation expenditures
- § 7:94 Additions to basis
- § 7:95 Development costs
 - c. Low Income Unit
- § 7:96 Generally
 - 4. Qualified Low Income Housing Projects
- § 7:97 In general
- § 7:98 Limitations (including gross rent limitation)

§ 7:99 § 7:100 § 7:101	Election Tenant qualification Market study
	5. Compliance Period; Recapture
§ 7:102	Generally
	6. State Low Income Housing Credit Authority Limitation
	a. In General
§ 7:103	Generally
	b. Allowable Credit Authority
§ 7:104	In general
§ 7:105 § 7:106	Special set-aside for qualified nonprofit organizations Credits subject to the credit authority limitation
§ 7:100 § 7:107	Allocation of credit authority
	c. Determination of Credit Amount Allocation
§ 7:108	Computation
§ 7:109	Transferability
	7. At-Risk Limitation
§ 7:110	Generally
	8. Coordination with other 1986 Act Provisions
§ 7:111	Coordination with other 1986 Act provisions
§ 7:112	Effective dates
C.	SUBSEQUENT LEGISLATION
	1. TAMRA
§ 7:113	Generally
	2. 1989 Act
§ 7:114	Generally
§ 7:115	Determination of credit amount
§ 7:116	Eligible basis
§ 7:117 § 7:118	Qualified low income housing projects; gross rent limitation Tenant qualification
§ 7:119	Allowable credit authority
§ 7:120	Credits subject to the credit authority limitation
§ 7:121	Passive activity losses
	3. 1990 Act Changes
§ 7:122	Generally
VIII.	COMMUNITY RENEWAL AND EMPOWERMENT ZONE CREDITS
§ 7:123	Generally
§ 7:124	New markets tax credit

IX. INFRASTRUCTURE INVESTMENT AND JOBS ACT

§ 7:125 Generally

0 = 400	T ()	A , T		• , •
§ 7:126	Infrastructure	$\Delta ct - L \alpha x x$	incomo	committing
8 1.140	IIIII asu ucture	$\Delta UU - LUW$	mcome	Communica

X. INFLATION REDUCTION ACT

- § 7:127 Generally
- § 7:128 Inflation Reduction Act—Low income communities
- § 7:129 —Energy-efficient purchases

CHAPTER 8. DEDUCTION OF INTEREST

I. IN GENERAL

- § 8:1 Introduction
- § 8:2 Genuine indebtedness

II. ACCOUNTING FOR INTEREST

A. CASH METHOD

§ 8:3 Generally

B. ACCRUAL BASIS

- § 8:4 Generally
- § 8:5 Clear reflection of income
- § 8:6 Nonrecourse indebtedness
- § 8:7 Rule of 78's

C. LIMITATIONS ON DEDUCTIBILITY OF INTEREST

1. Overview of 1986 Act Restrictions

- § 8:8 Generally
- § 8:9 Modification of investment interest limitation
- § 8:10 Passive loss rules
- § 8:11 Construction period interest
- § 8:12 Corporations
- § 8:13 Personal interest

2. Investment Interest Limitation

a. Introduction

- § 8:14 Generally
 - b. 1986 Act Investment Interest Limitation
- § 8:15 Generally
- § 8:16 Investment interest
- § 8:17 Net investment income

c. Pre-1986 Act Limitations

- (1) In General
- § 8:18 Background
- § 8:19 General rule

(2) Net Leases

§ 8:20 Generally

§ 8:21 § 8:22 § 8:23 § 8:24 § 8:25 § 8:26	Expense test Exclusion from 15% expense calculation—Rents —Reimbursements Elections Return test Out-of-pocket expenses
	3. Personal Interest
	a. General Definition
§ 8:27	Generally
	b. Qualified Residence Interest
	(1) In General
§ 8:28 § 8:29 § 8:30	Generally Qualified residence Limitation on deductible interest
	(2) 1987 Act
\$ 8:31 \$ 8:32 \$ 8:33 \$ 8:34 \$ 8:35 \$ 8:36 \$ 8:37	Overview Acquisition indebtedness —Tracing rules —Debt qualifying under the ninety-day rule —Debt which is partially acquisition indebtedness and partially home equity indebtedness —Debt incurred incident to divorce Effective date; Grandfathering
8 0.01	4. Effective Dates and Phase-In Rules
§ 8:38 § 8:39 § 8:40	Generally Investment interest phase in Personal interest phase in 5. IRS Proposed Regulations on Allocation of Interest Expense
	Among Expenditures
	a. Introduction; Types of Expenditures
§ 8:41 § 8:42	Introduction Types of expenditures
	b. Tracing and Allocation Rules
	(1) General Rule
§ 8:43 § 8:44 § 8:45 § 8:46	Generally Qualified residence interest Tax-exempt securities "Abuse" cases
	(2) Specific Allocation Rules
§ 8:47 § 8:48 § 8:49 § 8:50	Generally Account deposits —Thirty-day rule —Segregated accounts

\$ 8:51 \$ 8:52 \$ 8:53 \$ 8:54 \$ 8:55	—Single loan arrangement versus multiple debts —Transition rule for pre-1987 borrowings —Monthly convenience rule Cash borrowings Mortgage assumptions; Direct payment disbursements
	(3) Other Allocation Rules
\$ 8:56 \$ 8:57 \$ 8:58 \$ 8:59 \$ 8:60	Allocation rules for accrued interest Allocation of borrowings used to pay debt service or borrowing costs Allocation of refinancing Allocation rules for passthrough entities Effect of capitalization provisions
	c. Reallocation Rules
§ 8:61 § 8:62 § 8:63	Generally Asset sales Change in use of debt-financed asset
	d. Repayment Ordering Rules
§ 8:64	Generally
	6. Alternative Minimum Tax Limitations on Deductibility of Interest
§ 8:65	Generally
	7. Interest on Tax-Exempt Obligations
§ 8:66	Generally
	8. Construction Period Interest and Taxes
\$ 8:67 \$ 8:68 \$ 8:69 \$ 8:70	1986 Act capitalization rules Prior law —Operation of Section 189 —Section 189 in partnership context
III.	DISALLOWANCE OF INTEREST DEDUCTION WITH RESP

ECT TO CERTAIN HIGH YIELD OBLIGATIONS

§ 8:71 Generally

CHAPTER 9. ORIGINAL ISSUE DISCOUNT; IMPUTED INTEREST RULES AND BELOW-MARKET INTEREST **LOANS**

I. INTRODUCTION

§ 9:1 Generally

II. ORIGINAL ISSUE DISCOUNT RULES

A. OVERVIEW

§ 9:2 Generally

B. CHANGES MADE BY 1984 ACT

§ 9:3 Generally

§ 9:4	Definitions
§ 9:5	—Stated redemption price at maturity
§ 9:6	—Issue price
§ 9:7	—Yield to maturity
§ 9:8	—Allocating OID to an accrual period
§ 9:9	—Determining accrual period
§ 9:10	Determining original issue discount
§ 9:11	Applicable federal rate
§ 9:12	Contingent payments—General rules; Proposed Regulations
§ 9:13	—1991 Proposed Regulations
§ 9:14	—1994 Proposed Regulations
§ 9:15	—Final Regulations on contingent payments
§ 9:16	—1986 Act REMIC rules
§ 9:17	Assumptions
§ 9:18	Variable rate debt instruments
§ 9:19	Installment obligations
§ 9:20	Exceptions to original issue discount rules
§ 9:21	Miscellaneous rules

III. IMPUTED INTEREST AND MEASUREMENT OF INTEREST AND PRINCIPAL: SECTION 483

§ 9:22 Generally

IV. TREATMENT OF LOANS AT BELOW-MARKET INTEREST RATES

A. INTRODUCTION

§ 9:23 Generally

B. 1984 ACT

- § 9:24 Generally
- § 9:25 Gift loans
- § 9:26 Compensation related loans
- § 9:27 Corporation-shareholder loans
- § 9:28 Tax avoidance loans
- § 9:29 Other below-market loans

C. TAX CONSEQUENCES

- § 9:30 Generally
- § 9:31 Exceptions
- § 9:32 —Public purpose loans
- § 9:33 Effective date

V. HIGH YIELD DISCOUNT OBLIGATIONS

- § 9:34 Introduction
- § 9:35 HYDO defined
- § 9:36 Treatment of issuer
- § 9:37 Treatment of holder
- § 9:38 Example and planning considerations

§ 9:39 Effective dates

VI. 1994 FINAL REGULATIONS

- § 9:40 Generally
 - A. ANTIABUSE RULE
- § 9:41 Generally
 - B. CHANGE IN ACCOUNTING METHOD TO COMPLY WITH FINAL REGULATIONS
- § 9:42 Generally
- § 9:43 Cut-off dates
- § 9:44 Application of Revenue Procedure
- § 9:45 Procedure to obtain expeditious consent
- § 9:46 Consent to change and manner of change
- § 9:47 Special rules for any change in method of accounting for de minimis OID
- § 9:48 Effective date

C. PRICE LEVEL ADJUSTED MORTGAGES

- § 9:49 Service notice of proposed rulemaking
- § 9:50 Definition of PLAM
- § 9:51 Variable rate of interest
- § 9:52 Accrual of interest
- § 9:53 Treatment of OID

APPENDIX 9A. Exhibit I Imputed Interest Rates Under Sections 483 and 1274

APPENDIX 9B. Exhibit II Assumptions of Debt Instruments Subject to Section 1274 or 483

Volume 2

CHAPTER 10. OTHER DEDUCTIONS

I. INTRODUCTION

§ 10:1 Generally

II. GENERAL RULES

A. OVERVIEW

- § 10:2 Generally
- § 10:3 Ordinary and necessary
- § 10:4 Paying another person's expenses
- § 10:5 Bad debt
- § 10:6 Deduction or capitalization

B. PRE-OPENING EXPENSES AND START-UP EXPENDITURES

- § 10:7 Case law and ruling position of the IRS
- § 10:8 After the 1984 Act

C.	ORGANIZATION AND SYNDICATION EXPENSES
\$ 10:9 \$ 10:10 \$ 10:11 \$ 10:12	Introduction Organization expenses Syndication expenses—General treatment —Basis and capital accounts
D.	DEDUCTIBLE EXPENSES FOR ASSETS NOT ACQUIRED; OTHER MISCELLANEOUS CAPITALIZED OR AMORTIZED DEDUCTIONS
§ 10:13 § 10:14	Deductible expenses for assets not acquired Other miscellaneous capitalized or amortized deductions
E.	UNIFORM CAPITALIZATION RULES—CONSTRUCTION PERIOD INTEREST AND TAXES
	1. 1986 Act—Section 263A
§ 10:15	Generally
	2. The Regulations
\$ 10:16 \$ 10:17 \$ 10:18 \$ 10:19 \$ 10:20 \$ 10:21 \$ 10:22 \$ 10:23 \$ 10:24 \$ 10:25	Summary Production of real property Avoided cost method Ordering rules and contingent interest Treatment of common features Accumulated production expenditures Production period Property produced under a contract Repairs Property held for resale—(OREO) property 3. Notice 88-99 a. Summary Generally Tracing and avoided cost rules
§ 10:28	Timing of payment of interest
§ 10:29 § 10:30	Related party rules Flow-through entity rules
	b. Tracing and Avoided Cost Rules
§ 10:31 § 10:32 § 10:33	Traced debt Avoided cost debt Election to avoid tracing requirement
	c. Mechanics of Interest Capitalization
§ 10:34 § 10:35 § 10:36	Effect of capitalizing an interest expense Extent of capitalization Consistency required
	d. Determination of When Interest Is Paid or Incurred

§ 10:37 Generally

e. Related Party Avoided Cost Rules and Methods of Capitalization and Recovery

 § 10:38 Generally § 10:39 Definition of related party § 10:40 Methods of determining amount of additional capi § 10:41 —Deferred asset method 	talization				
§ 10.41 — Beleffed asset method § 10:42 — Substituted cost method					
f. Flow-Through Entities					
 § 10:43 Generally § 10:44 Producing flow-through entity § 10:45 Flow-through entities owned by producing partner 	s or shareholders				
4. TAMRA—Section 263A					
§ 10:46 Generally					
5. Final Regulation					
 § 10:47 Final Regulations and effective dates § 10:48 Adopting the uniform capitalization rules under F § 10:49 1995 Final Regulations 	inal Regulations				
6. Farming					
 § 10:50 Generally § 10:51 Bioenergy program payments (BEP) § 10:52 Crop insurance proceeds § 10:53 Plants § 10:54 Timber § 10:55 Animals 					
F. MISCELLANEOUS FEES AND EXPENS	ES				
§ 10:56 Investment advisory fees					
§ 10:57 Restrictive covenant not to compete § 10:58 Leasing fees	Restrictive covenant not to compete				
§ 10.56 Leasing lees § 10:59 Development of new rental and marketing structu	re				
§ 10:60 Rent-up fee	-				
	Land leases and land rent				
§ 10:62 Home office expense § 10:63 Conservation expenditures	Home office expense Conservation expenditures				
§ 10:64 Charitable donation of appreciated property					
§ 10:65 Service providers					
§ 10:66 Removal costs					
G. FINANCING DEDUCTIONS, COMMITM GUARANTEE FEES	ENT FEES, AND				
1. Introduction					
§ 10:67 Generally					
2. Loan Commitment-Standby Fees and	Guarantee Fees				

\$ 10:70 \$ 10:71 \$ 10:72 \$ 10:73 \$ 10:74	Construction loan guarantee fee Permanent loan guarantee fee Fee for guarantee against negative cash flow Commitment or standby fees Various FHA fees
H.	TAXES
§ 10:75 § 10:76	Real property taxes Local payroll and sales taxes
I.	ENVIRONMENTAL REMEDIATION AND CASUALTY LOSS DEDUCTIONS
§ 10:77 § 10:78	Environmental remediation Casualty losses; natural disasters
J.	RESIDENTIAL CARE FACILITIES
§ 10:79 § 10:80 § 10:81	Continuing care retirement homes Foster care Residential rental projects—Exempt bond interest
K.	SECTION 179 EXPENSE ELECTION
§ 10:82	Generally
III. A	CTIVITIES NOT ENGAGED IN FOR PROFIT
A.	SECTION 183
	1. Overview
§ 10:83	Generally
§ 10:84	Theft loss—Home repair fraud
	2. Facts and Circumstances Test
§ 10:85	Generally
§ 10:86	Method of operations
§ 10:87 § 10:88	Taxpayer or advisor expertise Time and effort
§ 10:89	Appreciation expectations
§ 10:90	Success in similar activities
§ 10:91	History of income or loss from activity
§ 10:92	Occasional profits
§ 10:93	Financial status of taxpayer
§ 10:94	Elements of personal pleasure or recreation
	3. Examples of Activities Not Engaged in for Profit
§ 10:95	Generally
B.	SPECIAL RULES APPLICABLE TO LOW-INCOME HOUSING
§ 10:96	Generally

\mathbf{C}	SHA	MГ	TR /	NZA	CT	IONS
	\sim	\ IVI	1 11./-	1 1 1 1 7 1	\\	

- § 10:97 Generally
 - D. OTHER CODE SECTIONS
- § 10:98 Section 212
- § 10:99 Section 166
- § 10:100 Section 280A, part-time rentals

CHAPTER 11. ACCOUNTING METHODS

I. DEVELOPMENT OF METHODS

- A. LAW PRIOR TO 1984 ACT
- § 11:1 Generally
 - B. 1984 ACT
- § 11:2 Overview
- § 11:3 Premature accrual—Final economic performance Regulations
- § 11:4 Prepayments of expenses
- § 11:5 Treatment of certain related party transactions
- § 11:6 Treatment of unfunded deferred benefits
- § 11:7 Farms
 - C. 1986 ACT: REQUIRED ACCRUAL ACCOUNTING
- § 11:8 In general
- § 11:9 TAMRA changes

II. LIMITATIONS ON MISCELLANEOUS ITEMIZED DEDUCTIONS

§ 11:10 Generally

III. TAXABLE YEAR RULES FOR PARTNERSHIPS, S CORPORATIONS, AND PERSONAL SERVICE CORPORATIONS

- A. INTRODUCTION
- § 11:11 Generally
 - B. REQUIRED TAXABLE YEAR
- § 11:12 In general
- § 11:13 TAMRA changes
 - C. BUSINESS PURPOSE EXCEPTION
- § 11:14 Generally
 - D. SECTION 444 ELECTION
 - 1. Scope of Election
- § 11:15 Existing entities

§ 11:16	Newly-formed entities
§ 11:17 § 11:18	Back-up Section 444 election TAMRA changes
ζ 11.10	
0 11.10	2. Special Transitional Rules for S Corporations
§ 11:19	Generally
	3. Tiered Structures Ineligible for Section 444 Election
§ 11:20	Generally
§ 11:21 § 11:22	Same taxable year exception De minimis ownership/income exception
§ 11:23	TAMRA changes
	4. Required Payments
§ 11:24	In general
§ 11:25	TAMRA changes
	5. Four-Year Spread Rule
§ 11:26	In general
§ 11:27	TAMRA changes
	6. Terminating the Section 444 Election
§ 11:28	In general
§ 11:29	TAMRA changes
E.	PROCEDURES
§ 11:30	Form 8716 required
§ 11:31	Filing date
§ 11:32 § 11:33	Form 8752 required Filing extensions
§ 11:33	Amended returns
§ 11:35	S corporation elections
§ 11:36	Estimated taxes
IV. C	ANCELLATION OF DEBT (COD) INCOME
§ 11:37	Generally
§ 11:38	Reacquired debt instruments
§ 11:39	Debt modification
§ 11:40	"HAMP" (Home Affordable Modification program)
§ 11:41	Debt substitutions
§ 11:42	—Mortgage forgiveness
§ 11:43	Reorganizations
	RCENTAGE OF COMPLETION ACCOUNTING FOR LONG-
	RM CONSTRUCTION CONTRACTS
§ 11:44	Overview
§ 11:45	Prior law
§ 11:46 § 11:47	Current law Exemptions; Residential construction/I.R.C. § 460(e)
§ 11.47 § 11:48	Advance payment for construction services
	T T T

§ 11:49 § 11:50 § 11:51	Mid-contract change in taxpayer Retainages payable Partnerships
	EFERRED PAYMENTS FOR USE OF PROPERTY OR ERVICES—TENANT LEASE INCENTIVES IN THE 1990'S
A.	IN GENERAL
§ 11:52 § 11:53	Overview Introduction
В.	1984 ACT CHANGES
§ 11:54 § 11:55 § 11:56 § 11:57 § 11:58	Section 467 rental agreement Special sale-leaseback and long-term lease provisions Tax avoidance Special recapture provisions Section 467 flow chart
C.	BUSINESS AND TAX CONSIDERATIONS IN LEASE INDUCEMENTS
	1. Overview
§ 11:59	Generally
	2. Determining Economic Value of Lease Incentives
\$ 11:60 \$ 11:61 \$ 11:62 \$ 11:63 \$ 11:64	Primary consideration/present cash value Tax and financial accounting objectives —Tax structure and income recognition —Deductions and loss recognition —Factoring in cost of brain damage
	3. Types of Lease Incentives and Concessions
§ 11:65 § 11:66 § 11:67 § 11:68	Rent payment alternatives—Nonuniform payment plans for rents Decreasing tenant's economic risk—Nonrecourse leases Cash/work letter incentives Tenant equity participations
	4. Tax and Financial Accounting Rules
	a. Overview
§ 11:69	Generally
	b. Tax Treatment—General Rules
	(1) Landlord's Up-Front Expenditures
§ 11:70 § 11:71 § 11:72 § 11:73	General rule—Amortization over lease term Exception—Depreciable property recovery periods —Landlord sublet of prior tenant space Rent holidays
	(2) Lessee Expenditures
§ 11:74	General rule—Tenant lease acquisition costs amortized over lease term

§ 11:75 § 11:76	Exception—Depreciable property recovery periods Tenant recognition of income from landlord's sublet of prior tenant space
	(3) Section 467—Affirmative Use of Stepped Rents
§ 11:77	Generally
	(4) Tenant Equity Participations
\$ 11:78 \$ 11:79 \$ 11:80 \$ 11:81 \$ 11:82 \$ 11:83	Current income recognition by tenant Loss of rental deduction Landlord treatment Tenant-passive loss recharacterization rules Tenant's tax benefits from owning partnership Brain damage alert
	(5) Other Tax Considerations
§ 11:84	Generally
	c. Accounting Treatment
§ 11:85	Generally
	5. Conclusion and Exhibit
§ 11:86 § 11:87	Conclusion Exhibit—Practitioners' quick reference checklist
VII.	TAXATION OF ESCROW ACCOUNTS
§ 11:88	Pre-1986 Act
§ 11:89	1986 Act and TAMRA
CHAI	PTER 12. ALTERNATIVE MINIMUM TAX
I. NO	ONCORPORATE TAXPAYERS
A.	LAW PRIOR TO 1987
§ 12:1	Prior law
§ 12:2	Post-1982 and pre-1987 AMT
В.	POST-1986 AMT
	1. Introduction; Basic Structure
§ 12:3 § 12:4 § 12:5	Introduction Basic structure Small corporations exception
	2. Adjustments and Preferences
	a. In General
§ 12:6	Generally
	b. Description
§ 12:7 § 12:8 § 12:9	Depreciation Passive activity losses (PALs) Farm activity losses

\$ 12:10 \$ 12:11 \$ 12:12 \$ 12:13 \$ 12:14 \$ 12:15 \$ 12:16 \$ 12:17 \$ 12:18 \$ 12:19 \$ 12:20	Tax-exempt interest Charitable contributions of appreciated property Mining, exploration, and development costs Long-term contracts Alternative minimum tax net operating loss (NOL) Pollution control facilities Installment sales Itemized deductions Percentage depletion Intangible drilling costs (IDCs) Circulation and research and experimental expenditures
§ 12:21 § 12:22 § 12:23	Incentive stock options (ISOs) Prior law preferences eliminated Tax credits
§ 12:24	Gain on small business stock 3. Alternative Minimum Tax Credit
§ 12:25	
§ 12:26	Generally "Base Erosion and Anti-Abuse" Tax
	4. Impact of Post-1986 AMT
§ 12:27	Generally
II. CO	DRPORATE TAXPAYERS
A.	PRIOR LAW
§ 12:28	Generally
В.	1986 ACT
	1. In General; Basic Structure
§ 12:29	
§ 12:30	Basic structure
	2. Adjustments and Preferences
	a. In General
§ 12:31	Overview
	b. Applicable Only to Corporations
§ 12:32§ 12:33§ 12:34§ 12:35§ 12:36	Adjustments for differences between book and tax Prior law—Taxable years beginning in 1987, 1988, and 1989 Current law—Taxable years beginning after 1989 Merchant marine capital construction funds Bad debts
§ 12:37	Home construction contracts
	3. Miscellaneous Rules
\$ 12:38 \$ 12:39 \$ 12:40 \$ 12:41	Minimum tax credit Exemption amount Tax credits—Investment tax credit (ITC) —Foreign tax credits

- § 12:42 Section 291 adjustments
 - 4. Estimated Taxes
- § 12:43 Generally

III. EXHIBITS

- \S 12:44 Exhibit I: Steps for determining whether individual tax payer is subject to $$\operatorname{AMT}$$
- § 12:45 Exhibit II: Alternate minimum tax preference and adjustment items: Individuals under pre-1986 law and post-1986 law

CHAPTER 13. TRANSACTIONS WITH TAX-EXEMPT ENTITIES

I. GENERALLY

§ 13:1 Generally

II. UNRELATED BUSINESS TAXABLE INCOME (UBTI)

- A. DEFINED
- § 13:2 Generally
 - B. EXCLUSIONS
- § 13:3 Interest and dividends
- § 13:4 Profit on sale
- § 13:5 Rents
- § 13:6 Publicly Traded Partnership Exception of the 1987 Act
- § 13:7 Subsidiaries
 - C. ACQUISITION INDEBTEDNESS
- § 13:8 Generally

D. RELIEF FROM ACQUISITION INDEBTEDNESS

- 1. Law Prior to 1984 Act
- § 13:9 Generally
 - 2. Effect of 1984 Act
- § 13:10 Generally
- § 13:11 Affiliate debt
- § 13:12 Partnership transactions
 - 3. 1986 and 1987 Act and TAMRA Changes
 - a. Introduction
- § 13:13 Generally

		b.	Abse	ence of Qualified Allocations
			(1)	1986 Act
§ 13:14	Gene	erally	7	
			(2)	1987 Act
§ 13:15	Gene	erally	` ′	
§ 13:16				te allocation rules (the "fractions rule")
§ 13:17				s allocation problem
§ 13:18		rgeba		•
§ 13:19	Pref	erred	retui	rns and guaranteed payment problem
			(3)	TAMRA Changes
§ 13:20	Gene	erally	7	
			(4)	Fractions Rule Relief: Notice 90-41 and 1992 Proposed Fractions Rule Regulations
§ 13:21	Gene	erally	7	
§ 13:22	Pref	erred	retui	rns and guaranteed payments
§ 13:23				equired special allocations of deduction or loss
§ 13:24			_	venting deficit capital account balances
§ 13:25		_		nd offsets
§ 13:26 § 13:27		ial rı	irtner	shins
§ 13:27			dates	
		c.	198	6 Act Technical Corrections
§ 13:29	Gene	erally	7	
	4.	Exc	ulpat	ting Tax-Exempt Partners
§ 13:30	Gene	erally	7	2
III. P	OOI	ED.	INV	ESTMENT VEHICLES
§ 13:31		erally		ESTMENT VEHICLES
§ 13:32		nersl		
§ 13:33			_	bond partnerships
§ 13:34			_	Mortgage revenue bonds
§ 13:35		_		Private activity bonds
§ 13:36				restment trusts (REITs)
§ 13:37	Com	mon	trust	funds
§ 13:38	Insurance company separate accounts			
§ 13:39	Investment through group trust			
§ 13:40	State or municipal plans			
§ 13:41				
§ 13:42	bro	aden	ed	25) title holding companies—Section 514(c)(9) exemption
§ 13:43				c)(25) requirements
§ 13:44				c)(25) requirements—Eligible shareholders or beneficiaries
§ 13:45				of investment advisor
§ 13:46			nabili	·
Q 13:47		-TAN	ікА а	mendments to Section $501(c)(25)$

§ 13:48 ——OBRA amendments to Section 501(c)(25)

IV. EFFECT ON PARTIES IF DEBT RECHARACTERIZED AS EQUITY

- § 13:49 Generally
 § 13:50 Loss of interest deduction
 § 13:51 Loss of other tax benefits
- § 13:52 UBTI consequences to pension plan
- § 13:53 ERISA consequences

V. ERISA PLAN ASSET REGULATION

- A. IMPORTANCE OF PLAN ASSETS; PRIOR LAW
- § 13:54 Importance of plan assets
- § 13:55 Prior law

B. FINAL PLAN ASSET REGULATIONS

- 1. Scope
- § 13:56 Generally
 - 2. Summary of the Final Regulation
- § 13:57 Generally
- § 13:58 Exemption 1: Grandfather provisions—Department of labor transition rule
- § 13:59 —Transition legislation
- $\S 13:60$ ——Definition of real estate entity
- § 13:61 ——Additional requirements under transition legislation
- § 13:62 ——Free transferability
- § 13:63 Exemption 2: Publicly offered securities
- § 13:64 Exemption 3: Debt instruments
- § 13:65 Exemption 4: Insignificant participation by employee benefit plans
- § 13:66 Exemption 5: Operating companies
- § 13:67 Exemption 6: Guaranteed governmental mortgage pool certificates
 - 3. Entities Deemed Always to Hold Plan Assets
- § 13:68 Generally

VI. NATIVE AMERICANS

§ 13:69 Generally

CHAPTER 14. DISPOSITIONS OF PROPERTY AND SALE-LEASEBACKS

I. DISPOSITIONS OF PROPERTY

- A. OVERVIEW
- § 14:1 Generally
 - B. CAPITAL GAIN PROVISIONS
- § 14:2 Generally

§ 14:3 Water righ

C. DEALER STATUS

§ 14:4 Generally

D. COMPUTATION OF GAIN AND AMOUNT REALIZED; GAIN ON DISPOSITION OR FORECLOSURE

- § 14:5 Computation of gain and amount realized
- § 14:6 Gain on disposition or foreclosure: Tax benefit rule
- § 14:7 Property acquired for services

E. INSTALLMENT SALE PROVISIONS

- § 14:8 General rule
- § 14:9 When installment gain is recognized—Introduction
- § 14:10 —Dealer transactions
- § 14:11 —Nondealer transactions/proportionate disallowance rules—Proportionate disallowance rules
- § 14:12 ——1987 Act and TAMRA
- § 14:13 ——Regulations
- § 14:14 —Effective dates
- § 14:15 Capital gain rules

F. CHARACTER OF GAIN OR LOSS ON DISPOSITION OF CONTRIBUTED PROPERTY

§ 14:16 Generally

G. SALES AND EXCHANGES BETWEEN PARTNER AND PARTNERSHIP

- § 14:17 Generally
- § 14:18 Disallowance of loss
- § 14:19 Ordinary income treatment
- § 14:20 Section 1239

H. EXCHANGE OF LIKE-KIND PROPERTY

1. In General

- § 14:21 Section 1031: Overview
- § 14:22 Boot
- § 14:23 Related party exchanges (1989 Act)
- § 14:24 Non-U.S. property (1989 Act)
- § 14:25 Principal residence

2. Deferred Like-Kind Exchanges

- a. Starker
- § 14:26 Generally
 - b. 1984 Act: Identification and Receipt Requirements and Regulations
- § 14:27 Generally

§ 14:28	Identification requirements		
§ 14:29	Receipt requirements		
§ 14:30 § 14:31	Constructive receipt of money or other property		
§ 14:31 § 14:32	—Security or guarantee arrangements —Escrow accounts		
§ 14:33	—Examples		
§ 14:34	Effective dates		
	3. Held for Investment Requirement		
§ 14:35	Generally		
	4. Treatment of Liabilities		
§ 14:36	Generally		
	5. Personal Property and Multiple Property Exchanges		
§ 14:37	Introduction		
§ 14:38	Exchanges of depreciable tangible personal business property		
§ 14:39	Exchanges of other property		
§ 14:40	Exchanges of multiple properties		
§ 14:41 § 14:42	—Determination of exchange groups and residual group —Treatment of liabilities		
§ 14:42	Exchange group surplus and deficiency		
§ 14:44	—Computing gain		
§ 14:45	—Basis		
§ 14:46	Effective date		
I.	INVOLUNTARY CONVERSIONS		
§ 14:47	Generally		
§ 14:48	Relocation assistance payments		
§ 14:49	Eminent domain/condemnation awards installment payment interest		
§ 14:50	Government disaster relief		
J.	LOW-INCOME HOUSING PROJECTS		
§ 14:51	Overview		
-	Definitions		
§ 14:53	Basis		
K.	SALE OF PRINCIPAL RESIDENCE		
§ 14:54	Generally		
§ 14:55	Use Requirements		
§ 14:56	Frequency of Sale		
§ 14:57 § 14:58	Frequency of sale—Early ("forced") resale Employer-facilitated relocation sales		
§ 14.56 § 14:59	Computation of gain upon a seller's reacquisition of realty		
§ 14:60	Reporting rules		
II. SA	LE-LEASEBACK TRANSACTIONS		
§ 14:61	Generally		
§ 14:62	•		
§ 14:63	Lease-in/lease-out (LILO) transactions		

Table of Contents			
\$ 14:64 \$ 14:65 \$ 14:66 \$ 14:67 \$ 14:68	Sale-in/lease-out (SILO) arrangements Tax considerations: Sale-leaseback versus secured loan Business considerations —Seller-lessee considerations —Purchaser-lessor considerations		
	RITERIA FOR CHARACTERIZATION AS A FINANCING OR ALE-LEASEBACK		
§ 14:69	Generally		
§ 14:70	IRS guidelines		
§ 14:71	IRS pronouncements and case law		
14:72	True lease checklist		
§ 14:73	IRS ruling policy		
§ 14:74	IRS Examination Tax Shelters Handbook		

IV. INCOME RESERVATION

Options to purchase property

- § 14:76 Overview
- § 14:77 Ellison

§ 14:75

- § 14:78 Other income reservation cases
- § 14:79 Depreciation

V. LEASE STRIPPING

§ 14:80 Generally

VI. QUALIFIED SETTLEMENT FUNDS AND ESCROWS

- § 14:81 Generally
- § 14:82 Escrow accounts and trusts under Section 1031
- § 14:83 Pre-closing escrows
- § 14:84 Contingent-at-closing escrows
- § 14:85 Disputed ownership funds
- § 14:86 Qualified settlement funds

CHAPTER 15. TAX-EXEMPT ENTITY LEASING

I. INTRODUCTION

§ 15:1 Generally

II. DEFINITION OF TAX-EXEMPT ENTITY

- § 15:2 1984 Act definition
- § 15:3 1986 Act: Formerly tax-exempt entities

III. TAX-EXEMPT USE PROPERTY

- § 15:4 Generally
- Tax-exempt financing in which tax-exempt entity participates § 15:5
- § 15:6 Purchase or sale options at a fixed or determinable price
- § 15:7 Lease term exceeding twenty years
- § 15:8 —Lease term

	—Like kind exchanges Use after transfer
IV. SI	PECIAL RULES AND EXCEPTIONS
§ 15:12 § 15:13	Improvements Miscellaneous rules Depreciation Tax credits Service contracts versus leases
	EATMENT OF PARTNERSHIPS AND OTHER PASS- ROUGH ENTITIES
A.	PARTNERSHIPS WITH TAX-EXEMPT PARTNERS
	1. In General
§ 15:17	Generally Qualified allocations Proportionate share defined
	2. Definition of Tax-Exempt Entity
\$ 15:19 \$ 15:20 \$ 15:21 \$ 15:22 \$ 15:23	General definition Tax-exempt controlled entities—Definition —Publicly traded stock exception —Effective dates —Election out
	3. Substantial Economic Effect Requirement
§ 15:24 § 15:25 § 15:26	Generally Qualified income offset Capital account restatement
	4. No 35 Percent Threshold
§ 15:27	Generally
В.	OPEN ISSUES UNDER PROPOSED 168 REGULATIONS
	1. Overview
§ 15:28	Generally
	2. Computation Issues
§ 15:29 § 15:30 § 15:31	Catch-up reduction Decrease in tax-exempt use property Frequency of recomputing
	3. Adopting Qualified Allocations
§ 15:32	Generally
	4. Economic Arrangements That Currently Preclude Qualified Allocations
	a. Overview

§ 15:33 Generally

foreign partners

IABLE OF	CONTENTS
	b. Shifts in Tax Items Per Economics
§ 15:34 § 15:35	Flip percentages Cumulative return and guaranteed payments
	c. Gain Chargebacks
§ 15:36 § 15:37 § 15:38 § 15:39 § 15:40	Generally Cumulative Return Prior depreciation Required special allocations Deductions allocated to contributing partners
	d. Other Allocations Involving Transfers of Interests
§ 15:41 § 15:42	Section 754 Section 708
C.	ALTERNATIVES TO QUALIFIED ALLOCATIONS
§ 15:43	Generally
VI. EI	FFECTIVE DATES
\$ 15:44 \$ 15:45 \$ 15:46 \$ 15:47 \$ 15:48 \$ 15:49	Generally Leases, subleases, and renewals Binding contracts Leased property Partnerships Special rules relating to foreign persons or entities
APPEND	
	TER 16. FOREIGN INVESTMENT IN U.S. REAL TE: WITHHOLDING OBLIGATIONS
I. TAX	ATION OF OPERATING INCOME FROM U.S. REAL ESTATE
A.	IN GENERAL
§ 16:2	Overview Not engaged in U.S. trade or business Engaged in U.S. trade or business
В.	OPERATING INCOME OF PARTNERSHIPS
	1. Taxation of Partnership Income
§ 16:4	Generally
	2. Withholding on Effectively Connected Income Allocable to Foreign Partners
§ 16:5 § 16:6 § 16:7	Generally Determination of whether a partner is a foreign person Determination of amount of effectively connected income allocable to

§ 16:8	Payment and reporting of withholding tax—Installment payments/ applicable percentages
§ 16:9	—Annual return
§ 16:10	—Reporting to partners
§ 16:11	Effect of payment of withholding tax on the tax liability of foreign partners
§ 16:12	Coordination with withholding under Sections 1441, 1442, and 1445
§ 16:13	Withholding by publicly traded partnerships
§ 16:14	—Determination of foreign status of partners
§ 16:15	—Alternative methods of withholding
§ 16:16	Withholding by tiered partnerships
	XATION OF GAINS FROM DISPOSITION OF U.S. REAL STATE: WITHHOLDING OBLIGATIONS
A.	IMPOSITION OF TAX ON DISPOSITIONS
§ 16:17	Generally
В.	ENFORCEMENT OF TAX: WITHHOLDING
	1. In General
§ 16:18	Overview
§ 16:19	Withholding on dispositions
	2. Exemptions from Withholding Obligation
§ 16:20	Nonforeign certification
§ 16:21	Non-USRPHC affidavit
§ 16:22	Nonrecognition transactions
§ 16:23	Publicly traded stock
§ 16:24	Withholding certificate
§ 16:25	Sale of residence
§ 16:26	Withholding obligation satisfied under Section 1446
	3. Particular Taxpayers
§ 16:27	Partnerships and REITs
§ 16:28	Taxpayer identification number (TIN)
III. B	RANCH PROFITS TAX
§ 16:29	Prior law
§ 16:30	1986 Act
§ 16:31	Regulations implementing the branch profits tax

CHAPTER 17. THE IRS AUDIT PROGRAM: COMPLIANCE, REPORTING, AND PENALTY PROVISIONS

I. INTRODUCTION

§ 17:1 Generally

II. SECTION 6662: IMPOSITION OF ACCURACY-RELATED PENALTY

A. BACKGROUND

e	17:2	Generally
0	17.7	t tenerally

- § 17:3 The Final Regulations
- § 17:4 Definition of "underpayment"
- § 17:5 Reasonable cause/good faith exception

B. NEGLIGENCE

- § 17:6 Law prior to the 1989 Act
- § 17:7 Current law
- § 17:8 —Principal changes made by the 1989 Act
- § 17:9 —Avoiding the negligence portion of the accuracy-related penalty

C. SUBSTANTIAL UNDERSTATEMENT OF INCOME TAX

1. Law Prior to the 1989 Act

- § 17:10 Generally
- § 17:11 Avoiding the penalty: Non-tax shelter items—Disclosure of non-shelter items
- § 17:12 —Substantial authority
- § 17:13 Avoiding the penalty: Tax shelter items and substantial authority
- § 17:14 Effect of amended return
- § 17:15 Interest on penalty

2. Current Law

- § 17:16 Generally
- § 17:17 Principal changes made by the 1989 Act—Reduction in penalty rate
- § 17:18 —Expanded list of authorities
- § 17:19 —Position lacking substantial authority
- § 17:20 Avoiding the penalty
- § 17:21 —Prior law—Notice 90-20
- § 17:22 —Current law
- § 17:23 Extended limitations period

D. SUBSTANTIAL VALUATION MISSTATEMENT

1. Law Prior to the 1989 and 1990 Acts

§ 17:24 Generally

2. Current Law

- § 17:25 Generally
- § 17:26 Principal changes made by the 1989 and 1990 Acts
- § 17:27 Amount of penalty
- § 17:28 Avoiding the substantial valuation overstatement portion of the accuracyrelated penalty
- § 17:29 Clarifications made by the Final Regulations

III. MEASURES AIMED AT TAX SHELTERS

A. IN GENERAL; ABUSIVE TAX SHELTERS

§ 17:30 Abusive tax shelters

§ 17:31 § 17:32 § 17:33 § 17:34 § 17:35 § 17:36	Section 6700: Promoting abusive tax shelters Section 7408: Injunctions against promoters of abusive tax shelters Attorney practice rules—Circular 230 Exempt bond opinions Client identity Specified penalties	
В.	REVENUE PROCEDURE 83-78 AND IRS AUDIT CONSIDERATIONS	
\$ 17:37 \$ 17:38 \$ 17:39 \$ 17:40 \$ 17:41 \$ 17:42 \$ 17:43	Procedures for identifying abusive shelters Prefiling notification of investors IRS real estate examination tax shelters handbook and the appeals manual—Examination handbook —Appeals manual Settlement initiative Amended returns Seizure of assets	
C.	SECTION 6701: AIDING AND ABETTING PROVISION	
§ 17:44	Generally	
D.	TAX SHELTER REGISTRATION AND LIST-KEEPING REQUIREMENTS	
	1. Registration Requirements	
	a. Overview	
§ 17:45	Generally	
	b. Reporting, Registration & Disclosure	
\$ 17:46 \$ 17:47 \$ 17:48 \$ 17:49	Generally Registration rules List maintenance rules —Providing lists to the IRS	
	c. Problem Issues Require Additional Clarification and Exemptive Relief	
	(1) Overview; Exemption 1	
§ 17:50 § 17:51	Generally Exemption 1: Limited partner tax shelter ratio not exceeding 2 to 1	
	(2) Exemption 2: Certain Publicly Held Limited Partnerships	
§ 17:52 § 17:53 § 17:54 § 17:55	Generally Definition of projected income investment Investment base Depreciation method	
	(3) Other Issues Pertaining to the Amendment	
§ 17:56	Technical correction	

§ 17:57 § 17:58	No continuing participation of tax shelter organizers Deregistration		
	d. Tiered Partnership Arrangements		
§ 17:59	Generally		
	e. Blue Sky Registration Requirements		
	(1) California		
§ 17:60	Registration required		
§ 17:61	Registration number		
§ 17:62 § 17:63	Investor reporting Penalties and reasonable cause		
3 11.00	(2) Other States		
§ 17:64	Generally		
	2. Promoter Lists of Tax Shelter Investors		
§ 17:65	Overview List Maintenance/Section 6112		
§ 17:66 § 17:67	Exemptions added by amendment		
§ 17:68	Clarification appropriate		
E.	REPORTING AND ACCOUTING RULES; IDENTIFYING PARTICULAR TAX SHELTERS		
§ 17:69	Disclosure and reporting rules/Section 6011		
§ 17:70	Accounting rules		
§ 17:71	Service Identified Tax Shelters		
§ 17:72 § 17:73	Identifying particular tax shelters—Contested liability trusts —Conservation easement "Deals"		
§ 17:74	—Conservation easement Deals —Debt assumption to increase basis		
§ 17:75	—Distressed asset/debt transactions		
§ 17:76	—ESOPs holding S corporation stock		
§ 17:77 § 17:78	—Executive stock options —Foreign currency straddles		
§ 17.78 § 17:79	—Foreign currency straddles—Foreign loss importation		
§ 17:80	—Partnership straddles		
§ 17:81	Structured Trust Advantaged Repackaged Securities (STARS)		
IV. MISCELLANEOUS PROVISIONS			
A.	SECTION 6663: FRAUD PENALTY		
§ 17:82	Generally		
§ 17:83	"Obstruction"		
В.	INTEREST PROVISIONS		
§ 17:84	Interest paid by taxpayer		
§ 17:85	Interest rate on tax shelter items		
§ 17:86	Interest on failure to file and accuracy-related penalties		
§ 17:87 § 17:88	Interest paid by the government Deposit to prevent underpayment interest		
2 11.00	Deposit to prevent underpayment interest		

- § 17:89 —Payment before deficiency notice (prior law)
 § 17:90 —Payment after deficiency notice (prior law)
 § 17:91 Increase in underpayment interest rate for large corporate
- § 17:91 Increase in underpayment interest rate for large corporate underpayments

C. FAILURE TO FILE, PAY TAX, OR PAY OVER EMPLOYMENT TAX

- § 17:92 Generally
- § 17:93 —Electronic filing
- § 17:94 —Extension of time to file
- § 17:95 Voluntary disclosure before audit

V. THE INTERNAL REVENUE SERVICE AND THE INVESTOR

§ 17:96 Generally

VI. PARTNERSHIP AUDIT PROVISIONS

- § 17:97 Law prior to TEFRA
- § 17:98 Current law
- § 17:99 Notice to partners
- § 17:100 Assessments, limitations period; settlements
- § 17:101 Bankruptcy
- $\$ 17:102 —Net operating losses (NOLs)
- § 17:103 —Discharge of tax liability
- § 17:104 —Request for determination of tax liability
- § 17:105 —Pension and retirement arrangements
- § 17:106 —S corporations
- § 17:107 —Stay of Proceedings
- § 17:108 Penalties
- § 17:109 Small partnerships
- § 17:110 Community property
- § 17:111 Criminal investigations and the tax matters person
- § 17:112 S corporation unified audit procedures

VII. ADDITIONAL COMPLIANCE PROVISIONS

A. OVERVIEW

- § 17:113 Generally
- § 17:114 Burden of proof
- § 17:115 Appraisers
- § 17:116 IRS' use of private contractors

B. REPORTING WITH RESPECT TO MORTGAGE INTEREST RECEIVED IN A TRADE OR BUSINESS

- § 17:117 General reporting requirements
- § 17:118 Points and mortgage bonds
- § 17:119 —Reporting of points
- § 17:120 —Qualified mortgage bonds

C. RETURNS RELATING TO EXCHANGES OF PARTNERSHIP INTERESTS INVOLVING UNREALIZED RECEIVABLES

§ 17:121 General requirements

TABLE OF	Contents		
§ 17:122	Specific requirements		
D.	RETURNS RELATING TO FORECLOSURES OR ABANDONMENTS OF SECURITY		
§ 17:123	Generally		
E.	NOMINEE REPORTING		
\$ 17:124 \$ 17:125 \$ 17:126 \$ 17:127 \$ 17:128 \$ 17:129 \$ 17:130	Regulations issued —Information to be furnished by partnership —Information to be furnished by nominees — —Timing and required statements from nominee to beneficial owner — —Clearing agency exception		
F.	INFORMATION REPORTING BY PARTNERSHIPS WITH TAX- EXEMPT PARTNERS		
§ 17:131	Generally		
G.	REPORTING CANCELLATION OF DEBT		
§ 17:132 § 17:133	·		
Н.	COMPROMISES AND INSTALLMENT AGREEMENTS		
§ 17:134 § 17:135 § 17:136 § 17:137	Compromise offers Equitable considerations Applying NOLs to "settled" taxes Closing agreements		
I.	RETURN OF LEVIED PROPERTY		
§ 17:138	Generally		
J.	REQUIRED INTERCOMPANY SHARING OF TAX INFORMATION		
§ 17:139§ 17:140§ 17:141	Business trusts —Widely Held Fixed Investment Trusts (WHFITs) —Widely Held Mortgage Trusts (WHMTs)		
VIII.	REPORTING ON REAL ESTATE TRANSACTIONS		
A.	BACKGROUND		
§ 17:142	Generally		
В.	THE FINAL REGULATIONS		
§ 17:143 § 17:144 § 17:145 § 17:146	Reportable real estate transactions Payments to attorneys Exceptions to the reporting requirement The "reporting person"		

- § 17:147 "Gross proceeds" § 17:148 —Contingent payment transactions —Multiple transferors § 17:149 FORM 1099; APPLICABLE PENALTIES C. § 17:150 Form 1099 § 17:151 Applicable penalties IX. ALLOCATION RULES FOR ASSET ACQUISITIONS § 17:152 Generally § 17:153 **IRS** Regulations § 17:154 Penalties for not reporting Definition of "applicable asset acquisition" § 17:155 Definition of "active trade or business" § 17:156 § 17:157 Goodwill or going concern value § 17:158 Allocation of purchase price § 17:159 Covenants not to compete § 17:160 Reporting requirements Specific issues involving real estate § 17:161 Transfers of interests in entities § 17:162 SECTION 6694: IMPOSITION OF UNDERSTATEMENT PENALTY ON INCOME TAX RETURN PREPARER BACKGROUND; EFFECT OF IMPACT § 17:163 Background Principal changes made by IMPACT § 17:164 В. THE FINAL REGULATIONS 1. Overview; Definitions § 17:165 Overview § 17:166 Definition of "income tax return preparer" § 17:167 Definition of "understatement of liability" Verification of information furnished by the taxpayer § 17:168 The Penalty for Understatement Due to an "Unrealistic Position" Generally § 17:169 § 17:170 Exception for adequate disclosure of nonfrivolous positions § 17:171 —Rules for signing preparers § 17:172 —Rules for nonsigning preparers —Additional disclosure excused § 17:173 —Due diligence requirement § 17:174 —Identification number § 17:175 § 17:176 —Signature rules Exception for reasonable cause and good faith § 17:177 § 17:178 Burden of proof The Penalty for Understatements Due to Willful, Reckless or
- § 17:179 Generally

Intentional Conduct

TABLE OF	CONTENTS
\$ 17:180 \$ 17:181 \$ 17:182 \$ 17:183 \$ 17:184 \$ 17:185	Reckless or intentional disregard Exceptions to the reckless or intentional disregard rule Adequate disclosure Section 6694(b) penalty reduced by Section 6694(a) penalty
	4. Extension of Period of Collection of Penalty
§ 17:186	Generally Generally
C.	APPLICATION OF PENALTY; TAX LIENS
§ 17:187 § 17:188 § 17:189 § 17:190	Business purpose and economic substance Tax liens
RESI ISSU	PTER 18. ETHICAL STANDARDS AND PONSIBILITIES FACING PRACTITIONERS IN ING TAX SHELTER OPINIONS
I. IN	TRODUCTION
§ 18:1	Generally
	REASURY DEPARTMENT RULES OF PRACTICE AND ABA FANDARDS OF PRACTICE
A.	OVERVIEW
§ 18:2	Generally
В.	ORIGINAL CIRCULAR 230 AMENDMENTS
§ 18:3 § 18:4	Generally —Changes made by 2002 and 2006 Regulations
C.	ABA OPINION 346
§ 18:5 § 18:6 § 18:7	Original ABA Opinion 346 Revised ABA Opinion 346 —Definition of "tax shelter"

- § 18:8 —Responsibility as to facts
- § 18:9 —Responsibility as to law

D. REVISED CIRCULAR 230 AMENDMENTS

- § 18:10 Generally
- § 18:11 Negative opinions
- § 18:12 Due diligence as to factual matters
- § 18:13 Due diligence as to tax issues
- § 18:14 Definition of "material" tax issue
- § 18:15 Overall evaluation
- § 18:16 Willfulness

- § 18:17 Law firms
- § 18:18 Definition of tax shelter and tax shelter opinions

E. FINAL CIRCULAR 230 AMENDMENTS

- § 18:19 Generally
- § 18:20 Opinion on each material tax issue
- § 18:21 Overall evaluation
- § 18:22 Partial opinions
- § 18:23 Definitions
- § 18:24 Firm opinions
- § 18:25 Disciplinary standards
 - F. FORM OF TAX OPINION
- § 18:26 Generally
 - G. ABA FORMAL OPINION 352
- § 18:27 Generally
 - H. 1992 CIRCULAR 230 AMENDMENTS
- § 18:28 Generally
 - I. 2001 PROPOSED REGULATIONS
- § 18:29 2002 Final Regulations

III. SECURITIES AND EXCHANGE COMMISSION STANDARDS

§ 18:30 Generally

IV. CONCLUSION

§ 18:31 Generally

CHAPTER 19. REAL ESTATE MORTGAGE INVESTMENT CONDUITS (REMICS)

I. INTRODUCTION

§ 19:1 Generally

II. DEFINITION AND TAXATION OF REMICS

- A. IN GENERAL; REQUIREMENTS FOR QUALIFICATION
- § 19:2 In general
- § 19:3 Requirements for qualification as a REMIC
- § 19:4 Election

B. TYPES OF INTERESTS

- § 19:5 Regular
- § 19:6 Residual

C.	ASSET TEST
§ 19:7	In general
§ 19:8	Qualified mortgages
§ 19:9	Modification of mortgages
§ 19:10	Permitted investments—Cash flow investments
§ 19:11	—Qualified reserve assets
§ 19:12	—Foreclosure property
D.	RESTRICTIONS ON OWNERSHIP OF RESIDUAL INTERESTS
§ 19:13	Generally
	·
E.	TAX TREATMENT OF REMICS
§ 19:14	Pass-through status
§ 19:15	Prohibited transactions
§ 19:16	Tax on post-startup day contributions
§ 19:17	Tax on income from foreclosure property
F.	TAXATION OF HOLDERS OF REGULAR INTERESTS
§ 19:18	In general
§ 19:19	Regular interests received in exchange for property
§ 19:20	Disposition of regular interests
G.	TAXATION OF HOLDERS OF RESIDUAL INTERESTS
§ 19:21	In general
§ 19:22	Determination of REMIC taxable income or net loss
§ 19:23	Special treatment of a portion of residual income
§ 19:24	Tax on certain "pass-through" entities and nominees
§ 19:25 § 19:26	Treatment of foreign residual holders Residual interests received in exchange for property
§ 19:27	Inducement fees
§ 19:28	Transfers of property to REMICs
§ 19:29	Dispositions of residual interests
III. C	ORIGINAL ISSUE DISCOUNT (OID) RULES
§ 19:30	Generally
IV. T	AXABLE MORTGAGE POOLS
§ 19:31	In general
§ 19:32	Special rules for REITs
v. co	OMPLIANCE PROVISIONS; EFFECTIVE DATES
§ 19:33	Compliance provisions
	Effective dates

CHAPTER 20. THE REVENUE ACT OF 1987

I. OVERVIEW OF 1987 ACT PROVISIONS AFFECTING REAL ESTATE

§ 20:1 Generally

II. PUBLICLY TRADED PARTNERSHIPS

٨	\cap	71	R	7T	וים	X 7
\mathcal{A}	 ,,,	VГ	ın.	v i	P.	vv

1	Τ.	α
Ι.	ın	General

- § 20:2 Generally
 - 2. Corporate Taxation
 - a. In General
- § 20:3 Basic rule
- § 20:4 Definition of "existing partnership"
 - b. New Line of Business Exclusion
- § 20:5 Generally
- § 20:6 1987 Conference Report guidance
- § 20:7 Notice 88-75 safe harbors
- § 20:8 —15% tests
- § 20:9 —New business generating qualifying income
- § 20:10 —New corporate subsidiaries
- § 20:11 —New line of business rulings
 - c. Corporate Taxation of Existing Partnerships
- § 20:12 Generally
 - d. Ceasing to Be Publicly Traded
- § 20:13 Generally
 - 3. Passive Loss Rule; Tax-Exempt Partner
- § 20:14 Passive loss rule
- § 20:15 UBI for tax-exempt partners

B. DEFINITION OF "PUBLICLY TRADED PARTNERSHIP"

- 1. Background; Legislative History
- § 20:16 Background
- § 20:17 1987 Conference Report
 - 2. Secondary Market Safe Harbors of Notice 88-75
 - a. Overview
- § 20:18 Generally
 - b. Specific Safe Harbors
- § 20:19 Private placement safe harbor
- § 20:20 5% safe harbor
- § 20:21 2% safe harbor
- § 20:22 —Qualified matching service transfers
- § 20:23 ——Listing delay
- § 20:24 ——Closing delay
- § 20:25 ——Removal of information
- § 20:26 ——Re-listing delay
- $\S~20:27$ -10% limitation

Table of Contents

—Qualified open-end redemptions
— Redemption delay
— —Valuation delay
——10% limitation
Reference chart
Effective date for modifying existing transactions
Interplay of 5% and 2% computations
—10% limitation
—Effect of distribution reinvestment plans
Determining interest in capital or profits for 5% and 2% safe harbors
c. 1995 Proposed Regulations
(1) In General; Effect on Notice 88-75
Generally
Effect of 1995 Proposed Regulations— Notice 88-75 rules
(2) 1995 Proposed Regulations—Analysis
Generally
Partnership interests; Transfer definitions
Established securities market definition
The "secondary market" and "secondary market equivalence" tests
Exemption for "private transfers"
Exemption for qualified redemptions
Exemption for qualified matching service transfers
Limitations on exemptions for private placements and lack of actual trading
Other provisions
Conclusion
d. 1995 Final Regulations
In general
1995 Final Regulations—Analysis
3. Public Programs
Recommendations for public programs
Impact on ERISA exemption for public programs
90% PASSIVE-TYPE INCOME TEST
Generally
Interest exceptions
Rent exceptions
Cancellation of debt (COD) income
Years in which test must be satisfied
Inadvertent terminations
EFFECTIVE DATES FOR PUBLICLY TRADED PARTNERSHIPS
Generally
UBI
Taxation as corporation
Passive loss rules

E. STUDY OF TAX TREATMENT OF PUBLICLY TRADED PARTNERSHIPS

§ 20:64 Generally

III. INSTALLMENT SALES RULES

§ 20:65 Generally

IV. QUALIFIED RESIDENCE INTEREST

§ 20:66	Prior law
§ 20:67	1987 Act—Overview
§ 20:68	—Acquisition indebtedness
§ 20:69	——Tracing rules
§ 20:70	——Debt qualifying under the ninety-day rule
§ 20:71	——Refinancing of acquisition indebtedness
§ 20:72	—Debt which is partially acquisition indebtedness and partially home equity indebtedness
§ 20:73	—Debt incurred incident to divorce
§ 20:74	Effective date; Grandfathering

V. FISCAL TAXABLE YEARS

§ 20:75 Generally

VI. QUALIFIED ALLOCATION ISSUES

§ 20:76 Generally

VII. MISCELLANEOUS PROVISIONS

§ 20:77	Delay of 2% floor for RICs
§ 20:78	Completed contract method
§ 20:79	Market discount on bonds
§ 20:80	Partnership tax collection
§ 20:81	Like-kind exchanges

VIII. PROPOSAL ON SIMPLIFIED REPORTING AND COMPLIANCE REQUIREMENTS FOR WIDELY-HELD PARTNERSHIPS

A. OVERVIEW

§ 20:82 Generally

B. DETAILED DISCUSSION OF REPORT

- 1. Provisions Concerning Reporting of Income and Loss
- § 20:83 Reduction in items reported to partners
- § 20:84 Shortened reporting period
- § 20:85 Computation of taxable income
 - 2. Changes in Treatment of Items Reported to Partners
- § 20:86 Capital transactions

Table of Contents

§ 20:87	Deductions
§ 20:88	Credits
§ 20:89	Foreign taxes
§ 20:90	Tax-exempt interest
§ 20:91	Unrelated business taxable income
§ 20:92	Passive losses
§ 20:93	Alternative minimum tax
§ 20:94	9
§ 20:95	REMICs
	3. Allocation Issues
§ 20:96	Generally
	4. Fungibility Issues
§ 20:97	Generally
§ 20:98	Contributed property
§ 20:99	Constructive termination
§ 20:100	Section 754 election
	5. Large Partnership Audit System
§ 20:101	In general
§ 20:102	Administrative proceedings
§ 20:103	Partnership representative
§ 20:104	Notice requirements
§ 20:105	-
§ 20:106	Statute of limitations

CHAPTER 21. TAX CONSEQUENCES OF PARTNERSHIP DEBT RESTRUCTURINGS, WORKOUTS AND BANKRUPTCIES

I. OVERVIEW

- § 21:1 Generally
- § 21:2 Typical scenarios requiring debt restructuring
- § 21:3 Non-tax considerations

II. SECTION 108 AND CANCELLATION OF INDEBTEDNESS INCOME

- A. JUDICIAL AND STATUTORY FRAMEWORK
- § 21:4 Generally
 - B. EXCEPTIONS TO RECOGNITION OF CANCELLATION OF INDEBTEDNESS INCOME
 - 1. Background
- § 21:5 Generally
 - 2. Bankruptcy Exception
- § 21:6 Generally

§ 21:7 § 21:8	Reduction of tax attributes Election to reduce basis in depreciable property first
	3. Insolvency Exception
§ 21:9 § 21:10 § 21:11 § 21:12 § 21:13	Generally Definition of "insolvent"—In general —Contingent liabilities —Nonrecourse debt in excess of the fair market value of property securing such debt Insolvency of a partner
γ 21.15	4. Section 108(d)(6)—Applying the Bankruptcy and Insolvency Exceptions
\$ 21:14 \$ 21:15 \$ 21:16 \$ 21:17	Generally Application at the partnership level Application at the partner level Scope of Section 108(d)(6)
	5. Purchase Money Debt Reduction Exception
\$ 21:18 \$ 21:19 \$ 21:20 \$ 21:21 \$ 21:22 \$ 21:23	Judicial exception Section 108(e)(5)—Statutory exception Continued existence of judicial exception Application at partnership or partner level? —Partnership level —Partner level
	6. Lost Deduction Exception
§ 21:24 § 21:25	In general Application at partnership or partner level?
	7. Capital Contribution Exception
\$ 21:26 \$ 21:27 \$ 21:28 \$ 21:29	General rule for corporations Application to partnerships? —Application at partnership or partner level? —Section 752 concerns
	8. Guarantees and COD Income
§ 21:30	Generally
7	ALLOCATION OF INCOME AND LOSS UNDER SECTION (04(B) AND ALLOCATIONS OF PARTNERSHIP LIABILITIES UNDER SECTION 752
A.	SECTION 704—ALLOCATION OF INCOME AND LOSS
\$ 21:31 \$ 21:32 \$ 21:33 \$ 21:34 \$ 21:35 \$ 21:36 \$ 21:37	Generally Allocations attributable to nonrecourse liabilities Minimum gain and minimum gain chargeback Mandatory allocations—Partner loans or guarantees —Section 704(c) and contributions of property Capital account restatement Effect on basis

В.	SECTION 752—ALLOCATION OF PARTNERSHIP DEBT
\$ 21:38 \$ 21:39 \$ 21:40 \$ 21:41	Increases and decreases in shares of liabilities Partner's share of nonrecourse liabilities Partner's share of recourse liabilities Effect of reduction in share of liabilities on basis
C.	EFFECT OF SECTIONS 704 AND 752 ON ALLOCATION OF COD INCOME
§ 21:42 § 21:43	In general Differing allocations of COD income and cancelled debt
D.	EFFECT OF SECTIONS 704 AND 752 ON A PARTNERSHIP DEBT RESTRUCTURING
	1. In General
§ 21:44	Generally
	2. Admission of a New Money Partner
§ 21:45 § 21:46 § 21:47	Generally Example Minimum gain chargeback
§ 21:48 § 21:49	Using book-up of assets to avoid minimum gain chargeback Interaction between Section 752(b) deemed distribution rules and minimum gain chargeback
§ 21:50 § 21:51 § 21:52	 Result if minimum gain chargeback occurs first Result if the deemed distribution occurs first Lack of authority on issue
	3. Admission of New Partner—Converting the Lender to a Partner
§ 21:53	Generally
	4. Distribution of Debt to Partner
§ 21:54	Generally
IV. D	EBT MODIFICATIONS AND DEBT-FOR-DEBT EXCHANGES
A.	TAX CONSEQUENCES OF A TYPICAL RESTRUCTURING
§ 21:55	Generally
В.	THE MATERIAL MODIFICATION RULE—PRESENT LAW
§ 21:56	Generally
§ 21:57	Change in the maturity of debt
§ 21:58	Change in the timing of debt service payments
§ 21:59	Change in interest rate
§ 21:60	Change in principal amount
§ 21:61	Change in obligor
§ 21:62	Change in collateral or security
§ 21:63	Change in multiple terms of a debt instrument

C. THE SIGNIFICANT MODIFICATION RULE—PROPOSED REGULATIONS

-	\sim	•
	()37	erview

§ 21:64 Generally

General Rule

- § 21:65 Generally
- § 21:66 Modification
- § 21:67 Alterations pursuant to original terms
- § 21:68 —Unilateral exercise of a right
- § 21:69 —Unilateral waiver
- § 21:70 —Inability to perform
- § 21:71 Modified instrument not debt

3. Significant Modifications

a. Overview

§ 21:72 Generally

b. Change in Yield

- § 21:73 Changes in current interest payments
- § 21:74 Variable rate instruments
- § 21:75 Other changes

c. Changes in Timing and/or Amounts of Payments

- § 21:76 Deferral of payments
- § 21:77 Extension of final maturity
- § 21:78 Partial prepayments
- § 21:79 Puts and calls

d. Change in Obligor or Security

- § 21:80 Change in obligor
- § 21:81 Addition of co-obligor
- § 21:82 Credit enhancement
- § 21:83 Substitution of a collateral
- § 21:84 Subordination

e. Changes in the Nature of the Instrument

- § 21:85 Property that is not a debt
- § 21:86 Changes in types of payment
- § 21:87 Conversion or exchange rights—General rule
- § 21:88 —Section 381(a) exception
- § 21:89 —Antidilution exception
- § 21:90 Change in the recourse nature of debt instrument

f. Multiple Changes

- § 21:91 Simultaneous changes
- § 21:92 Multiple changes over a period of time

4. 1996 Final Regulations

§ 21:93 Generally

D.	ORIGINAL ISSUE DISCOUNT ISSUES RESULTING FROM A
	MATERIAL MODIFICATION

- § 21:94 Generally § 21:95 OID defined
- § 21:96 SRPM defined
- § 21:97 Issue price defined
- § 21:98 —"Potentially abusive situations"
- § 21:99 —Nonrecourse debt
- § 21:100 Mechanics of the OID rules
- § 21:101 Impact on the creditor
- § 21:102 Impact on the debtor partnership

V. CANCELLATION OF PARTNERSHIP DEBT IN EXCHANGE FOR A PARTNERSHIP INTEREST (DEBT-FOR-EQUITY EXCHANGES)

- A. OVERVIEW; IN GENERAL
- § 21:103 Overview
- § 21:104 In general

B. THEORY ONE: ANALOGY TO CORPORATE "STOCK-FOR-DEBT" EXCEPTION

- 1. In General; Common Law Exception
- § 21:105 Generally
- § 21:106 Common law "stock-for-debt exception"
 - 2. Legislative Amendments to the "Equity-for-Debt" Exception
- § 21:107 Generally
- § 21:108 The Bankruptcy Tax Act
- § 21:109 —De minimis test
- § 21:110 —Proportionality test
- § 21:111 —Example
- § 21:112 Tax Reform Act of 1984
- § 21:113 Revenue Reconciliation Act of 1990
 - 3. Application of Legislative Limitations to Partnerships
- § 21:114 Generally
 - C. THEORY TWO: APPLICATION OF SECTION 721 TO PARTNERSHIP EQUITY-FOR-DEBT EXCHANGES
- § 21:115 In general
- § 21:116 IRS refusal to rule on application of Section 721
- § 21:117 Tax consequences of applying Section 721
 - D. SECTION 752 ISSUES RAISED BY A PARTNERSHIP INTEREST-FOR-DEBT EXCEPTION
- § 21:118 Generally
- § 21:119 Result if Section 721 applies

§ 21:120	Result if judicial equity-for-debt exception applies without Section 108 limitations
§ 21:121	Result if judicial equity-for-debt exception applies subject to the Section 108 limitations
§ 21:122	Section 752 consequences
§ 21:123 § 21:124	—Partner nonrecourse debt —Minimum gain chargeback
	CQUISITION OF DEBT FROM LENDER
VI. A.	IN GENERAL
§ 21:125	Generally
§ 21:126	Tax consequences of debt acquisition by the investor group
B.	SECTION 108(E)(4)(A) RELATED PARTY RULE
§ 21:127 § 21:128	Generally Exceptions to related party debt rules
§ 21:129	—Short-term debt exception
§ 21:130 § 21:131	—Securities dealer exception Direct vs. indirect acquisitions
§ 21:132	Anticipatory relationships
§ 21:133 § 21:134	Deemed new issuance Effective date
§ 21:134 § 21:135	Substance over form
С.	TAX CONSEQUENCES OF SUBSEQUENT DEBT RESTRUCTURING
§ 21:136 § 21:137	Impact on investor group Impact on partnership
VII. A	CCRUAL OF DOUBTFUL INTEREST DEDUCTIONS
§ 21:138	Background
§ 21:139 § 21:140	In general Application to OID rules
§ 21:141	Application to the market discount rules
VIII. S	SECTION 465: AT RISK RULES
§ 21:142	Generally
§ 21:143 § 21:144	Determination of amount at risk Amounts excluded from at risk
§ 21:145	Treatment of disallowed loss
§ 21:146 § 21:147	Recapture of prior losses Extension to real property activities
	ALURE TO RESTRUCTURE THE PARTNERSHIP DEBT
A.	FORECLOSURE
§ 21:148	Generally
§ 21:149	Recourse debt

TABLE OF	COMMENTED
I ABLE OF	CONTENTS

§ 21:150	Nonrecourse debt
§ 21:151	Like-kind exchanges

B. BANKRUPTCY

§ 21:152	Generally
§ 21:153	No separate taxable estate
§ 21:154	No termination of partnership under Section 708
§ 21:155	Cancellation of indebtedness income
§ 21:156	Partner bankruptcy
§ 21:157	—Nontaxable event

§ 21:158 —Bankruptcy estate tax liability
§ 21:159 —Partner taxable year election

§ 21:160 —Termination

X. SECTION 1038: REACQUISITION OF REAL PROPERTY BY SELLER

$\S 21:161$	Introduction
$\S 21:162$	Original sale
$\S 21:163$	Reacquisition—Must be by the original seller
$\S 21:164$	—Original purchaser not necessary
$\S 21:165$	—Method of reacquisition
$\S 21:166$	—Improvements by purchaser
$\S 21:167$	—Modification of indebtedness
§ 21:168	Gain upon reacquisition by the seller
§ 21:169	Bad debt deduction
§ 21:170	Basis and holding period of the reacquired property

XI. FINDING LIST FOR POST-1991 DEVELOPMENTS

§ 21:171 Generally

CHAPTER 22. OMNIBUS BUDGET RECONCILIATION ACT OF 1993: AN OVERVIEW

I. INTRODUCTION

§ 22:1 Generally

II. CHANGES AFFECTING INDIVIDUAL AND OTHER NONCORPORATE TAXPAYERS

§ 22:2	Regular tax rates
§ 22:3	Alternative minimum tax
§ 22:4	Estimated tax payments
§ 22:5	Conversion transactions
§ 22:6	Definition of investment income
§ 22:7	Market discount bonds
§ 22:8	Stripped preferred stock
§ 22:9	Deduction for travel expenses of a spouse
§ 22:10	Annual limit on compensation in qualified retirement plans
§ 22:11	Deduction for moving expenses

	TAX ASPECTS OF REAL ESTATE INVESTI
\$ 22:12 \$ 22:13 \$ 22:14 \$ 22:15	Deduction for health insurance costs of self-employed individuals
III. (CHANGES AFFECTING CHARITABLE CONTRIBUTIONS
§ 22:16 § 22:17 § 22:18	AMT treatment for contributions of appreciated property Substantiation and disclosure requirements Disclosure relating to quid pro quo contributions
	CHANGES AFFECTING CORPORATIONS AND OTHER SUSINESS-RELATED PROVISIONS
\$ 22:19 \$ 22:20 \$ 22:21 \$ 22:22 \$ 22:23 \$ 22:24 \$ 22:25 \$ 22:26 \$ 22:27 \$ 22:28	Mark-to-market rules for dealers in securities—In general —Definitions
v. in	IVESTMENT INCENTIVE PROVISIONS
§ 22:29 § 22:30	Exclusion for gain from certain small business stock Increase in expense treatment for small businesses
VI. C	CHANGES AFFECTING INVESTMENT IN REAL ESTATE
\$ 22:31\$ 22:32\$ 22:33\$ 22:34\$ 22:35\$ 22:36	Passive activity rules for rental real estate Recovery period for depreciation of nonresidential real estate Pension trust investment in REITs Title holding companies Debt-financed income from real estate Exclusion from UBTI of gain from certain dispositions of real estate
	CHANGES AFFECTING BANKRUPTCY AND OTHER DEBT RESTRUCTURINGS
\$ 22:37 \$ 22:38 \$ 22:39 \$ 22:40 \$ 22:41	Generally Real estate indebtedness Stock-for-debt exception Attribute reduction Information reporting
VIII.	CHANGES AFFECTING PARTNERS AND PARTNERSHIPS
§ 22:42	Payments to retired or deceased partner

Tax-exempt partners in publicly traded partnerships

Substantially appreciated inventory

§ 22:43

§ 22:44

IX. CHANGES AFFECTING CROSS-BORDER AND FOREIGN TRANSACTIONS AND OPERATIONS

- § 22:45 Accuracy-related penalties regarding inter-company pricing adjustments
- § 22:46 Withholding tax exemption for portfolio interest
- § 22:47 Related party guarantee of third party debt
- § 22:48 Regulations on multi-party financing arrangements
- § 22:49 Possession corporations tax credit
- § 22:50 Controlled foreign corporations (Subpart F)
- § 22:51 —Excess passive assets
- § 22:52 —Investments in U.S. property
- § 22:53 —Same-country exception rule
- § 22:54 —PFIC rules and CFCs
- § 22:55 —Foreign tax credit limitation
- § 22:56 —Effective dates of CFC provisions
- § 22:57 Allocation of research and experimental expenditures

X. CHANGES AFFECTING COMPLIANCE PROVISIONS

- § 22:58 Interest on overpayments of tax
- § 22:59 Substantial understatement penalty

CHAPTER 23. THE TAXPAYER RELIEF ACT OF 1997

I. GENERAL CHANGES

- § 23:1 Accounting methods—Long-term contracts
- § 23:2 Alternative minimum tax—Depreciation adjustment
- § 23:3 —Farmers
- § 23:4 —"Small corporations"
- § 23:5 Capital gains
- § 23:6 Conservation easement
- § 23:7 Credit carryovers
- § 23:8 Disaster areas
- § 23:9 Environmental cleanup costs
- § 23:10 Estates—Special use valuation
- § 23:11 Exempt organizations
- § 23:12 Farmers
- § 23:13 Home office deduction
- § 23:14 Involuntary conversions—Related parties
- § 23:15 Lease improvements
- § 23:16 Like kind exchanges
- § 23:17 Medical insurance
- § 23:18 Net operating losses
- § 23:19 Oil and gas

II. PARTNERSHIPS AND REITS

A. PARTNERSHIPS—GENERALLY

- § 23:20 Allocation of basis to distributed property
- § 23:21 Deceased partner's tax year
- § 23:22 Innocent spouse

\$ 23:23 \$ 23:24 \$ 23:25 \$ 23:26	Limited partner definition Precontribution gain Publicly traded partnerships Substantially appreciated inventory, Section 751(a)
В.	TEFRA AUDIT PROCEEDINGS
\$ 23:27 \$ 23:28 \$ 23:29 \$ 23:30 \$ 23:31 \$ 23:32 \$ 23:33 \$ 23:34 \$ 23:35	Generally Bad debts and worthless securities Interest on a deficiency Limitations period challenge Penalties Refund claims Settlement with IRS Service's discretion Small partnerships
§ 23:36	Tolling limitations period for tax court proceedings
C.	ELECTING LARGE PARTNERSHIPS
§ 23:37§ 23:38§ 23:39§ 23:40	Simplified reporting Notification rules Return filing Audit procedures
D.	REAL ESTATE INVESTMENT TRUSTS (REITS)
\$ 23:41 \$ 23:42 \$ 23:43 \$ 23:44 \$ 23:45 \$ 23:46 \$ 23:47 \$ 23:48 \$ 23:49 \$ 23:50 \$ 23:51 \$ 23:52 \$ 23:53	Generally 30% income test Capital gains Earnings and profits Excess noncash income Foreclosure property Hedging income Ownership determination Prohibited transactions safe harbor Related entity income Shared appreciation mortgages Subsidiaries Tenant services income
TIT D	

III. RESIDENCE SALES

§ 23:54 Generally

Table of Laws and Rules

Table of Cases

Index