

§ 724. Character of gain or loss on contributed unrealized receivables, inventory items, and capital loss property

(a) Contributions of unrealized receivables

In the case of any property which—

- (1) was contributed to the partnership by a partner, and
- (2) was an unrealized receivable in the hands of such partner immediately before such contribution,

any gain or loss recognized by the partnership on the disposition of such property shall be treated as ordinary income or ordinary loss, as the case may be.

(b) Contributions of inventory items

In the case of any property which—

- (1) was contributed to the partnership by a partner, and
- (2) was an inventory item in the hands of such partner immediately before such contribution,

any gain or loss recognized by the partnership on the disposition of such property during the 5-year period beginning on the date of such contribution shall be treated as ordinary income or ordinary loss, as the case may be.

(c) Contributions of capital loss property

In the case of any property which—

- (1) was contributed by a partner to the partnership, and
- (2) was a capital asset in the hands of such partner immediately before such contribution,

any loss recognized by the partnership on the disposition of such property during the 5-year period beginning on the date of such contribution shall be treated as a loss from the sale of a capital asset to the extent that, immediately before such contribution, the adjusted basis of such property in the hands of the partner exceeded the fair market value of such property.

(d) Definitions

For purposes of this section—

(1) Unrealized receivable

The term “unrealized receivable” has the meaning given such term by section 751(c) (determined by treating any reference to the partnership as referring to the partner).

(2) Inventory item

The term “inventory item” has the meaning given such term by section 751(d) (determined by treating any reference to the partnership as referring to the partner and by applying section 1231 without regard to any holding period therein provided).

(3) Substituted basis property

(A) In general

If any property described in subsection (a), (b), or (c) is disposed of in a nonrecognition transaction, the tax treatment which applies to such property under such subsection shall also apply to any substituted basis property resulting from such transaction. A similar rule shall also apply in the case of a series of non-recognition transactions.

(B) Exception for stock in C corporation

Subparagraph (A) shall not apply to any stock in a C corporation received in an exchange described in section 351.

(Added Pub. L. 98-369, div. A, title I, § 74(a), July 18, 1984, 98 Stat. 592; amended Pub. L. 104-188, title I, § 1704(t)(63), Aug. 20, 1996, 110 Stat. 1890; Pub. L. 105-34, title X, § 1062(b)(3), Aug. 5, 1997, 111 Stat. 947.)

AMENDMENTS

1997—Subsec. (d)(2). Pub. L. 105-34 substituted “section 751(d)” for “section 751(d)(2)”.

1996—Subsec. (d)(3)(B). Pub. L. 104-188 substituted “Subparagraph” for “Subparagraph”.

EFFECTIVE DATE OF 1997 AMENDMENT

Pub. L. 105-34, title X, § 1062(c), Aug. 5, 1997, 111 Stat. 947, provided that:

“(1) IN GENERAL.—The amendments made by this section [amending this section and sections 731, 732, 735, and 751 of this title] shall apply to sales, exchanges, and distributions after the date of the enactment of this Act [Aug. 5, 1997].

“(2) BINDING CONTRACTS.—The amendments made by this section shall not apply to any sale or exchange pursuant to a written binding contract in effect on June 8, 1997, and at all times thereafter before such sale or exchange.”

EFFECTIVE DATE

Pub. L. 98-369, div. A, title I, § 74(d)(1), July 18, 1984, 98 Stat. 594, provided that: “The amendment made by subsection (a) [enacting this section] shall apply to property contributed to a partnership after March 31, 1984, in taxable years ending after such date.”

SUBPART B—DISTRIBUTIONS BY A PARTNERSHIP

Sec.	
731.	Extent of recognition of gain or loss on distribution.
732.	Basis of distributed property other than money.
733.	Basis of distributee partner's interest.
734.	Adjustment to basis of undistributed partnership property where section 754 election or substantial basis reduction.
735.	Character of gain or loss on disposition of distributed property.
736.	Payments to a retiring partner or a deceased partner's successor in interest.
737.	Recognition of precontribution gain in case of certain distributions to contributing partner.

AMENDMENTS

2004—Pub. L. 108-357, title VIII, § 833(c)(5)(B), Oct. 22, 2004, 118 Stat. 1592, substituted “Adjustment to basis of undistributed partnership property where section 754 election or substantial basis reduction” for “Optional adjustment to basis of undistributed partnership property” in item 734.

1992—Pub. L. 102-486, title XIX, § 1937(b)(3), Oct. 24, 1992, 106 Stat. 3033, added item 737.

§ 731. Extent of recognition of gain or loss on distribution

(a) Partners

In the case of a distribution by a partnership to a partner—

- (1) gain shall not be recognized to such partner, except to the extent that any money distributed exceeds the adjusted basis of such partner's interest in the partnership immediately before the distribution, and