

“(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.
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—

(i) any interest in—

(I) a common trust fund, or

(II) a regulated investment company which is offering for sale or has outstanding any redeemable security (as defined in section 2(a)(32) of the Investment Company Act of 1940) of which it is the issuer,

(ii) any financial instrument which, pursuant to its terms or any other arrangement, is readily convertible into, or exchangeable for, money or marketable securities,

(iii) any financial instrument the value of which is determined substantially by reference to marketable securities,

(iv) except to the extent provided in regulations prescribed by the Secretary, any interest in a precious metal which, as of the date of the distribution, is actively traded (within the meaning of section 1092(d)(1)) unless such metal was produced, used, or held in the active conduct of a trade or business by the partnership,

(v) except as otherwise provided in regulations prescribed by the Secretary, interests in any entity if substantially all of the assets of such entity consist (directly or indirectly) of marketable securities, money, or both, and

(vi) to the extent provided in regulations prescribed by the Secretary, any interest in an entity not described in clause (v) but only to the extent of the value of such interest which is attributable to marketable securities, money, or both.

##### (C) Financial instrument

The term “financial instrument” includes stocks and other equity interests, evidences of indebtedness, options, forward or futures contracts, notional principal contracts, and derivatives.

#### (3) Exceptions

##### (A) In general

Paragraph (1) shall not apply to the distribution from a partnership of a marketable security to a partner if—