

Table of Contents

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	<i>Murphy</i>
§ 2:21	<i>Holschuh</i>
§ 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

TABLE OF CONTENTS

- § 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
- § 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
- § 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
- § 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
- § 3:5 Section 351 (organization) transactions
- § 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”
- § 3:15 —Engineering and architectural services
- § 3:16 —Mineral extraction

TABLE OF CONTENTS

§ 3:17	Liquidating sales and distributions
§ 3:18	Reorganizations
§ 3:19	—Basis in distributed stock
§ 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
§ 3:38	Corporate equity reduction transactions (CERTs)
§ 3:39	Corporate inversions
§ 3:40	Accumulated earnings tax

B. 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

A. IN GENERAL

§ 3:47	Distinction from partnership taxation
§ 3:48	Self-employment tax
§ 3:49	Basis and borrowings

B. 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
§ 3:55	Electing small business trusts

2. Reporting Income

§ 3:56	Separately stated items
--------	-------------------------

- § 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)
- § 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 UP-REIT STRUCTURES

A. IN GENERAL

- § 3:86 Overview

TABLE OF CONTENTS

- § 3:87 Introduction
- § 3:88 Structure of a REIT
- § 3:89 REIT election

B. ANNUAL INCOME TESTS

- § 3:90 75-percent income test
- § 3:91 95-percent income test
- § 3:92 30-percent income test
- § 3:93 Special rules for REIT qualifying income

C. ASSET TESTS

- § 3:94 Generally
- § 3:95 75-percent assets test
- § 3:96 25-percent assets test

D. DISTRIBUTION TEST

- § 3:97 Deductible distributions
- § 3:98 95-percent distribution requirement
- § 3:99 Capital gains
- § 3:100 “Relation back” of dividends paid deduction
- § 3:101 Special timing of dividend rule
- § 3:102 Deficiency dividends
- § 3:103 Excise tax

E. TAXATION OF REITS

- § 3:104 REIT taxable income
- § 3:105 REIT level taxation—Foreclosure property
- § 3:106 —Prohibited transactions

F. TAXATION OF SHAREHOLDERS OF A REIT

1. United States Shareholders

- § 3:107 General rule—Portfolio income
- § 3:108 Capital gain dividends

2. Tax-Exempt Shareholders

- § 3:109 Generally

3. Foreign Shareholders

- § 3:110 United States taxation of REIT distributions
- § 3:111 Sales of REIT shares

G. RECORD-KEEPING REQUIREMENTS

- § 3:112 Generally

H. NEW REIT STRUCTURES

- § 3:113 Tax problems on formation/Up-REITS
- § 3:114 Tax issues to be addressed
- § 3:115 —Tax-free incorporation

- § 3:116 —Exceptions—Diversification causes gain recognition
- § 3:117 The Up-REIT solution

VI. NON-REIT PROVISIONS

- § 3:118 Generally
- § 3:119 Passive activity loss limitations
- § 3:120 Miscellaneous business expense limitations
- § 3:121 REMIC rules
- § 3:122 Tax-exempt controlled entity
- § 3:123 Foreign tax changes

VII. MISCELLANEOUS FORMS OF OWNERSHIP

- § 3:124 Nominee corporations
- § 3:125 Personal residence trusts
- § 3:126 Financial asset securitization investment trusts (FASITs)
- § 3:127 Marketing (farming) cooperatives

CHAPTER 4. PARTNERSHIP TAXATION

I. INTRODUCTION

- § 4:1 Overview
- § 4:2 Business considerations
- § 4:3 Pitfalls
- § 4:4 Election out of partnership provisions
- § 4:5 Cross-references to Post-1987 Act developments affecting partnerships
- § 4:6 Electing large partnerships (ELPs)
- § 4:7 Foreign partnerships—Reporting requirements
- § 4:8 Small/Closely-Held Partnerships & Businesses

II. PARTNERSHIP STATUS

A. PARTNERSHIP VERSUS ASSOCIATION

- § 4:9 Generally
- § 4:10 “Check the box” 1996 Final Regulations
- § 4:11 Antiabuse rule

B. CORPORATE GENERAL PARTNERS

- § 4:12 Generally

C. ADVANCE RULING REQUIREMENTS—REVENUE PROCEDURE 89-12

- § 4:13 Generally
- § 4:14 Limited liability characteristic—Net worth
- § 4:15 Continuity of life characteristic
- § 4:16 Centralized management and free transferability characteristics
- § 4:17 Conditions required for all rulings
- § 4:18 —1% interest of general partners
- § 4:19 —Minimum capital

TABLE OF CONTENTS

- § 4:20 —Required checklist
- § 4:21 Summary of changes made by Revenue Procedure 89-12

D. LIMITED LIABILITY COMPANIES

1. Overview

- § 4:22 Generally
- § 4:23 “Series” LLC organizations
- § 4:24 Tax Matters Partner
- § 4:25 Self-employment tax
- § 4:26 Employment tax liability, generally—FICA and FUTA

2. Basic Characteristics

- § 4:27 Articles of organization
- § 4:28 Eligible members
- § 4:29 Transferability of member interest
- § 4:30 Limited liability
- § 4:31 Management
- § 4:32 Dissolution

3. Entity Comparison

- § 4:33 Generally

4. Federal Tax Treatment As a Partnership

- § 4:34 Criteria for achieving partnership status
- § 4:35 —Limited liability
- § 4:36 —Centralized management
- § 4:37 —Continuity of life
- § 4:38 —Transferability of interests
- § 4:39 Federal income tax treatment
- § 4:40 Conversion of limited partnership to LLC

5. State Tax Consequences; State Limited Liability Legislation

- § 4:41 State income tax consequences
- § 4:42 Status of legislation among the states
- § 4:43 Survey of limited liability legislation

III. SUBCHAPTER K: PARTNERSHIP TAXATION

A. GENERAL RULES

- § 4:44 Distributive share of income and loss
- § 4:45 Taxable year
- § 4:46 Partnership termination
- § 4:47 Contributions

B. DISTRIBUTIONS

- § 4:48 Generally
- § 4:49 1996 Proposed Regulations
- § 4:50 1996 Final Regulations
- § 4:51 Intangible property

C. IMPORTANCE OF BASIS

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

TABLE OF CONTENTS

§ 4:88	—Minimum gain basis layering
§ 4:89	—704(c) basis layering
§ 4:90	—Residual basis layering
	(4) Shifts Between Recourse and Nonrecourse Debt
§ 4:91	Generally
	(5) Tiered Partnerships
§ 4:92	Generally
	(6) Effective Date and Transition Rules
§ 4:93	Generally
§ 4:94	Related person loans
§ 4:95	—Grandfathered loan basis shift election
§ 4:96	—Effect of nonrecourse characterization
§ 4:97	—Modifying pre-January 30, 1989 related person loans
§ 4:98	Direct partner loans and guarantees
§ 4:99	—Post-February 29, 1984 loans
§ 4:100	—Pre-March 1, 1984 loans
§ 4:101	— —Direct partner loans
§ 4:102	— —Direct partner guarantees
	c. November 1989 Amendments to Regulations
§ 4:103	Generally
§ 4:104	Effective dates
§ 4:105	Definition of “related” person
§ 4:106	Interest guarantee rule
§ 4:107	De minimis rule
	d. 1991 Reproposed Section 752 Regulations
	(1) Background
§ 4:108	Generally
	(2) Summary of Changes
§ 4:109	Effective date election
§ 4:110	General anti-abuse rule
§ 4:111	Interest guarantees
§ 4:112	Valuation of pledged property
§ 4:113	10-percent de minimis exception
§ 4:114	Partners’ shares of nonrecourse liabilities
§ 4:115	Does DRO create economic risk of loss?
	(3) Detailed Analysis
	(a) Effective Date Rules
	(i) 1991 Regulations
§ 4:116	General effective date rule
§ 4:117	Election
§ 4:118	Effect of Section 708 deemed termination
§ 4:119	Chart of Section 704(b)/Section 752 effective date rules interplay
	(ii) Temporary Regulations
§ 4:120	Election

- § 4:121 Transition rule
- § 4:122 Effect of Section 708 deemed termination
 - (iii) Decision to Elect into Temporary Regulations or 1991 Regulations
- § 4:123 Benefit of layering rules
- § 4:124 Alternative elections
 - (iv) Effect of Material Modification of Debt Under Effective Date Rules
- § 4:125 Generally
- § 4:126 General anti-abuse rule
- § 4:127 Interest guarantees
- § 4:128 Valuation of pledged property
- § 4:129 10-percent de minimis exception
- § 4:130 Partners' shares of nonrecourse liabilities
- § 4:131 Does DRO create economic risk of loss?
- (4) Conclusion
- § 4:132 Generally
 - e. The Final Regulations Under Section 752
 - (1) Background
- § 4:133 Generally
 - (2) Summary of Changes
- § 4:134 Partners' shares of nonrecourse liabilities
- § 4:135 10-percent de minimis exception
- § 4:136 Interest guarantees
- § 4:137 Pledged or contributed property
- § 4:138 Deficit capital account restoration obligations
- § 4:139 General anti-abuse rule
- § 4:140 Effective date rules—Final Regulations
- § 4:141 —Temporary Regulations
- (3) Detailed Analysis
 - (a) Changes
- § 4:142 Partners' shares of nonrecourse liabilities
- § 4:143 10-percent de minimis exception
- § 4:144 Interest guarantees
- § 4:145 Pledged or contributed property—Pledged property
- § 4:146 —Contributed property
- § 4:147 Deficit capital account restoration obligations
- § 4:148 General anti-abuse rule
- (b) Effective Date Rules
 - (i) Final Regulations
- § 4:149 General effective date rule
- § 4:150 Election
- § 4:151 Effect of Section 708 deemed termination

	(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
§ 4:177	Tax consequences of a forfeiture termination—Viewed as sale of partnership interest of decedent
§ 4:178	—Viewed as a liquidation of partnership interest
	F. MERGERS AND ACQUISITIONS
§ 4:179	Generally

IV. TRANSACTIONS BETWEEN PARTNERS AND PARTNERSHIP

A. OVERVIEW

§ 4:180 Generally

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

TABLE OF CONTENTS

§ 4:205	Guaranteed payments for capital and preferred returns
§ 4:206	Distributions of operating cash flow
§ 4:207	Reimbursements of preformation expenditures
	4. Treatment of Liabilities
§ 4:208	Generally
§ 4:209	“Qualified liabilities”
§ 4:210	Liabilities other than “qualified liabilities”
§ 4:211	—Share of recourse liabilities
§ 4:212	—Share of nonrecourse liabilities
§ 4:213	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	Generally
§ 4:217	Section 708(b)(1)(B) terminations
§ 4:218	Value rule in multiple property contributions
§ 4:219	Net cash flow definition
§ 4:220	Reasonable preferred returns and guaranteed payments/loans
§ 4:221	Accrued but unpaid items
§ 4:222	Preformation expenditures
§ 4:223	Precontribution borrowings
§ 4:224	—Share of nonrecourse liabilities
§ 4:225	—Trade payables
§ 4:226	—Netting of qualified and nonqualified liabilities
§ 4:227	—Refinancing
§ 4:228	—Tiered partnerships and related parties
§ 4:229	Disclosure
§ 4:230	Effective date election
§ 4:231	OID/sale problem

D. PRECONTRIBUTION GAIN OR LOSS: SECTION 704(C)

1. Overview

§ 4:232	Generally
	2. General Rules/1992 Proposed Regulations
	a. General Rules
§ 4:233	Pre-1984 Act law
§ 4:234	Current law
	b. 1992 Proposed Regulations
	(1) In General
§ 4:235	Background
§ 4:236	The ceiling rule
§ 4:237	Applicable property

- § 4:238 Built-in gain or loss
- § 4:239 Reasonable method requirement

(2) Method 1: The Traditional Method

- § 4:240 Generally
- § 4:241 Traditional method examples
- § 4:242 Required tax depreciation allocations
- § 4:243 Required gain allocation on sale
- § 4:244 Liquidation of the partnership
- § 4:245 Unreasonable use of the traditional method

(3) Method 2: The Traditional Method with Curative Allocations

- § 4:246 Generally
- § 4:247 Reasonable curative allocations—Example
- § 4:248 Unreasonable curative allocations—Example

(4) Method 3: The Deferred Sale Method

- § 4:249 Generally
- § 4:250 Partner level triggering events
- § 4:251 Partnership level triggering events
- § 4:252 Character of deferred gain or loss
- § 4:253 Deferred sale method—Example

(5) Exceptions and Special Rules

- § 4:254 Anti-abuse rule
- § 4:255 *De Minimis* rule
- § 4:256 Aggregation
- § 4:257 Tiered partnerships
- § 4:258 Effective date
- § 4:259 IRS request for comments

(6) Ceiling Rule Issues

- § 4:260 Generally
- § 4:261 Ceiling rule distortions
- § 4:262 Curative allocations

(7) Contributions of Multiple Properties

- § 4:263 Generally
- § 4:264 Multiple properties contributed by one partner
- § 4:265 Contributions by multiple partners

(8) Deferred Sale Method Issues

- § 4:266 Generally
- § 4:267 Example: Deferred sale method vs. traditional method
- § 4:268 Basis bifurcation
- § 4:269 Dealer property
- § 4:270 Distribution triggering rules—Coordination with Section 737
- § 4:271 Disposition triggering rules—Coordination with Section 704(c)(1)(B)

c. 1993 Final Section 704(c) Regulations

(1) In General

- § 4:272 Generally

TABLE OF CONTENTS

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

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

§ 4:309 Generally

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
§ 4:339	Account reduction items
§ 4:340	Qualified income offset
	(ii) Minimum Gain
§ 4:341	Generally
§ 4:342	Staged admissions
§ 4:343	Investment in nonbasis items
§ 4:344	Final Nonrecourse Regulations
	(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 Admission of new investors
- § 4:362 Liquidation of partnership interest
- § 4:363 Installment sales of property in liquidation

(c) Mandatory Market Value Adjustment

- § 4:364 Generally
- § 4:365 Book-tax allocations
- § 4:366 Examples

d. Impact of Final Regulations on Existing and New Partnerships

- § 4:367 Generally
- § 4:368 Fully subscribed partnerships
- § 4:369 Partnerships in offering stage

e. Deductions Attributable to Debt

(1) Overview

- § 4:370 Background
- § 4:371 Significant features of the Final Nonrecourse Regulations

(2) Determine Existence of Nonrecourse Liabilities

- § 4:372 Generally
- § 4:373 Determining amount of partnership minimum gain and partner loan minimum gain
 - § 4:374 —Partnership minimum gain
 - § 4:375 —Partner loan minimum gain
- § 4:376 Special rules for fair market value capital accounts

(3) Nonrecourse Deductions

- § 4:377 Generally

(4) Nonrecourse Deduction Allocation Tests

- § 4:378 Generally
- § 4:379 Requirements to be satisfied
- § 4:380 Significant item consistency requirement
 - § 4:381 —Effect of deficit repayment obligation
 - § 4:382 —Book items versus tax items
- § 4:383 Minimum gain chargeback

(5) Decreases in Minimum Gain

- § 4:384 Generally
- § 4:385 Partner's share of minimum gain
 - § 4:386 —Special rule for revaluations
 - § 4:387 —Income and gain items comprising minimum gain chargeback
- § 4:388 Drafting the minimum gain chargeback
- § 4:389 Refinancing problem cured

(6) Partner Funded or Guaranteed Liabilities

- § 4:390 Special allocation required
- § 4:391 Effect on capital accounts

TABLE OF CONTENTS

§ 4:392	Partner loan minimum gain chargeback
	(7) Tax Planning Under the Final Nonrecourse Regulations
§ 4:393	Partner loan versus contribution
§ 4:394	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	Minimum gain chargebacks
§ 4:403	—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	—Allocations of nonrecourse deductions and minimum gain chargebacks
§ 4:414	Effective date of 1991 Final Regulations
§ 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	—IRS discretionary waiver
§ 4:425	—Expansion of chargeback requirement

- § 4:426 Permanent nonrecourse exemption for grandfathered related party debt
- § 4:427 Deficit restoration obligations/qualified income offset

(b) Planning Techniques and Sample Partnership Agreement Clauses

- § 4:428 Generally
- § 4:429 Language protecting against partial sale distortion
- § 4:430 Capital account savings clause
- § 4:431 Sample qualified income offset and minimum gain chargeback provisions

3. Substantial Economic Effect Flow Chart

- § 4:432 Generally
- 4. Effective Date Chart/Sections 752 and 704(b)
- § 4:433 Generally

D. INVESTMENT TAX CREDIT

- § 4:434 Generally
- § 4:435 Foreign tax credits
- § 4:436 Tax credits generally

E. RETROACTIVE ALLOCATION OF DEDUCTIONS

- § 4:437 Generally
- § 4:438 Varying interest rule
- § 4:439 Tiered partnerships
- § 4:440 Retroactive deficit repayment obligations

F. MISCELLANEOUS ALLOCATION ISSUES

- § 4:441 Rulings on partnership tax allocations
- § 4:442 Depreciation recapture

VI. RESYNDICATION OF PARTNERSHIP INTERESTS

A. RESYNDICATION FORMAT

- § 4:443 Overview
- § 4:444 Types of resyndications
- § 4:445 Form of entity
- § 4:446 Tiered partnerships

B. SELLER AND BUYER OBJECTIVES

1. Seller Concerns

- § 4:447 Cash payment at closing—Prior law
- § 4:448 —1984 Act; 1986 Act
- § 4:449 Participating mortgages
- § 4:450 Wraparound mortgage
- § 4:451 Deferral of interest payments

2. Buyer Concerns

- § 4:452 Generally

TABLE OF CONTENTS

- § 4:453 Debt in inside basis
- § 4:454 Debt in outside basis
- § 4:455 Basis step up: Interest purchase
- § 4:456 —Section 754 election
- § 4:457 —Section 708 termination
- § 4:458 —Low income housing
- § 4:459 Preexisting liabilities: Interest purchase
- § 4:460 Retroactive allocations of deductions—Retroactive allocations
- § 4:461 —Tiered partnerships

VII. 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

- § 5:6 Generally
- § 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

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

4. Coordination with Passive Loss Rules

- § 5:18 Generally

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

TABLE OF CONTENTS

§ 6:28	—Ground lease
§ 6:29	—Related party leases
3. Trade or Business with No Material Participation	
§ 6:30	Generally
§ 6:31	Definition of “material participation”
§ 6:32	Recap of significant considerations
§ 6:33	—General rule
§ 6:34	—Helpful factors
§ 6:35	—Special rules
§ 6:36	Material participation by certain corporations
§ 6:37	Material participation by limited partners
§ 6:38	“For profit” activities
§ 6:39	Estates and trusts
§ 6:40	Change in status
§ 6:41	Spouse participation
4. Oil and Gas Interests; Research and Development	
§ 6:42	Working interests in oil and gas properties
§ 6:43	Research and development
D. DETERMINE PASSIVE ACTIVITY TAX ITEMS	
1. In General; Carryforwards	
§ 6:44	Generally
§ 6:45	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	Special rules for estates and gifts
§ 6:53	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 Applying the PAC limitation
- § 6:61 Special disposition rules for PACs
- § 6:62 Coordination with other credit limitations

b. Nonpassive Income

- § 6:63 Generally
- § 6:64 Portfolio income—Definition
- § 6:65 —Ordinary course of business exception
- § 6:66 —Installment sales
- § 6:67 —Significance for closely held corporations
- § 6:68 Nonportfolio, nonpassive income

c. Self-Charged Interest

- § 6:69 The problem
- § 6:70 The solution
- § 6:71 —Loans by owner to passthrough entity
- § 6:72 —Loans by passthrough entity to owner
- § 6:73 Borrowing to make self-charged loans
- § 6:74 Loans involving multiple activities
- § 6:75 Varying the applicable percentage using special allocations
- § 6:76 Circumstances preventing the application of the self-charged interest rules—Passthrough entity loans only
- § 6:77 —Owner's share limitation
- § 6:78 —Tiered entities—10% qualifying indirect interest
- § 6:79 —Brother/sister passthrough entity loans
- § 6:80 —Fiscal year entities/capitalized interest
- § 6:81 —Fees and rents
- § 6:82 —Election out
- § 6:83 Original issue discount and imputed interest
- § 6:84 Effective dates
- § 6:85 Management fees

d. Personal Services of Partners

- § 6:86 Generally

e. Regulatory Authority: Other Items Deemed Nonpassive

- § 6:87 Generally
- § 6:88 Master limited partnerships
- § 6:89 Service partnerships—Significant participation activities
- § 6:90 Trade or business

E. APPLICATION OF LIMITATIONS AND EXEMPTIONS

1. Overview

- § 6:91 Generally

2. \$25,000 Exemption for Rental Real Estate Activities

a. Overview; Adjusted Gross Income Phase-Out

- § 6:92 Overview
- § 6:93 Adjusted gross income (AGI) phase-out

b. Active Participation Requirement

- § 6:94 Generally

TABLE OF CONTENTS

- § 6:95 Limited partners
- § 6:96 10% requirement
- § 6:97 Separate returns
- § 6:98 Estates and trusts
- § 6:99 No participation requirement for certain credits
- § 6:100 Change in involvement

c. NOL Treatment

- § 6:101 Generally

d. Computation

- § 6:102 Generally
- § 6:103 Deduction equivalence
- § 6:104 Net rental realty income (loss)
- § 6:105 Combine other passive activities
- § 6:106 Proration
- § 6:107 Ordering rule for credits

3. Delayed Applicability to Low-Income Housing

- § 6:108 Generally
- § 6:109 Certification requirement
- § 6:110 Relief period
- § 6:111 Estates
- § 6:112 Disallowance of credit
- § 6:113 Mixed use projects
- § 6:114 Multiple buildings

4. Phase-In Percentages for “Pre-Enactment Interests”

- § 6:115 Generally
- § 6:116 Applicable percentage
- § 6:117 Nonexempt portion excluded
- § 6:118 Alternative minimum tax
- § 6:119 Investment income
- § 6:120 Preenactment interests
- § 6:121 Preenactment loss-post-enactment income
- § 6:122 Coordination with \$25,000 exemption

IV. STRUCTURING CONSIDERATIONS

- § 6:123 Passive income activities
- § 6:124 Hybrid offerings
- § 6:125 Corporations as investors
- § 6:126 Operating businesses

V. POST-1986 PASSIVE LOSS DEVELOPMENTS

A. IN GENERAL

- § 6:127 Generally
- § 6:128 Material participation/blue book
- § 6:129 Interest allocation Regulations issued

B. IRS REGULATORY ACTION

- § 6:130 Generally

- § 6:131 Master limited partnerships (MLPs)
- § 6:132 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 Generally
- § 6:136 Cumulative return
- § 6:137 Guarantees
- § 6:138 —Guarantee of gross receipts versus guarantee of profit
- § 6:139 —Guaranteed distribution versus guaranteed profit

F. ABA PASSIVE LOSS COMMENTS

- § 6:140 Generally
- § 6:141 Liquidations
- § 6:142 PALs as corporate attributes
- § 6:143 C corporation electing S corporation status
- § 6:144 Consolidated returns
- § 6:145 Personal service corporations
- § 6:146 Working capital reserves

G. PROPOSED LEGISLATION ALLOWING DEDUCTIBILITY OF CASH LOSSES

- § 6:147 Generally

VI. PASSIVE LOSS REGULATIONS ISSUED

A. SCOPE OF PASSIVE LOSS REGULATIONS

- § 6:148 Effect of 1988 Regulations
- § 6:149 Review of passive loss limitations

B. DEFINITIONS

1. Rental Activity Defined

- § 6:150 Tangible property requirement
- § 6:151 Exceptions to rental activity status
- § 6:152 —Seven-day rule
- § 6:153 —Thirty day/significant services rule
- § 6:154 —Extraordinary services rule
- § 6:155 —Incidental rentals
- § 6:156 —Non-exclusive use
- § 6:157 —Contributed use property

2. Trade or Business Defined

- § 6:158 Generally

TABLE OF CONTENTS

3. Material Participation Defined

a. Overview

§ 6:159 Generally

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

§ 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 Generally
- § 6:189 Significant participation activities
- § 6:190 Rental of self-developed property
- § 6:191 Self-rented property
- § 6:192 Non-depreciable property rents
- § 6:193 Lending business/equity-financed lending rule

6. Preferred and Guaranteed Returns

- § 6:194 Generally

7. Special Disposition Rules

- § 6:195 Generally
- § 6:196 Sale of passive activity—General rule
- § 6:197 —Multiple activities—Allocation required
- § 6:198 — —Twelve-month rule
- § 6:199 —Substantially appreciated interest in property
- § 6:200 Pre-1987 installment sales

8. Partners and S Corporation Shareholders

- § 6:201 Sale of interest
- § 6:202 —Deemed sale rule
- § 6:203 —10-percent test
- § 6:204 —Transition rule
- § 6:205 —Tiered entities
- § 6:206 Retirement payments and earned income
- § 6:207 Fiscal year entities
- § 6:208 Limited partner material participation rules

D. OIL AND GAS ISSUES

- § 6:209 General rule—Working interests
- § 6:210 Rules of application—Well-by-well determination
- § 6:211 —Limited liability
- § 6:212 — —Effect of indemnity
- § 6:213 — —Interest as both general and limited partner
- § 6:214 — —Change of limited liability status
- § 6:215 — —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

TABLE OF CONTENTS

- § 6:219 Review of passive activity loss limitations
- § 6:220 The activity Regulations—An overview
- § 6:221 Business and rental operations

B. UNDERTAKING RULES

- § 6:222 Generally
- § 6:223 Location
- § 6:224 Ownership by the same person
- § 6:225 Income producing operations versus support operations

C. AGGREGATION AND INTEGRATION

1. Overview

- § 6:226 Generally

2. Aggregation

- § 6:227 Generally
- § 6:228 Control by the same interests
- § 6:229 Similar undertakings
- § 6:230 —Lines of business
- § 6:231 —Vertical integration

3. Integration

- § 6:232 Generally
- § 6:233 Operation of trade or business activities
- § 6:234 Common control

4. Aggregation of Professional Service Undertakings

- § 6:235 Generally
- § 6:236 Common control
- § 6:237 Significant similar or related services

D. RENTAL UNDERTAKINGS

- § 6:238 Generally

E. ELECTIONS

- § 6:239 Generally
- § 6:240 Election to treat nonrental undertakings as separate activities
- § 6:241 Rental real estate

F. OIL AND GAS OPERATIONS

- § 6:242 Generally

G. SPECIAL RULES

- § 6:243 Consolidated groups
- § 6:244 Publicly traded partnerships

H. 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

TABLE OF CONTENTS

§ 7:6	Partnerships
§ 7:7	Foreign real property
§ 7:8	Antichurning rules
§ 7:9	Sale-leaseback and certain other transfers
	3. Depreciation Recapture
§ 7:10	Introduction
§ 7:11	1981 Act and 1984 Act changes
§ 7:12	—Residential real property
§ 7:13	—Nonresidential real property
§ 7:14	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	In general
§ 7:18	Three-year class
§ 7:19	Five-year class
§ 7:20	Seven-year class
§ 7:21	Ten-year class
§ 7:22	Fifteen-year class
§ 7:23	Twenty-year class
§ 7:24	Twenty-seven and one-half-year class
§ 7:25	Thirty-one and one-half-year class
§ 7:26	Adjustment of class lives
	3. Prescribed Depreciation Methods
§ 7:27	Generally
	4. Averaging Conventions and Short Taxable Year Rules
	a. Conventions Generally
§ 7:28	Generally
	b. Short Taxable Years
§ 7:29	Generally
§ 7:30	Placed-in-service and disposition conventions
§ 7:31	Recovery year vs. taxable year
§ 7:32	Half-year convention; short year rule
§ 7:33	Mid-quarter convention; short year rule
§ 7:34	Depreciation allowance
§ 7:35	—Allocation method
§ 7:36	—Simplified method
§ 7:37	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
- § 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 Election
- § 7:100 Tenant qualification
- § 7:101 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 Special set-aside for qualified nonprofit organizations
 - § 7:106 Credits subject to the credit authority limitation
 - § 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 Qualified low-income housing projects; gross rent limitation
- § 7:118 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

TABLE OF CONTENTS

§ 7:126 Infrastructure Act—Low-income communities

X. INFLATION REDUCTION ACT

§ 7:127 Generally

§ 7:128 Inflation Reduction Act—Low-income communities

§ 7:129 —Energy-efficient purchases

§ 7:130 —Clean Electricity Investment Credit

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

TABLE OF CONTENTS

- § 8:51 —Single loan arrangement versus multiple debts
- § 8:52 —Transition rule for pre-1987 borrowings
- § 8:53 —Monthly convenience rule
- § 8:54 Cash borrowings
- § 8:55 Mortgage assumptions; Direct payment disbursements

(3) Other Allocation Rules

- § 8:56 Allocation rules for accrued interest
- § 8:57 Allocation of borrowings used to pay debt service or borrowing costs
- § 8:58 Allocation of refinancing
- § 8:59 Allocation rules for passthrough entities
- § 8:60 Effect of capitalization provisions

c. Reallocation Rules

- § 8:61 Generally
- § 8:62 Asset sales
- § 8:63 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 1986 Act capitalization rules
- § 8:68 Prior law
- § 8:69 —Operation of Section 189
- § 8:70 —Section 189 in partnership context

III. DISALLOWANCE OF INTEREST DEDUCTION WITH RESPECT 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

TABLE OF CONTENTS

§ 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 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 Introduction
- § 10:10 Organization expenses
- § 10:11 Syndication expenses—General treatment
- § 10:12 —Basis and capital accounts

**D. DEDUCTIBLE EXPENSES FOR ASSETS NOT ACQUIRED;
OTHER MISCELLANEOUS CAPITALIZED OR AMORTIZED
DEDUCTIONS**

- § 10:13 Deductible expenses for assets not acquired
- § 10:14 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 Summary
- § 10:17 Production of real property
- § 10:18 Avoided cost method
- § 10:19 Ordering rules and contingent interest
- § 10:20 Treatment of common features
- § 10:21 Accumulated production expenditures
- § 10:22 Production period
- § 10:23 Property produced under a contract
- § 10:24 Repairs
- § 10:25 Property held for resale—(OREO) property

3. Notice 88-99**a. Summary**

- § 10:26 Generally
- § 10:27 Tracing and avoided cost rules
- § 10:28 Timing of payment of interest
- § 10:29 Related party rules
- § 10:30 Flow-through entity rules

b. Tracing and Avoided Cost Rules

- § 10:31 Traced debt
- § 10:32 Avoided cost debt
- § 10:33 Election to avoid tracing requirement

c. Mechanics of Interest Capitalization

- § 10:34 Effect of capitalizing an interest expense
- § 10:35 Extent of capitalization
- § 10:36 Consistency required

d. Determination of When Interest Is Paid or Incurred

- § 10:37 Generally

TABLE OF CONTENTS

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 capitalization
- § 10:41 —Deferred 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 partners 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 Final Regulations
- § 10:49 1995 Final 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 EXPENSES

- § 10:56 Investment advisory fees
- § 10:57 Restrictive covenant not to compete
- § 10:58 Leasing fees
- § 10:59 Development of new rental and marketing structure
- § 10:60 Rent-up fee
- § 10:61 Land leases and land rent
- § 10:62 Home office expense
- § 10:63 Conservation expenditures
- § 10:64 Charitable donation of appreciated property
- § 10:65 Service providers
- § 10:66 Removal costs

G. FINANCING DEDUCTIONS, COMMITMENT FEES, AND GUARANTEE FEES

1. Introduction

- § 10:67 Generally

2. Loan Commitment-Standby Fees and Guarantee Fees

- § 10:68 Overview
- § 10:69 Guarantee fees

- § 10:70 Construction loan guarantee fee
- § 10:71 Permanent loan guarantee fee
- § 10:72 Fee for guarantee against negative cash flow
- § 10:73 Commitment or standby fees
- § 10:74 Various FHA fees

H. TAXES

- § 10:75 Real property taxes
- § 10:76 Local payroll and sales taxes

I. ENVIRONMENTAL REMEDIATION AND CASUALTY LOSS DEDUCTIONS

- § 10:77 Environmental remediation
- § 10:78 Casualty losses; natural disasters

J. RESIDENTIAL CARE FACILITIES

- § 10:79 Continuing care retirement homes
- § 10:80 Foster care
- § 10:81 Residential rental projects—Exempt bond interest

K. SECTION 179 EXPENSE ELECTION

- § 10:82 Generally

III. ACTIVITIES 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 Taxpayer or advisor expertise
- § 10:88 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

TABLE OF CONTENTS

C. SHAM TRANSACTIONS

§ 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 Back-up Section 444 election
- § 11:18 TAMRA changes
- 2. Special Transitional Rules for S Corporations
- § 11:19 Generally
- 3. Tiered Structures Ineligible for Section 444 Election
- § 11:20 Generally
- § 11:21 Same taxable year exception
- § 11:22 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 Form 8752 required
- § 11:33 Amended returns
- § 11:34 S corporation elections
- § 11:35 Estimated taxes

IV. CANCELLATION OF DEBT (COD) INCOME

- § 11:36 Generally
- § 11:37 Reacquired debt instruments
- § 11:38 Debt modification
- § 11:39 “HAMP” (Home Affordable Modification program)
- § 11:40 Debt substitutions
- § 11:41 —Mortgage forgiveness
- § 11:42 Reorganizations

V. PERCENTAGE OF COMPLETION ACCOUNTING FOR LONG-TERM CONSTRUCTION CONTRACTS

- § 11:43 Overview
- § 11:44 Prior law
- § 11:45 Current law
- § 11:46 Exemptions; Residential construction/I.R.C. § 460(e)
- § 11:47 Advance payment for construction services
- § 11:48 Mid-contract change in taxpayer

TABLE OF CONTENTS

- § 11:49 Retainages payable
- § 11:50 Partnerships

VI. DEFERRED PAYMENTS FOR USE OF PROPERTY OR SERVICES—TENANT LEASE INCENTIVES IN THE 1990'S

A. IN GENERAL

- § 11:51 Overview
- § 11:52 Introduction

B. 1984 ACT CHANGES

- § 11:53 Section 467 rental agreement
- § 11:54 Special sale-leaseback and long-term lease provisions
- § 11:55 Tax avoidance
- § 11:56 Special recapture provisions
- § 11:57 Section 467 flow chart

C. BUSINESS AND TAX CONSIDERATIONS IN LEASE INDUCEMENTS

1. Overview

- § 11:58 Generally

2. Determining Economic Value of Lease Incentives

- § 11:59 Primary consideration/present cash value
- § 11:60 Tax and financial accounting objectives
- § 11:61 —Tax structure and income recognition
- § 11:62 —Deductions and loss recognition
- § 11:63 —Factoring in cost of brain damage

3. Types of Lease Incentives and Concessions

- § 11:64 Rent payment alternatives—Nonuniform payment plans for rents
- § 11:65 Decreasing tenant's economic risk—Nonrecourse leases
- § 11:66 Cash/work letter incentives
- § 11:67 Tenant equity participations

4. Tax and Financial Accounting Rules

a. Overview

- § 11:68 Generally

b. Tax Treatment—General Rules

(1) Landlord's Up-Front Expenditures

- § 11:69 General rule—Amortization over lease term
- § 11:70 Exception—Depreciable property recovery periods
- § 11:71 —Landlord sublet of prior tenant space
- § 11:72 Rent holidays

(2) Lessee Expenditures

- § 11:73 General rule—Tenant lease acquisition costs amortized over lease term
- § 11:74 Exception—Depreciable property recovery periods

- § 11:75 Tenant recognition of income from landlord's sublet of prior tenant space
 - (3) Section 467—Affirmative Use of Stepped Rents
- § 11:76 Generally
 - (4) Tenant Equity Participations
- § 11:77 Current income recognition by tenant
- § 11:78 Loss of rental deduction
- § 11:79 Landlord treatment
- § 11:80 Tenant-passive loss recharacterization rules
- § 11:81 Tenant's tax benefits from owning partnership
- § 11:82 Brain damage alert
 - (5) Other Tax Considerations
- § 11:83 Generally
 - c. Accounting Treatment
- § 11:84 Generally
 - 5. Conclusion and Exhibit
- § 11:85 Conclusion
- § 11:86 Exhibit—Practitioners' quick reference checklist

VII. TAXATION OF ESCROW ACCOUNTS

- § 11:87 Pre-1986 Act
- § 11:88 1986 Act and TAMRA

CHAPTER 12. ALTERNATIVE MINIMUM TAX

I. NONCORPORATE TAXPAYERS

A. LAW PRIOR TO 1987

- § 12:1 Prior law
- § 12:2 Post-1982 and pre-1987 AMT

B. POST-1986 AMT

1. Introduction; Basic Structure

- § 12:3 Introduction
- § 12:4 Basic structure
- § 12:5 Small corporations exception

2. Adjustments and Preferences

a. In General

- § 12:6 Generally

b. Description

- § 12:7 Depreciation
- § 12:8 Passive activity losses (PALs)
- § 12:9 Farm activity losses
- § 12:10 Tax-exempt interest

TABLE OF CONTENTS

- § 12:11 Charitable contributions of appreciated property
- § 12:12 Mining, exploration, and development costs
- § 12:13 Long-term contracts
- § 12:14 Alternative minimum tax net operating loss (NOL)
- § 12:15 Pollution control facilities
- § 12:16 Installment sales
- § 12:17 Itemized deductions
- § 12:18 Percentage depletion
- § 12:19 Intangible drilling costs (IDCs)
- § 12:20 Circulation and research and experimental expenditures
- § 12:21 Incentive stock options (ISOs)
- § 12:22 Prior law preferences eliminated
- § 12:23 Tax credits
- § 12:24 Gain on small business stock

3. Alternative Minimum Tax Credit

- § 12:25 Generally
- § 12:26 “Base Erosion and Anti-Abuse” Tax

4. Impact of Post-1986 AMT

- § 12:27 Generally

II. CORPORATE TAXPAYERS

A. PRIOR LAW

- § 12:28 Generally

B. 1986 ACT

1. In General; Basic Structure

- § 12:29 In general
- § 12:30 Basic structure

2. Adjustments and Preferences

a. In General

- § 12:31 Overview

b. Applicable Only to Corporations

- § 12:32 Adjustments for differences between book and tax
- § 12:33 Prior law—Taxable years beginning in 1987, 1988, and 1989
- § 12:34 Current law—Taxable years beginning after 1989
- § 12:35 Merchant marine capital construction funds
- § 12:36 Bad debts
- § 12:37 Home construction contracts

3. Miscellaneous Rules

- § 12:38 Minimum tax credit
- § 12:39 Exemption amount
- § 12:40 Tax credits—Investment tax credit (ITC)
- § 12:41 —Foreign tax credits
- § 12:42 Section 291 adjustments

4. Estimated Taxes

§ 12:43 Generally

III. EXHIBITS

§ 12:44 Exhibit I: Steps for determining whether individual taxpayer is subject to 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. Absence of Qualified Allocations

(1) 1986 Act

§ 13:14 Generally

(2) 1987 Act

§ 13:15 Generally

TABLE OF CONTENTS

§ 13:16	Disproportionate allocation rules (the “fractions rule”)
§ 13:17	Contingent loss allocation problem
§ 13:18	Chargebacks
§ 13:19	Preferred returns and guaranteed payment problem
	(3) TAMRA Changes
§ 13:20	Generally
	(4) Fractions Rule Relief: Notice 90-41 and 1992 Proposed Fractions Rule Regulations
§ 13:21	Generally
§ 13:22	Preferred returns and guaranteed payments
§ 13:23	Disregarding required special allocations of deduction or loss
§ 13:24	Provisions preventing deficit capital account balances
§ 13:25	Chargebacks and offsets
§ 13:26	Special rules
§ 13:27	Tiered partnerships
§ 13:28	Effective dates
	c. 1986 Act Technical Corrections
§ 13:29	Generally
	4. Exculpating Tax-Exempt Partners
§ 13:30	Generally

III. POOLED INVESTMENT VEHICLES

§ 13:31	Generally
§ 13:32	Partnerships
§ 13:33	—Tax exempt bond partnerships
§ 13:34	Exempt bonds: Mortgage revenue bonds
§ 13:35	Exempt bonds: Private activity bonds
§ 13:36	Real estate investment trusts (REITs)
§ 13:37	Common trust funds
§ 13:38	Insurance company separate accounts
§ 13:39	Investment through group trust
§ 13:40	State or municipal plans
§ 13:41	Section 501(c)(2) title holding corporations
§ 13:42	Section 501(c)(25) title holding companies—Section 514(c)(9) exemption broadened
§ 13:43	—Section 501(c)(25) requirements
§ 13:44	—Section 501(c)(25) requirements—Eligible shareholders or beneficiaries
§ 13:45	— —Dismissal of investment advisor
§ 13:46	— —Alienability
§ 13:47	— —TAMRA amendments 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
- § 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 rights

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

TABLE OF CONTENTS

§ 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 Constructive receipt of money or other property

§ 14:31 —Security or guarantee arrangements

§ 14:32 —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 —Determination of exchange groups and residual group

§ 14:42 —Treatment of liabilities

§ 14:43 —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

§ 14:52 Definitions

§ 14:53 Basis

K. SALE OF PRINCIPAL RESIDENCE

§ 14:54 Generally

§ 14:55 Use Requirements

§ 14:56 Frequency of Sale

§ 14:57 —Early (“forced”) resale

§ 14:58 Employer-facilitated relocation sales

§ 14:59 Computation of gain upon a seller’s reacquisition of realty

§ 14:60 Reporting rules

II. SALE-LEASEBACK TRANSACTIONS

§ 14:61 Generally

§ 14:62 Basic structure

§ 14:63 Lease-in/lease-out (LILO) transactions

§ 14:64 Sale-in/lease-out (SILO) arrangements

§ 14:65 Tax considerations: Sale-leaseback versus secured loan

§ 14:66 Business considerations

§ 14:67 —Seller-lessee considerations

§ 14:68 —Purchaser-lessor considerations

III. CRITERIA FOR CHARACTERIZATION AS A FINANCING OR SALE-LEASEBACK

§ 14:69 Generally

TABLE OF CONTENTS

- § 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
- § 14:75 Options to purchase property

IV. INCOME RESERVATION

- § 14:76 Overview
- § 14:77 *Ellison*
- § 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
- § 15:5 Tax-exempt financing in which tax-exempt entity participates
- § 15:6 Purchase or sale options at a fixed or determinable price
- § 15:7 Lease term exceeding twenty years
- § 15:8 —Lease term
- § 15:9 —Like kind exchanges
- § 15:10 Use after transfer

IV. SPECIAL RULES AND EXCEPTIONS

- § 15:11 Improvements
- § 15:12 Miscellaneous rules
- § 15:13 Depreciation
- § 15:14 Tax credits
- § 15:15 Service contracts versus leases

V. TREATMENT OF PARTNERSHIPS AND OTHER PASS-THROUGH ENTITIES

A. PARTNERSHIPS WITH TAX-EXEMPT PARTNERS

1. In General

- § 15:16 Generally
- § 15:17 Qualified allocations
- § 15:18 Proportionate share defined

2. Definition of Tax-Exempt Entity

- § 15:19 General definition
- § 15:20 Tax-exempt controlled entities—Definition
- § 15:21 —Publicly traded stock exception
- § 15:22 —Effective dates
- § 15:23 —Election out

3. Substantial Economic Effect Requirement

- § 15:24 Generally
- § 15:25 Qualified income offset
- § 15:26 Capital account restatement

4. No 35 Percent Threshold

- § 15:27 Generally

B. OPEN ISSUES UNDER PROPOSED 168 REGULATIONS

1. Overview

- § 15:28 Generally

2. Computation Issues

- § 15:29 Catch-up reduction
- § 15:30 Decrease in tax-exempt use property
- § 15:31 Frequency of recomputing

3. Adopting Qualified Allocations

- § 15:32 Generally

4. Economic Arrangements That Currently Preclude Qualified Allocations

a. Overview

- § 15:33 Generally

b. Shifts in Tax Items Per Economics

- § 15:34 Flip percentages
- § 15:35 Cumulative return and guaranteed payments

c. Gain Chargebacks

- § 15:36 Generally
- § 15:37 Cumulative Return
- § 15:38 Prior depreciation
- § 15:39 Required special allocations

TABLE OF CONTENTS

- § 15:40 Deductions allocated to contributing partners
 - d. Other Allocations Involving Transfers of Interests
- § 15:41 Section 754
- § 15:42 Section 708

C. ALTERNATIVES TO QUALIFIED ALLOCATIONS

- § 15:43 Generally

VI. EFFECTIVE DATES

- § 15:44 Generally
- § 15:45 Leases, subleases, and renewals
- § 15:46 Binding contracts
- § 15:47 Leased property
- § 15:48 Partnerships
- § 15:49 Special rules relating to foreign persons or entities

APPENDIX 15A. Forty-Year Straight-Line Method (Assuming Mid-Month Convention)

CHAPTER 16. FOREIGN INVESTMENT IN U.S. REAL ESTATE: WITHHOLDING OBLIGATIONS

I. TAXATION OF OPERATING INCOME FROM U.S. REAL ESTATE

A. IN GENERAL

- § 16:1 Overview
- § 16:2 Not engaged in U.S. trade or business
- § 16:3 Engaged in U.S. trade or business

B. OPERATING INCOME OF PARTNERSHIPS

1. Taxation of Partnership Income

- § 16:4 Generally

2. Withholding on Effectively Connected Income Allocable to Foreign Partners

- § 16:5 Generally
- § 16:6 Determination of whether a partner is a foreign person
- § 16:7 Determination of amount of effectively connected income allocable to foreign partners
- § 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

II. TAXATION OF GAINS FROM DISPOSITION OF U.S. REAL ESTATE: WITHHOLDING OBLIGATIONS

A. IMPOSITION OF TAX ON DISPOSITIONS

§ 16:17 Generally

B. 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. BRANCH 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

§ 17:2 Generally

§ 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

TABLE OF CONTENTS

- § 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 accuracy-related 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 Section 6700: Promoting abusive tax shelters
- § 17:32 Section 7408: Injunctions against promoters of abusive tax shelters
- § 17:33 Attorney practice rules—Circular 230
- § 17:34 Exempt bond opinions
- § 17:35 Client identity
- § 17:36 Specified penalties

B. REVENUE PROCEDURE 83-78 AND IRS AUDIT CONSIDERATIONS

- § 17:37 Procedures for identifying abusive shelters

- § 17:38 Prefiling notification of investors
- § 17:39 IRS real estate examination tax shelters handbook and the appeals manual—Examination handbook
- § 17:40 —Appeals manual
- § 17:41 Settlement initiative
- § 17:42 Amended returns
- § 17:43 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 Generally
- § 17:47 Registration rules
- § 17:48 List maintenance rules
- § 17:49 —Providing lists to the IRS

c. Problem Issues Require Additional Clarification and Exemptive Relief

(1) Overview; Exemption 1

- § 17:50 Generally
- § 17:51 Exemption 1: Limited partner tax shelter ratio not exceeding 2 to 1

(2) Exemption 2: Certain Publicly Held Limited Partnerships

- § 17:52 Generally
- § 17:53 Definition of projected income investment
- § 17:54 Investment base
- § 17:55 Depreciation method

(3) Other Issues Pertaining to the Amendment

- § 17:56 Technical correction
- § 17:57 No continuing participation of tax shelter organizers
- § 17:58 Deregistration

d. Tiered Partnership Arrangements

- § 17:59 Generally

e. Blue Sky Registration Requirements

(1) California

- § 17:60 Registration required
- § 17:61 Registration number

TABLE OF CONTENTS

- § 17:62 Investor reporting
- § 17:63 Penalties and reasonable cause

(2) Other States

- § 17:64 Generally

2. Promoter Lists of Tax Shelter Investors

- § 17:65 Overview
- § 17:66 List Maintenance/Section 6112
- § 17:67 Exemptions added by amendment
- § 17:68 Clarification appropriate

E. REPORTING AND ACCOUNTING 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 Identifying particular tax shelters—Contested liability trusts
- § 17:73 —Conservation easement “Deals”
- § 17:74 —Debt assumption to increase basis
- § 17:75 —Distressed asset/debt transactions
- § 17:76 —ESOPs holding S corporation stock
- § 17:77 —Executive stock options
- § 17:78 —Foreign currency straddles
- § 17:79 —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”

B. 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 Interest paid by the government
- § 17:88 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 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
- § 17:122 Specific requirements

D. RETURNS RELATING TO FORECLOSURES OR ABANDONMENTS OF SECURITY

- § 17:123 Generally

E. NOMINEE REPORTING

- § 17:124 1986 Act requirements

TABLE OF CONTENTS

- § 17:125 Regulations issued
- § 17:126 —Information to be furnished by partnership
- § 17:127 —Information to be furnished by nominees
- § 17:128 ——Timing and required statements from nominee to beneficial owner
- § 17:129 ——Clearing agency exception
- § 17:130 ——REMICs

F. INFORMATION REPORTING BY PARTNERSHIPS WITH TAX-EXEMPT PARTNERS

- § 17:131 Generally

G. REPORTING CANCELLATION OF DEBT

- § 17:132 Generally
- § 17:133 Substituted debt

H. COMPROMISES AND INSTALLMENT AGREEMENTS

- § 17:134 Compromise offers
- § 17:135 Equitable considerations
- § 17:136 Applying NOLs to “settled” taxes
- § 17:137 Closing agreements

I. RETURN OF LEVIED PROPERTY

- § 17:138 Generally

J. REQUIRED INTERCOMPANY SHARING OF TAX INFORMATION

- § 17:139 Business trusts
- § 17:140 —Widely Held Fixed Investment Trusts (WHFITs)
- § 17:141 —Widely Held Mortgage Trusts (WHMTs)

VIII. REPORTING ON REAL ESTATE TRANSACTIONS

A. BACKGROUND

- § 17:142 Generally

B. THE FINAL REGULATIONS

- § 17:143 Reportable real estate transactions
- § 17:144 Payments to attorneys
- § 17:145 Exceptions to the reporting requirement
- § 17:146 The “reporting person”
- § 17:147 “Gross proceeds”
- § 17:148 —Contingent payment transactions
- § 17:149 —Multiple transferors

C. FORM 1099; APPLICABLE PENALTIES

- § 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
- § 17:155 Definition of “applicable asset acquisition”
- § 17:156 Definition of “active trade or business”
- § 17:157 Goodwill or going concern value
- § 17:158 Allocation of purchase price
- § 17:159 Covenants not to compete
- § 17:160 Reporting requirements
- § 17:161 Specific issues involving real estate
- § 17:162 Transfers of interests in entities

X. SECTION 6694: IMPOSITION OF UNDERSTATEMENT PENALTY ON INCOME TAX RETURN PREPARER

A. BACKGROUND; EFFECT OF IMPACT

- § 17:163 Background
- § 17:164 Principal changes made by IMPACT

B. THE FINAL REGULATIONS

1. Overview; Definitions

- § 17:165 Overview
- § 17:166 Definition of “income tax return preparer”
- § 17:167 Definition of “understatement of liability”
- § 17:168 Verification of information furnished by the taxpayer

2. The Penalty for Understatement Due to an “Unrealistic Position”

- § 17:169 Generally
- § 17:170 Exception for adequate disclosure of nonfrivolous positions
- § 17:171 —Rules for signing preparers
- § 17:172 —Rules for nonsigning preparers
- § 17:173 —Additional disclosure excused
- § 17:174 —Due diligence requirement
- § 17:175 —Identification number
- § 17:176 —Signature rules
- § 17:177 Exception for reasonable cause and good faith
- § 17:178 Burden of proof

3. The Penalty for Understatements Due to Willful, Reckless or Intentional Conduct

- § 17:179 Generally
- § 17:180 Willful attempt to understate liability
- § 17:181 Reckless or intentional disregard
- § 17:182 —Exceptions to the reckless or intentional disregard rule
- § 17:183 —Adequate disclosure
- § 17:184 Section 6694(b) penalty reduced by Section 6694(a) penalty
- § 17:185 Burden of proof

4. Extension of Period of Collection of Penalty

- § 17:186 Generally

C. APPLICATION OF PENALTY; TAX LIENS

- § 17:187 Fast-pay stock
- § 17:188 Business purpose and economic substance
- § 17:189 Tax liens
- § 17:190 Levy

CHAPTER 18. ETHICAL STANDARDS AND RESPONSIBILITIES FACING PRACTITIONERS IN ISSUING TAX SHELTER OPINIONS

I. INTRODUCTION

- § 18:1 Generally

II. TREASURY DEPARTMENT RULES OF PRACTICE AND ABA STANDARDS OF PRACTICE

A. OVERVIEW

- § 18:2 Generally

B. ORIGINAL CIRCULAR 230 AMENDMENTS

- § 18:3 Generally
- § 18:4 —Changes made by 2002 and 2006 Regulations

C. ABA OPINION 346

- § 18:5 Original ABA Opinion 346
- § 18:6 Revised ABA Opinion 346
- § 18:7 —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

TABLE OF CONTENTS

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 Treatment of foreign residual holders

§ 19:26 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. ORIGINAL ISSUE DISCOUNT (OID) RULES

§ 19:30 Generally

IV. TAXABLE MORTGAGE POOLS

§ 19:31 In general

§ 19:32 Special rules for REITs

V. COMPLIANCE PROVISIONS; EFFECTIVE DATES

§ 19:33 Compliance provisions

§ 19:34 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

A. OVERVIEW

1. In 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

§ 20:27 — —10% limitation

§ 20:28 —Qualified open-end redemptions

§ 20:29 — —Redemption delay

§ 20:30 — —Valuation delay

§ 20:31 — —10% limitation

§ 20:32 Reference chart

§ 20:33 Effective date for modifying existing transactions

TABLE OF CONTENTS

- § 20:34 Interplay of 5% and 2% computations
- § 20:35 —10% limitation
- § 20:36 —Effect of distribution reinvestment plans
- § 20:37 Determining interest in capital or profits for 5% and 2% safe harbors

c. 1995 Proposed Regulations

(1) In General; Effect on Notice 88-75

- § 20:38 Generally
- § 20:39 Effect of 1995 Proposed Regulations— Notice 88-75 rules

(2) 1995 Proposed Regulations—Analysis

- § 20:40 Generally
- § 20:41 Partnership interests; Transfer definitions
- § 20:42 Established securities market definition
- § 20:43 The “secondary market” and “secondary market equivalence” tests
- § 20:44 Exemption for “private transfers”
- § 20:45 Exemption for qualified redemptions
- § 20:46 Exemption for qualified matching service transfers
- § 20:47 Limitations on exemptions for private placements and lack of actual trading
- § 20:48 Other provisions
- § 20:49 Conclusion

d. 1995 Final Regulations

- § 20:50 In general
- § 20:51 1995 Final Regulations—Analysis

3. Public Programs

- § 20:52 Recommendations for public programs
- § 20:53 Impact on ERISA exemption for public programs

C. 90% PASSIVE-TYPE INCOME TEST

- § 20:54 Generally
- § 20:55 Interest exceptions
- § 20:56 Rent exceptions
- § 20:57 Cancellation of debt (COD) income
- § 20:58 Years in which test must be satisfied
- § 20:59 Inadvertent terminations

D. EFFECTIVE DATES FOR PUBLICLY TRADED PARTNERSHIPS

- § 20:60 Generally
- § 20:61 UBI
- § 20:62 Taxation as corporation
- § 20:63 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
- § 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 Discharge of indebtedness income

TABLE OF CONTENTS

§ 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	Adjudication of disputes
§ 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	Reduction of tax attributes
§ 21:8	Election to reduce basis in depreciable property first

3. Insolvency Exception

§ 21:9	Generally
§ 21:10	Definition of “insolvent”—In general
§ 21:11	—Contingent liabilities
§ 21:12	—Nonrecourse debt in excess of the fair market value of property securing such debt

- § 21:13 Insolvency of a partner
 - 4. Section 108(d)(6)—Applying the Bankruptcy and Insolvency Exceptions
- § 21:14 Generally
- § 21:15 Application at the partnership level
- § 21:16 Application at the partner level
- § 21:17 Scope of Section 108(d)(6)
 - 5. Purchase Money Debt Reduction Exception
- § 21:18 Judicial exception
- § 21:19 Section 108(e)(5)—Statutory exception
- § 21:20 Continued existence of judicial exception
- § 21:21 Application at partnership or partner level?
- § 21:22 —Partnership level
- § 21:23 —Partner level
- 6. Lost Deduction Exception
- § 21:24 In general
- § 21:25 Application at partnership or partner level?
- 7. Capital Contribution Exception
- § 21:26 General rule for corporations
- § 21:27 Application to partnerships?
- § 21:28 —Application at partnership or partner level?
- § 21:29 —Section 752 concerns
- 8. Guarantees and COD Income
- § 21:30 Generally

III. ALLOCATION OF INCOME AND LOSS UNDER SECTION 704(B) AND ALLOCATIONS OF PARTNERSHIP LIABILITIES UNDER SECTION 752

A. SECTION 704—ALLOCATION OF INCOME AND LOSS

- § 21:31 Generally
- § 21:32 Allocations attributable to nonrecourse liabilities
- § 21:33 Minimum gain and minimum gain chargeback
- § 21:34 Mandatory allocations—Partner loans or guarantees
- § 21:35 —Section 704(c) and contributions of property
- § 21:36 Capital account restatement
- § 21:37 Effect on basis

B. SECTION 752—ALLOCATION OF PARTNERSHIP DEBT

- § 21:38 Increases and decreases in shares of liabilities
- § 21:39 Partner's share of nonrecourse liabilities
- § 21:40 Partner's share of recourse liabilities
- § 21:41 Effect of reduction in share of liabilities on basis

C. EFFECT OF SECTIONS 704 AND 752 ON ALLOCATION OF COD INCOME

- § 21:42 In general

TABLE OF CONTENTS

§ 21:43	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	Generally
§ 21:46	Example
§ 21:47	Minimum gain chargeback
§ 21:48	Using book-up of assets to avoid minimum gain chargeback
§ 21:49	Interaction between Section 752(b) deemed distribution rules and minimum gain chargeback
§ 21:50	—Result if minimum gain chargeback occurs first
§ 21:51	—Result if the deemed distribution occurs first
§ 21:52	—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. DEBT MODIFICATIONS AND DEBT-FOR-DEBT EXCHANGES	
A. TAX CONSEQUENCES OF A TYPICAL RESTRUCTURING	
§ 21:55	Generally
B. 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	
1. Overview	
§ 21:64	Generally
2. 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

TABLE OF CONTENTS

§ 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 —Partner nonrecourse debt

§ 21:124 —Minimum gain chargeback

VI. ACQUISITION OF DEBT FROM LENDER

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 Generally
- § 21:128 Exceptions to related party debt rules
- § 21:129 —Short-term debt exception
- § 21:130 —Securities dealer exception
- § 21:131 Direct vs. indirect acquisitions
- § 21:132 Anticipatory relationships
- § 21:133 Deemed new issuance
- § 21:134 Effective date
- § 21:135 Substance over form

C. TAX CONSEQUENCES OF SUBSEQUENT DEBT RESTRUCTURING

- § 21:136 Impact on investor group
- § 21:137 Impact on partnership

VII. ACCRUAL OF DOUBTFUL INTEREST DEDUCTIONS

- § 21:138 Background
- § 21:139 In general
- § 21:140 Application to OID rules
- § 21:141 Application to the market discount rules

VIII. SECTION 465: AT RISK RULES

- § 21:142 Generally
- § 21:143 Determination of amount at risk
- § 21:144 Amounts excluded from at risk
- § 21:145 Treatment of disallowed loss
- § 21:146 Recapture of prior losses
- § 21:147 Extension to real property activities

IX. FAILURE TO RESTRUCTURE THE PARTNERSHIP DEBT

A. FORECLOSURE

- § 21:148 Generally
- § 21:149 Recourse debt
- § 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

TABLE OF CONTENTS

§ 21:160 —Termination

X. SECTION 1038: REACQUISITION OF REAL PROPERTY BY SELLER

- § 21:161 Introduction
- § 21:162 Original sale
- § 21:163 Reacquisition—Must be by the original seller
- § 21:164 —Original purchaser not necessary
- § 21:165 —Method of reacquisition
- § 21:166 —Improvements by purchaser
- § 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
- § 22:12 Deduction for club dues
- § 22:13 Deduction for meals and entertainment expenses
- § 22:14 Deduction for health insurance costs of self-employed individuals
- § 22:15 Estate and gift tax rates

III. CHANGES AFFECTING CHARITABLE CONTRIBUTIONS

- § 22:16 AMT treatment for contributions of appreciated property
- § 22:17 Substantiation and disclosure requirements
- § 22:18 Disclosure relating to quid pro quo contributions

IV. CHANGES AFFECTING CORPORATIONS AND OTHER BUSINESS-RELATED PROVISIONS

§ 22:19 Regular tax rates

- § 22:20 Estimated tax payments
- § 22:21 Deduction for executive compensation
- § 22:22 Withholding for bonuses and other supplemental wages
- § 22:23 Deduction for lobbying expenses
- § 22:24 Amortization of intangibles
- § 22:25 Mark-to-market rules for dealers in securities—In general
- § 22:26 —Definitions
- § 22:27 —Exceptions
- § 22:28 —Regulations

V. INVESTMENT INCENTIVE PROVISIONS

- § 22:29 Exclusion for gain from certain small business stock
- § 22:30 Increase in expense treatment for small businesses

VI. CHANGES AFFECTING INVESTMENT IN REAL ESTATE

- § 22:31 Passive activity rules for rental real estate
- § 22:32 Recovery period for depreciation of nonresidential real estate
- § 22:33 Pension trust investment in REITs
- § 22:34 Title holding companies
- § 22:35 Debt-financed income from real estate
- § 22:36 Exclusion from UBTI of gain from certain dispositions of real estate

VII. CHANGES AFFECTING BANKRUPTCY AND OTHER DEBT RESTRUCTURINGS

- § 22:37 Generally
- § 22:38 Real estate indebtedness
- § 22:39 Stock-for-debt exception
- § 22:40 Attribute reduction
- § 22:41 Information reporting

VIII. CHANGES AFFECTING PARTNERS AND PARTNERSHIPS

- § 22:42 Payments to retired or deceased partner
- § 22:43 Tax-exempt partners in publicly traded partnerships
- § 22:44 Substantially appreciated inventory

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

TABLE OF CONTENTS

§ 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 Limited partner definition

§ 23:24 Precontribution gain

§ 23:25 Publicly traded partnerships

§ 23:26 Substantially appreciated inventory, Section 751(a)

B. TEFRA AUDIT PROCEEDINGS

§ 23:27 Generally

§ 23:28 Bad debts and worthless securities

§ 23:29 Interest on a deficiency

§ 23:30 Limitations period challenge

§ 23:31 Penalties

§ 23:32 Refund claims

§ 23:33 Settlement with IRS

§ 23:34 Service’s discretion

§ 23:35 Small partnerships

§ 23:36 Tolling limitations period for tax court proceedings

C. ELECTING LARGE PARTNERSHIPS

§ 23:37 Simplified reporting

§ 23:38 Notification rules

§ 23:39 Return filing

§ 23:40 Audit procedures

D. REAL ESTATE INVESTMENT TRUSTS (REITS)

§ 23:41 Generally

§ 23:42 30% income test

§ 23:43 Capital gains

§ 23:44 Earnings and profits

§ 23:45 Excess noncash income

§ 23:46 Foreclosure property

§ 23:47 Hedging income

§ 23:48 Ownership determination

§ 23:49 Prohibited transactions safe harbor

§ 23:50 Related entity income

§ 23:51 Shared appreciation mortgages

§ 23:52 Subsidiaries

§ 23:53 Tenant services income

III. RESIDENCE SALES

§ 23:54 Generally

Table of Laws and Rules

Table of Cases

Index