

(b) Net precontribution gain

For purposes of this section, the term “net precontribution gain” means the net gain (if any) which would have been recognized by the distributee partner under section 704(c)(1)(B) if all property which—

(1) had been contributed to the partnership by the distributee partner within 7 years of the distribution, and

(2) is held by such partnership immediately before the distribution,

had been distributed by such partnership to another partner.

(c) Basis rules

(1) Partner’s interest

The adjusted basis of a partner’s interest in a partnership shall be increased by the amount of any gain recognized by such partner under subsection (a). For purposes of determining the basis of the distributed property (other than money), such increase shall be treated as occurring immediately before the distribution.

(2) Partnership’s basis in contributed property

Appropriate adjustments shall be made to the adjusted basis of the partnership in the contributed property referred to in subsection (b) to reflect gain recognized under subsection (a).

(d) Exceptions

(1) Distributions of previously contributed property

If any portion of the property distributed consists of property which had been contributed by the distributee partner to the partnership, such property shall not be taken into account under subsection (a)(1) and shall not be taken into account in determining the amount of the net precontribution gain. If the property distributed consists of an interest in an entity, the preceding sentence shall not apply to the extent that the value of such interest is attributable to property contributed to such entity after such interest had been contributed to the partnership.

(2) Coordination with section 751

This section shall not apply to the extent section 751(b) applies to such distribution.

(e) Marketable securities treated as money

For treatment of marketable securities as money for purposes of this section, see section 731(e).

(Added Pub. L. 102-486, title XIX, §1937(a), Oct. 24, 1992, 106 Stat. 3032; amended Pub. L. 103-465, title VII, §741(b), Dec. 8, 1994, 108 Stat. 5009; Pub. L. 104-188, title I, §1704(j)(8), Aug. 20, 1996, 110 Stat. 1882; Pub. L. 105-34, title X, §1063(a), Aug. 5, 1997, 111 Stat. 947.)

AMENDMENTS

1997—Subsec. (b)(1). Pub. L. 105-34 substituted “7 years” for “5 years”.

1996—Pub. L. 104-188 provided that section 1937(a) of Pub. L. 102-486, shall be applied as if “Subpart B” appeared instead of “Subpart C”. Section 1937(a) of Pub. L. 102-486 directed amendment of subpart C of this part by adding this section at the end thereof.

1994—Subsec. (c)(1). Pub. L. 103-465, §741(b)(1), amended last sentence generally. Prior to amendment, last

sentence read as follows: “Except for purposes of determining the amount recognized under subsection (a), such increase shall be treated as occurring immediately before the distribution.”

Subsec. (e). Pub. L. 103-465, §741(b)(2), added subsec. (e).

EFFECTIVE DATE OF 1997 AMENDMENT

Amendment by Pub. L. 105-34 applicable to property contributed to a partnership after June 8, 1997, but not applicable to any property contributed pursuant to a written binding contract in effect on June 8, 1997, and at all times thereafter before such contribution if such contract provides for the contribution of a fixed amount of property, see section 1063(b) of Pub. L. 105-34, set out as a note under section 704 of this title.

EFFECTIVE DATE OF 1994 AMENDMENT

Amendment by Pub. L. 103-465 applicable to distributions after Dec. 8, 1994, and not applicable to certain distributions before Jan. 1, 1995, distributions in liquidation of partner’s interest, or distributions in complete liquidation of publicly traded partnerships, see section 741(c) of Pub. L. 103-465, set out as a note under section 731 of this title.

EFFECTIVE DATE

Section applicable to distributions on or after June 25, 1992, see section 1937(c) of Pub. L. 102-486, set out as an Effective Date of 1992 Amendment note under section 704 of this title.

SUBPART C—TRANSFERS OF INTERESTS IN A PARTNERSHIP

Sec.

- 741. Recognition and character of gain or loss on sale or exchange.
- 742. Basis of transferee partner’s interest.
- 743. Special rules where section 754 election or substantial built-in loss.

AMENDMENTS

2004—Pub. L. 108-357, title VIII, §833(b)(6)(B), Oct. 22, 2004, 118 Stat. 1591, substituted “Special rules where section 754 election or substantial built-in loss” for “Optional adjustment to basis of partnership property” in item 743.

§741. Recognition and character of gain or loss on sale or exchange

In the case of a sale or exchange of an interest in a partnership, gain or loss shall be recognized to the transferor partner. Such gain or loss shall be considered as gain or loss from the sale or exchange of a capital asset, except as otherwise provided in section 751 (relating to unrealized receivables and inventory items).

(Aug. 16, 1954, ch. 736, 68A Stat. 248; Pub. L. 107-147, title IV, §417(12), Mar. 9, 2002, 116 Stat. 56.)

AMENDMENTS

2002—Pub. L. 107-147 struck out “which have appreciated substantially in value” after “inventory items”.

§742. Basis of transferee partner’s interest

The basis of an interest in a partnership acquired other than by contribution shall be determined under part II of subchapter O (sec. 1011 and following).

(Aug. 16, 1954, ch. 736, 68A Stat. 249.)