

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].”