

section 751(d)(2)) in an amount equal to the adjusted basis of each such property to the partnership (or if the basis to be allocated is less than the sum of the adjusted bases of such properties to the partnership, in proportion to such bases), and

“(2) to the extent of any remaining basis, to any other distributed properties in proportion to their adjusted bases to the partnership.”

Subsec. (c)(1)(A)(i). Pub. L. 105-34, §1062(b)(3), substituted “section 751(d)” for “section 751(d)(2)”.

1976—Subsec. (d). Pub. L. 94-455 struck out “or his delegate” after “Secretary”.

#### Statutory Notes and Related Subsidiaries

##### EFFECTIVE DATE OF 1999 AMENDMENT

Pub. L. 106-170, title V, §538(b), Dec. 17, 1999, 113 Stat. 1940, provided that:

“(1) IN GENERAL.—Except as provided in paragraph (2), the amendment made by this section [amending this section] shall apply to distributions made after July 14, 1999.

“(2) PARTNERSHIPS IN EXISTENCE ON JULY 14, 1999.—In the case of a corporation which is a partner in a partnership as of July 14, 1999, the amendment made by this section shall apply to any distribution made (or treated as made) to such partner from such partnership after June 30, 2001, except that this paragraph shall not apply to any distribution after the date of the enactment of this Act [Dec. 17, 1999] unless the partner makes an election to have this paragraph apply to such distribution on the partner’s return of Federal income tax for the taxable year in which such distribution occurs.”

##### EFFECTIVE DATE OF 1997 AMENDMENT

Pub. L. 105-34, title X, §1061(b), Aug. 5, 1997, 111 Stat. 946, provided that: “The amendment made by subsection (a) [amending this section] shall apply to distributions after the date of the enactment of this Act [Aug. 5, 1997].”

Amendment by section 1062(b)(3) of Pub. L. 105-34 applicable to sales, exchanges, and distributions after Aug. 5, 1997, but not applicable 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, see section 1062(c) of Pub. L. 105-34, set out as a note under section 724 of this title.

#### § 733. Basis of distributee partner’s interest

In the case of a distribution by a partnership to a partner other than in liquidation of a partner’s interest, the adjusted basis to such partner of his interest in the partnership shall be reduced (but not below zero) by—

(1) the amount of any money distributed to such partner, and

(2) the amount of the basis to such partner of distributed property other than money, as determined under section 732.

(Aug. 16, 1954, ch. 736, 68A Stat. 247.)

#### § 734. Adjustment to basis of undistributed partnership property where section 754 election or substantial basis reduction

##### (a) General rule

The basis of partnership property shall not be adjusted as the result of a distribution of property to a partner unless the election, provided in section 754 (relating to optional adjustment to basis of partnership property), is in effect with respect to such partnership or unless there is a substantial basis reduction with respect to such distribution.

##### (b) Method of adjustment

In the case of a distribution of property to a partner by a partnership with respect to which

the election provided in section 754 is in effect or with respect to which there is a substantial basis reduction, the partnership shall—

(1) increase the adjusted basis of partnership property by—

(A) the amount of any gain recognized to the distributee partner with respect to such distribution under section 731(a)(1), and

(B) in the case of distributed property to which section 732(a)(2) or (b) applies, the excess of the adjusted basis of the distributed property to the partnership immediately before the distribution (as adjusted by section 732(d)) over the basis of the distributed property to the distributee, as determined under section 732, or

(2) decrease the adjusted basis of partnership property by—

(A) the amount of any loss recognized to the distributee partner with respect to such distribution under section 731(a)(2), and

(B) in the case of distributed property to which section 732(b) applies, the excess of the basis of the distributed property to the distributee, as determined under section 732, over the adjusted basis of the distributed property to the partnership immediately before such distribution (as adjusted by section 732(d)).

Paragraph (1)(B) shall not apply to any distributed property which is an interest in another partnership with respect to which the election provided in section 754 is not in effect.

##### (c) Allocation of basis

The allocation of basis among partnership properties where subsection (b) is applicable shall be made in accordance with the rules provided in section 755.

##### (d) Substantial basis reduction

###### (1) In general

For purposes of this section, there is a substantial basis reduction with respect to a distribution if the sum of the amounts described in subparagraphs (A) and (B) of subsection (b)(2) exceeds \$250,000.

###### (2) Regulations

For regulations to carry out this subsection, see section 743(d)(2).

##### (e) Exception for securitization partnerships

For purposes of this section, a securitization partnership (as defined in section 743(f)) shall not be treated as having a substantial basis reduction with respect to any distribution of property to a partner.

(Aug. 16, 1954, ch. 736, 68A Stat. 247; Pub. L. 98-369, div. A, title I, §78(a), July 18, 1984, 98 Stat. 597; Pub. L. 108-357, title VIII, §833(c)(1)-(5)(A), Oct. 22, 2004, 118 Stat. 1591, 1592; Pub. L. 109-135, title IV, §403(bb), Dec. 21, 2005, 119 Stat. 2630.)

#### Editorial Notes

##### AMENDMENTS

2005—Subsec. (a). Pub. L. 109-135, §403(bb)(1), inserted “with respect to such distribution” before period at end.

Subsec. (b). Pub. L. 109-135, § 403(bb)(2), reenacted heading without change and amended introductory provisions generally. Prior to amendment, introductory provisions read as follows: “In the case of a distribution of property to a partner, a partnership, with respect to which the election provided in section 754 is in effect or unless there is a substantial basis reduction, shall—”.

2004—Pub. L. 108-357, § 833(c)(5)(A), 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 section catchline.

Subsec. (a). Pub. L. 108-357, § 833(c)(1), inserted “or unless there is a substantial basis reduction” before period at end.

Subsec. (b). Pub. L. 108-357, § 833(c)(2), inserted “or unless there is a substantial basis reduction” after “section 754 is in effect” in introductory provisions.

Subsec. (d). Pub. L. 108-357, § 833(c)(3), added subsec. (d).

Subsec. (e). Pub. L. 108-357, § 833(c)(4), added subsec. (e).

1984—Subsec. (b). Pub. L. 98-369 inserted at end “Paragraph (1)(B) shall not apply to any distributed property which is an interest in another partnership with respect to which the election provided in section 754 is not in effect.”

#### Statutory Notes and Related Subsidiaries

##### EFFECTIVE DATE OF 2005 AMENDMENT

Amendment by Pub. L. 109-135 effective as if included in the provision of the American Jobs Creation Act of 2004, Pub. L. 108-357, to which such amendment relates, see section 403(nn) of Pub. L. 109-135, set out as a note under section 26 of this title.

##### EFFECTIVE DATE OF 2004 AMENDMENT

Pub. L. 108-357, title VIII, § 833(d)(3), Oct. 22, 2004, 118 Stat. 1592, provided that: “The amendments made by subsection (c) [amending this section] shall apply to distributions after the date of the enactment of this Act [Oct. 22, 2004].”

##### EFFECTIVE DATE OF 1984 AMENDMENT

Pub. L. 98-369, div. A, title I, § 78(b), July 18, 1984, 98 Stat. 597, provided that: “The amendment made by subsection (a) [amending this section] shall apply to distributions after March 1, 1984, in taxable years ending after such date.”

#### § 735. Character of gain or loss on disposition of distributed property

##### (a) Sale or exchange of certain distributed property

###### (1) Unrealized receivables

Gain or loss on the disposition by a distributee partner of unrealized receivables (as defined in section 751(c)) distributed by a partnership, shall be considered as ordinary income or as ordinary loss, as the case may be.

###### (2) Inventory items

Gain or loss on the sale or exchange by a distributee partner of inventory items (as defined in section 751(d)) distributed by a partnership shall, if sold or exchanged within 5 years from the date of the distribution, be considered as ordinary income or as ordinary loss, as the case may be.

##### (b) Holding period for distributed property

In determining the period for which a partner has held property received in a distribution from

a partnership (other than for purposes of subsection (a)(2)), there shall be included the holding period of the partnership, as determined under section 1223, with respect to such property.

#### (c) Special rules

##### (1) Waiver of holding periods contained in section 1231

For purposes of this section, section 751(d) (defining inventory item) shall be applied without regard to any holding period in section 1231(b).

##### (2) Substituted basis property

###### (A) In general

If any property described in subsection (a) 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 nonrecognition 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.

(Aug. 16, 1954, ch. 763, 68A Stat. 247; Pub. L. 94-455, title XIX, § 1901(b)(3)(D), Oct. 4, 1976, 90 Stat. 1792; Pub. L. 98-369, div. A, title I, § 74(b), July 18, 1984, 98 Stat. 593; Pub. L. 105-34, title X, § 1062(b)(3), Aug. 5, 1997, 111 Stat. 947.)

#### Editorial Notes

##### AMENDMENTS

1997—Subsecs. (a)(2), (c)(1). Pub. L. 105-34 substituted “section 751(d)” for “section 751(d)(2)”.

1984—Subsec. (c). Pub. L. 98-369 added subsec. (c).

1976—Subsec. (a)(1), (2). Pub. L. 94-455 substituted “as ordinary income or as ordinary loss, as the case may be” for “gain or loss from the sale or exchange of property other than a capital asset”.

#### Statutory Notes and Related Subsidiaries

##### EFFECTIVE DATE OF 1997 AMENDMENT

Amendment by Pub. L. 105-34 applicable to sales, exchanges, and distributions after Aug. 5, 1997, but not applicable 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, see section 1062(c) of Pub. L. 105-34, set out as a note under section 724 of this title.

##### EFFECTIVE DATE OF 1984 AMENDMENT

Pub. L. 98-369, div. A, title I, § 74(d)(2), July 18, 1984, 98 Stat. 594, provided that: “The amendment made by subsection (b) [amending this section] shall apply to property distributed after March 31, 1984, in taxable years ending after such date.”

##### EFFECTIVE DATE OF 1976 AMENDMENT

Amendment by Pub. L. 94-455 effective for taxable years beginning after Dec. 31, 1976, see section 1901(d) of Pub. L. 94-455, set out as a note under section 2 of this title.

#### § 736. Payments to a retiring partner or a deceased partner's successor in interest

##### (a) Payments considered as distributive share or guaranteed payment

Payments made in liquidation of the interest of a retiring partner or a deceased partner shall,