

tion [amending this section and section 761 of this title] shall apply to partnership taxable years beginning after December 31, 2015.”

**EFFECTIVE DATE OF 2004 AMENDMENT**

Pub. L. 108-357, title VIII, § 833(d)(1), Oct. 22, 2004, 118 Stat. 1592, provided that: “The amendment made by subsection (a) [amending this section] shall apply to contributions made after the date of the enactment of this Act [Oct. 22, 2004].”

**EFFECTIVE DATE OF 1997 AMENDMENT**

Pub. L. 105-34, title X, § 1063(b), Aug. 5, 1997, 111 Stat. 947, provided that:

“(1) IN GENERAL.—The amendment made by subsection (a) [amending this section and section 737 of this title] shall apply to property contributed to a partnership after June 8, 1997.

“(2) BINDING CONTRACTS.—The amendment made by subsection (a) shall not apply to any property contributed pursuant to a written binding contract in effect on June 8, 1997, and at all times thereafter before such contribution if such contract provides for the contribution of a fixed amount of property.”

**EFFECTIVE DATE OF 1992 AMENDMENT**

Pub. L. 102-486, title XIX, § 1937(c), Oct. 24, 1992, 106 Stat. 3033, provided that: “The amendments made by this section [enacting section 737 of this title and amending this section and section 731 of this title] shall apply to distributions on or after June 25, 1992.”

**EFFECTIVE DATE OF 1989 AMENDMENT**

Pub. L. 101-239, title VII, § 7642(b), Dec. 19, 1989, 103 Stat. 2381, provided that: “The amendment made by subsection (a) [amending this section] shall apply in the case of property contributed to the partnership after October 3, 1989, in taxable years ending after such date.”

**EFFECTIVE DATE OF 1984 AMENDMENT**

Pub. L. 98-369, div. A, title I, § 71(c), July 18, 1984, 98 Stat. 589, provided that: “The amendments made by this section [amending this section and sections 613A and 743 of this title] shall apply with respect to property contributed to the partnership after March 31, 1984, in taxable years ending after such date.”

**EFFECTIVE DATE OF 1978 AMENDMENT**

Amendment by Pub. L. 95-600 and enactment of provision set out as a note under this section by section 201(b)(2) of Pub. L. 95-600 applicable to taxable years beginning after Dec. 31, 1978, see section 204(a) of Pub. L. 95-600, set out as a note under section 465 of this title.

**EFFECTIVE DATE OF 1976 AMENDMENT**

Amendment by section 213(c)(2), (c)(3)(A), (d) of Pub. L. 94-455 applicable in the case of partnership taxable years beginning after Dec. 31, 1975, see section 213(f)(1) of Pub. L. 94-455, set out as an Effective Date note under section 709 of this title.

Amendment by section 213(e) of Pub. L. 94-455 applicable to liabilities incurred after Dec. 31, 1976, see section 213(f)(2) of Pub. L. 94-455, set out as an Effective Date note under section 709 of this title.

**TRANSITIONAL RULE FOR LIMITATION ON ALLOWANCE OF LOSSES**

Pub. L. 95-600, title II, § 201(b)(2), Nov. 6, 1978, 92 Stat. 2816, as amended by Pub. L. 99-514, § 2, Oct. 22, 1986, 100 Stat. 2095, provided that: “In the case of a loss which was not allowed for any taxable year by reason of the last 2 sentences of section 704(d) of the Internal Revenue Code of 1986 [formerly I.R.C. 1954] (as in effect before the date of the enactment of this Act [Nov. 6, 1978]), such loss shall be treated as a deduction (subject to section 465(a) of such Code) for the first taxable year beginning after December 31, 1978. Section 465(a) of

such Code (as amended by this section) shall not apply with respect to partnership liabilities to which the last 2 sentences of section 704(d) of such Code (as in effect on the day before the date of enactment of this Act) did not apply because of the provisions of section 213(f)(2) of the Tax Reform Act of 1976 [set out as a note under section 709 of this title].”

**§ 705. Determination of basis of partner's interest**

**(a) General rule**

The adjusted basis of a partner's interest in a partnership shall, except as provided in subsection (b), be the basis of such interest determined under section 722 (relating to contributions to a partnership) or section 742 (relating to transfers of partnership interests)—

(1) increased by the sum of his distributive share for the taxable year and prior taxable years of—

(A) taxable income of the partnership as determined under section 703(a),

(B) income of the partnership exempt from tax under this title, and

(C) the excess of the deductions for depletion over the basis of the property subject to depletion;

(2) decreased (but not below zero) by distributions by the partnership as provided in section 733 and by the sum of his distributive share for the taxable year and prior taxable years of—

(A) losses of the partnership, and

(B) expenditures of the partnership not deductible in computing its taxable income and not properly chargeable to capital account; and

(3) decreased (but not below zero) by the amount of the partner's deduction for depletion for any partnership oil and gas property to the extent such deduction does not exceed the proportionate share of the adjusted basis of such property allocated to such partner under section 613A(c)(7)(D).

**(b) Alternative rule**

The Secretary shall prescribe by regulations the circumstances under which the adjusted basis of a partner's interest in a partnership may be determined by reference to his proportionate share of the adjusted basis of partnership property upon a termination of the partnership.

(Aug. 16, 1954, ch. 736, 68A Stat. 242; Pub. L. 94-455, title XIX, § 1906(b)(13)(A), title XXI, § 2115(c)(3), Oct. 4, 1976, 90 Stat. 1834, 1909; Pub. L. 98-369, div. A, title VII, § 722(e)(1), July 18, 1984, 98 Stat. 974.)

**Editorial Notes**

**AMENDMENTS**

1984—Subsec. (a)(3). Pub. L. 98-369 substituted “for any partnership oil and gas property to the extent such deduction does not exceed the proportionate share of the adjusted basis of such property allocated to such partner under section 613A(c)(7)(D)” for “under section 611 with respect to oil and gas wells”.

1976—Subsec. (a)(3). Pub. L. 94-455, § 2115(c)(3), added par. (3).

Subsec. (b). Pub. L. 94-455, § 1906(b)(13)(A), struck out “or his delegate” after “Secretary”.

**Statutory Notes and Related Subsidiaries****EFFECTIVE DATE OF 1984 AMENDMENT**

Pub. L. 98-369, div. A, title VII, §722(e)(3)(A), July 18, 1984, 98 Stat. 974, provided that: “The amendment made by paragraph (1) [amending this section] shall take effect on January 1, 1975.”

**EFFECTIVE DATE OF 1976 AMENDMENT**

Amendment by section 2115(c)(3) of Pub. L. 94-455 effective on Jan. 1, 1975, and applicable to taxable years ending after Dec. 31, 1974, see section 2115(f) of Pub. L. 94-455, set out as a note under section 613A of this title.

**§ 706. Taxable years of partner and partnership****(a) Year in which partnership income is includable**

In computing the taxable income of a partner for a taxable year, the inclusions required by section 702 and section 707(c) with respect to a partnership shall be based on the income, gain, loss, deduction, or credit of the partnership for any taxable year of the partnership ending within or with the taxable year of the partner.

**(b) Taxable year****(1) Partnership's taxable year****(A) Partnership treated as taxpayer**

The taxable year of a partnership shall be determined as though the partnership were a taxpayer.

**(B) Taxable year determined by reference to partners**

Except as provided in subparagraph (C), a partnership shall not have a taxable year other than—

- (i) the majority interest taxable year (as defined in paragraph (4)),
- (ii) if there is no taxable year described in clause (i), the taxable year of all the principal partners of the partnership, or
- (iii) if there is no taxable year described in clause (i) or (ii), the calendar year unless the Secretary by regulations prescribes another period.

**(C) Business purpose**

A partnership may have a taxable year not described in subparagraph (B) if it establishes, to the satisfaction of the Secretary, a business purpose therefor. For purposes of this subparagraph, any deferral of income to partners shall not be treated as a business purpose.

**(2) Partner's taxable year**

A partner may not change to a taxable year other than that of a partnership in which he is a principal partner unless he establishes, to the satisfaction of the Secretary, a business purpose therefor.

**(3) Principal partner**

For the purpose of this subsection, a principal partner is a partner having an interest of 5 percent or more in partnership profits or capital.

**(4) Majority interest taxable year; limitation on required changes****(A) Majority interest taxable year defined**

For purposes of paragraph (1)(B)(i)—

**(i) In general**

The term “majority interest taxable year” means the taxable year (if any) which, on each testing day, constituted the taxable year of 1 or more partners having (on such day) an aggregate interest in partnership profits and capital of more than 50 percent.

**(ii) Testing days**

The testing days shall be—

- (I) the 1st day of the partnership taxable year (determined without regard to clause (ii)), or
- (II) the days during such representative period as the Secretary may prescribe.

**(B) Further change not required for 3 years**

Except as provided in regulations necessary to prevent the avoidance of this section, if, by reason of paragraph (1)(B)(i), the taxable year of a partnership is changed, such partnership shall not be required to change to another taxable year for either of the 2 taxable years following the year of change.

**(5) Application with other sections**

Except as provided in regulations, for purposes of determining the taxable year to which a partnership is required to change by reason of this subsection, changes in taxable years of other persons required by this subsection, section 441(i), section 584(i), section 644, or section 1378(a) shall be taken into account.

**(c) Closing of partnership year****(1) General rule**

Except in the case of a termination of a partnership and except as provided in paragraph (2) of this subsection, the taxable year of a partnership shall not close as the result of the death of a partner, the entry of a new partner, the liquidation of a partner's interest in the partnership, or the sale or exchange of a partner's interest in the partnership.

**(2) Treatment of dispositions****(A) Disposition of entire interest**

The taxable year of a partnership shall close with respect to a partner whose entire interest in the partnership terminates (whether by reason of death, liquidation, or otherwise).

**(B) Disposition of less than entire interest**

The taxable year of a partnership shall not close (other than at the end of a partnership's taxable year as determined under subsection (b)(1)) with respect to a partner who sells or exchanges less than his entire interest in the partnership or with respect to a partner whose interest is reduced (whether by entry of a new partner, partial liquidation of a partner's interest, gift, or otherwise).

**(d) Determination of distributive share when partner's interest changes****(1) In general**

Except as provided in paragraphs (2) and (3), if during any taxable year of the partnership