

**(b) Special rule**

In applying the allocation rules provided in subsection (a), increases or decreases in the adjusted basis of partnership property arising from a distribution of, or a transfer of an interest attributable to, property consisting of—

- (1) capital assets and property described in section 1231(b), or
- (2) any other property of the partnership,

shall be allocated to partnership property of a like character except that the basis of any such partnership property shall not be reduced below zero. If, in the case of a distribution, the adjustment to basis of property described in paragraph (1) or (2) is prevented by the absence of such property or by insufficient adjusted basis for such property, such adjustment shall be applied to subsequently acquired property of a like character in accordance with regulations prescribed by the Secretary.

**(c) No allocation of basis decrease to stock of corporate partner**

In making an allocation under subsection (a) of any decrease in the adjusted basis of partnership property under section 734(b)—

- (1) no allocation may be made to stock in a corporation (or any person related (within the meaning of sections 267(b) and 707(b)(1)) to such corporation) which is a partner in the partnership, and
- (2) any amount not allocable to stock by reason of paragraph (1) shall be allocated under subsection (a) to other partnership property.

Gain shall be recognized to the partnership to the extent that the amount required to be allocated under paragraph (2) to other partnership property exceeds the aggregate adjusted basis of such other property immediately before the allocation required by paragraph (2).

(Aug. 16, 1954, ch. 736, 68A Stat. 252; Pub. L. 94-455, title XIX, §1906(b)(13)(A), Oct. 4, 1976, 90 Stat. 1834; Pub. L. 108-357, title VIII, §834(a), Oct. 22, 2004, 118 Stat. 1592.)

## AMENDMENTS

2004—Subsec. (c). Pub. L. 108-357 added subsec. (c).  
1976—Subsecs. (a), (b). Pub. L. 94-455 struck out “or his delegate” after “Secretary” wherever appearing.

## EFFECTIVE DATE OF 2004 AMENDMENT

Pub. L. 108-357, title VIII, §834(b), Oct. 22, 2004, 118 Stat. 1592, provided that: “The amendment made by this section [amending this section] shall apply to distributions after the date of the enactment of this Act [Oct. 22, 2004].”

## PART III—DEFINITIONS

Sec.  
761. Terms defined.

**§ 761. Terms defined****(a) Partnership**

For purposes of this subtitle, the term “partnership” includes a syndicate, group, pool, joint venture, or other unincorporated organization through or by means of which any business, financial operation, or venture is carried on, and which is not, within the meaning of this title, a

corporation or a trust or estate. Under regulations the Secretary may, at the election of all the members of an unincorporated organization, exclude such organization from the application of all or part of this subchapter, if it is availed of—

- (1) for investment purposes only and not for the active conduct of a business,
- (2) for the joint production, extraction, or use of property, but not for the purpose of selling services or property produced or extracted, or
- (3) by dealers in securities for a short period for the purpose of underwriting, selling, or distributing a particular issue of securities,

if the income of the members of the organization may be adequately determined without the computation of partnership taxable income.

**(b) Partner**

For purposes of this subtitle, the term “partner” means a member of a partnership.

**(c) Partnership agreement**

For purposes of this subchapter, a partnership agreement includes any modifications of the partnership agreement made prior to, or at, the time prescribed by law for the filing of the partnership return for the taxable year (not including extensions) which are agreed to by all the partners, or which are adopted in such other manner as may be provided by the partnership agreement.

**(d) Liquidation of a partner’s interest**

For purposes of this subchapter, the term “liquidation of a partner’s interest” means the termination of a partner’s entire interest in a partnership by means of a distribution, or a series of distributions, to the partner by the partnership.

**(e) Distributions of partnership interests treated as exchanges**

Except as otherwise provided in regulations, for purposes of—

- (1) section 708 (relating to continuation of partnership),
- (2) section 743 (relating to optional adjustment to basis of partnership property), and
- (3) any other provision of this subchapter specified in regulations prescribed by the Secretary,

any distribution of an interest in a partnership (not otherwise treated as an exchange) shall be treated as an exchange.

**(f) Qualified joint venture****(1) In general**

In the case of a qualified joint venture conducted by a husband and wife who file a joint return for the taxable year, for purposes of this title—

- (A) such joint venture shall not be treated as a partnership,
- (B) all items of income, gain, loss, deduction, and credit shall be divided between the spouses in accordance with their respective interests in the venture, and
- (C) each spouse shall take into account such spouse’s respective share of such items as if they were attributable to a trade or

business conducted by such spouse as a sole proprietor.

**(2) Qualified joint venture**

For purposes of paragraph (1), the term “qualified joint venture” means any joint venture involving the conduct of a trade or business if—

(A) the only members of such joint venture are a husband and wife,

(B) both spouses materially participate (within the meaning of section 469(h) with-out regard to paragraph (5) thereof) in such trade or business, and

(C) both spouses elect the application of this subsection.

**(g) Cross reference**

**For rules in the case of the sale, exchange, liquidation, or reduction of a partner's interest, see sections 704(b) and 706(c)(2).**

(Aug. 16, 1954, ch. 736, 68A Stat. 252; Pub. L. 94-455, title II, §213(c)(3)(B), title XIX, §1906(b)(13)(A), Oct. 4, 1976, 90 Stat. 1548, 1834; Pub. L. 96-222, title I, §102(a)(2)(C), Apr. 1, 1980, 94 Stat. 208; Pub. L. 98-369, div. A, title I, §75(b), July 18, 1984, 98 Stat. 594; Pub. L. 99-514, title XVIII, §1805(c)(2), Oct. 22, 1986, 100 Stat. 2810; Pub. L. 110-28, title VIII, §8215(a), May 25, 2007, 121 Stat. 193.)

AMENDMENTS

2007—Subsecs. (f), (g). Pub. L. 110-28 added subsec. (f) and redesignated former subsec. (f) as (g).

1986—Subsec. (e). Pub. L. 99-514 substituted “Distributions of partnership interests” for “Distributions” in heading, substituted “Except as otherwise provided in regulations, for purposes of” for “For purposes of” in introductory provision, and “any distribution of an interest in a partnership” for “any distribution” in closing provisions.

1984—Subsecs. (e), (f). Pub. L. 98-369 added subsec. (e) and redesignated former subsec. (e) as (f).

1980—Subsec. (a)(3). Pub. L. 96-222 added par. (3).

1976—Subsec. (a). Pub. L. 94-455, §1906(b)(13)(A), struck out “or his delegate” after “Secretary”.

Subsec. (e). Pub. L. 94-455, §213(c)(3)(B), added subsec. (e).

EFFECTIVE DATE OF 2007 AMENDMENT

Pub. L. 110-28, title VIII, §8215(c), May 25, 2007, 121 Stat. 194, provided that: “The amendments made by this section [amending this section, section 1402 of this title, and section 411 of Title 42, The Public Health and Welfare] shall apply to taxable years beginning after December 31, 2006.”

EFFECTIVE DATE OF 1986 AMENDMENT

Amendment by Pub. L. 99-514 effective, except as otherwise provided, as if included in the provisions of the Tax Reform Act of 1984, Pub. L. 98-369, div. A, to which such amendment relates, see section 1881 of Pub. L. 99-514, set out as a note under section 48 of this title.

EFFECTIVE DATE OF 1984 AMENDMENT

Amendment by Pub. L. 98-369 applicable to distributions, sales, and exchanges made after Mar. 31, 1984, in taxable years ending after such date, see section 75(e) of Pub. L. 98-369, set out as an Effective Date note under section 386 of this title.

EFFECTIVE DATE OF 1980 AMENDMENT

Amendment by Pub. L. 96-222 effective, except as otherwise provided, as if it had been included in the provisions of the Revenue Act of 1978, Pub. L. 95-600, to

which such amendment relates, see section 201 of Pub. L. 96-222, set out as a note under section 32 of this title.

EFFECTIVE DATE OF 1976 AMENDMENT

Amendment by section 213(c)(3)(B) 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 a note under section 709 of this title.

PLAN AMENDMENTS NOT REQUIRED UNTIL  
JANUARY 1, 1989

For provisions directing that if any amendments made by subtitle A or subtitle C of title XI [ §§1101-1147 and 1171-1177] or title XVIII [ §§1800-1899A] of Pub. L. 99-514 require an amendment to any plan, such plan amendment shall not be required to be made before the first plan year beginning on or after Jan. 1, 1989, see section 1140 of Pub. L. 99-514, as amended, set out as a note under section 401 of this title.

PART IV—SPECIAL RULES FOR ELECTING  
LARGE PARTNERSHIPS

Sec. 771.	Application of subchapter to electing large partnerships.
772.	Simplified flow-through.
773.	Computations at partnership level.
774.	Other modifications.
775.	Electing large partnership defined.
776.	Special rules for partnerships holding oil and gas properties.
777.	Regulations.

PRIOR PROVISIONS

A prior part IV, relating to effective date for subchapter, consisted of section 771 of this title, prior to repeal by Pub. L. 94-455, title XIX, §1901(a)(94), Oct. 4, 1976, 90 Stat. 1780.

AMENDMENTS

1997—Pub. L. 105-34, title XII, §1221(a), Aug. 5, 1997, 111 Stat. 1001, added part heading and section analysis.

**§ 771. Application of subchapter to electing large partnerships**

The preceding provisions of this subchapter to the extent inconsistent with the provisions of this part shall not apply to an electing large partnership and its partners.

(Added Pub. L. 105-34, title XII, §1221(a), Aug. 5, 1997, 111 Stat. 1002.)

PRIOR PROVISIONS

A prior section 771, act Aug. 16, 1954, ch. 736, 68A Stat. 253, related to the effective date for this subchapter, prior to repeal by Pub. L. 94-455, title XIX, §1901(a)(94), Oct. 4, 1976, 90 Stat. 1780.

EFFECTIVE DATE

Pub. L. 105-34, title XII, §1221(c), Aug. 5, 1997, 111 Stat. 1008, provided that: “The amendments made by this section [enacting this part] shall apply to partnership taxable years beginning after December 31, 1997.”

This part applicable to partnership taxable years beginning after Dec. 31, 1997, see section 1226 of Pub. L. 105-34, as amended, set out as an Effective Date of 1997 Amendment note under section 6011 of this title.

**§ 772. Simplified flow-through**

**(a) General rule**

In determining the income tax of a partner of an electing large partnership, such partner shall take into account separately such partner's distributive share of the partnership's—