

section and sections 722 and 723 of this title] shall apply to transfers made after February 17, 1976, in taxable years ending after such date.

“(4) The amendments made by subsections (b) and (c) shall not apply to transfers to a partnership made on or before the 90th day after the date of the enactment of this Act [Oct. 4, 1976] if—

“(A) either—

“(i) a ruling request with respect to such transfers was filed with the Internal Revenue Service before March 27, 1976, or

“(ii) a registration statement with respect to such transfers was filed with the Securities and Exchange Commission before March 27, 1976,

“(B) the securities transferred were deposited on or before the 60th day after the date of the enactment of this Act [Oct. 4, 1976], and

“(C) either—

“(i) the aggregate value (determined as of the close of the 60th day referred to in subparagraph (B), or, if earlier, the close of the deposit period) of the securities so transferred does not exceed \$100,000,000, or

“(ii) the securities transferred were all on deposit on February 29, 1976, pursuant to a registration statement referred to in subparagraph (A)(ii).

“(5) If no registration statement was required to be filed with the Securities and Exchange Commission with respect to the transfer of securities to any partnership, then paragraph (4) shall be applied to such transfers—

“(A) as if paragraph (4) did not contain subparagraph (A)(ii) thereof, and

“(B) by substituting ‘\$25,000,000’ for ‘\$100,000,000’ in subparagraph (C)(i) thereof.”

### § 722. Basis of contributing partner's interest

The basis of an interest in a partnership acquired by a contribution of property, including money, to the partnership shall be the amount of such money and the adjusted basis of such property to the contributing partner at the time of the contribution increased by the amount (if any) of gain recognized under section 721(b) to the contributing partner at such time.

(Aug. 16, 1954, ch. 736, 68A Stat. 245; Pub. L. 94-455, title XXI, § 2131(c), Oct. 4, 1976, 90 Stat. 1924; Pub. L. 98-369, div. A, title VII, § 722(f)(1), July 18, 1984, 98 Stat. 974.)

#### AMENDMENTS

1984—Pub. L. 98-369 inserted “under section 721(b)” after “gain recognized”.

1976—Pub. L. 94-455 inserted “increased by the amount (if any) of gain recognized to the contributing partner at such time” after “at the time of the contribution”.

#### EFFECTIVE DATE OF 1984 AMENDMENT

Pub. L. 98-369, div. A, title VII, § 722(f)(2), July 18, 1984, 98 Stat. 974, provided that: “The amendments made by paragraph (1) [amending this section and section 723 of this title] shall take effect as if included in the amendments made by section 2131 of the Tax Reform Act of 1976 [Pub. L. 94-455].”

#### EFFECTIVE DATE OF 1976 AMENDMENT

For effective date of amendment made by Pub. L. 94-455, see section 2131(f)(3)-(5) of Pub. L. 94-455, set out as a note under section 721 of this title.

### § 723. Basis of property contributed to partnership

The basis of property contributed to a partnership by a partner shall be the adjusted basis of

such property to the contributing partner at the time of the contribution increased by the amount (if any) of gain recognized under section 721(b) to the contributing partner at such time.

(Aug. 16, 1954, ch. 736, 68A Stat. 245; Pub. L. 94-455, title XXI, § 2131(c), Oct. 4, 1976, 90 Stat. 1924; Pub. L. 98-369, div. A, title VII, § 722(f)(1), July 18, 1984, 98 Stat. 974.)

#### AMENDMENTS

1984—Pub. L. 98-369 inserted “under section 721(b)” after “gain recognized”.

1976—Pub. L. 94-455 inserted “increased by the amount (if any) of gain recognized to the contributing partner at such time” after “at the time of the contribution”.

#### EFFECTIVE DATE OF 1984 AMENDMENT

Amendment by Pub. L. 98-369 effective as if included in amendments made by section 2131 of the Tax Reform Act of 1976, Pub. L. 94-455, see section 722(f)(2) of Pub. L. 98-369, set out as a note under section 722 of this title.

#### EFFECTIVE DATE OF 1976 AMENDMENT

For effective date of amendment made by Pub. L. 94-455, see section 2131(f)(3)-(5) of Pub. L. 94-455, set out as a note under section 721 of this title.

### § 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.

Sec.	
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

(2) loss shall not be recognized to such partner, except that upon a distribution in liquidation of a partner's interest in a partnership where no property other than that described in subparagraph (A) or (B) is distributed to such partner, loss shall be recognized to the extent of the excess of the adjusted basis of such partner's interest in the partnership over the sum of—

(A) any money distributed, and

(B) the basis to the distributee, as determined under section 732, of any unrealized receivables (as defined in section 751(c)) and inventory (as defined in section 751(d)).

Any gain or loss recognized under this subsection shall be considered as gain or loss from the sale or exchange of the partnership interest of the distributee partner.

**(b) Partnerships**

No gain or loss shall be recognized to a partnership on a distribution to a partner of property, including money.

**(c) Treatment of marketable securities****(1) In general**

For purposes of subsection (a)(1) and section 737—

(A) the term “money” includes marketable securities, and

(B) such securities shall be taken into account at their fair market value as of the date of the distribution.

**(2) Marketable securities**

For purposes of this subsection:

**(A) In general**

The term “marketable securities” means financial instruments and foreign currencies which are, as of the date of the distribution, actively traded (within the meaning of section 1092(d)(1)).

**(B) Other property**

Such term includes—