

1 **SEC. \_\_\_01. COORDINATION OF PARTNERSHIP AUDIT**  
2 **RULES.**

3 Section 701 is amended to read as follows:

4 **“SEC. 701. PARTNERS, NOT PARTNERSHIP, SUBJECT TO**  
5 **TAX.**

6 “Except as otherwise provided in this title—

7 “(1) a partnership as such shall not be subject  
8 to the income tax imposed by this chapter, and

9 “(2) persons carrying on business as partners  
10 shall be liable for income tax only in their separate  
11 or individual capacities.”.

12 **SEC. \_\_\_02. DETERMINATION OF PARTNER’S DISTRIBUTIVE**  
13 **SHARE.**

14 (a) IN GENERAL.—Section 704 is amended by strik-  
15 ing subsections (a) and (b) and inserting the following:

16 “(a) IN GENERAL.—A partner’s distributive share of  
17 a partnership’s applicable items shall, except as otherwise  
18 provided in this chapter, be determined in accordance with  
19 the partner’s interest in the partnership taking into ac-  
20 count—

21 “(1) the partner’s contributions to the partner-  
22 ship,

23 “(2) the partner’s interest in cash flow and  
24 other non-liquidating distributions,

1           “(3) the partner’s entitlements to distributions  
2           upon liquidation,

3           “(4) the partnership agreement, and

4           “(5) any other factor prescribed by the Sec-  
5           retary.”.

6           (b) REQUIRED USE OF CONSISTENT PERCENTAGE  
7           METHOD.—

8           (1) IN GENERAL.—Section 704, as amended by  
9           subsection (a), is amended by inserting after sub-  
10          section (a) the following new subsection:

11          “(b) REQUIRED USE OF CONSISTENT PERCENTAGE  
12          METHOD.—

13                 “(1) IN GENERAL.—Except as otherwise pro-  
14                 vided by the Secretary, in the case of a partnership  
15                 to which this subsection applies, a partner’s distribu-  
16                 tive share of the partnership’s applicable items shall  
17                 be determined using the consistent percentage meth-  
18                 od.

19                 “(2) PARTNERSHIP TO WHICH THIS SUB-  
20                 SECTION APPLIES.—This subsection applies to a  
21                 partnership if—

22                         “(A) two or more members of a controlled  
23                         group (within the meaning of section 267(f))  
24                         own (within the meaning of section 267(e)(3))

1           50 percent or more of the capital or profits in-  
2           terests in such partnership, or

3           “(B) it is a partnership which is specified  
4           by the Secretary in regulations or other guid-  
5           ance as being of a type to which this subpara-  
6           graph applies in order to prevent the avoidance  
7           of the purposes of this subsection.

8           “(3) REPORTING RULE.—Each partnership to  
9           which this subsection applies shall submit to the  
10          Secretary, at such time and in such manner as the  
11          Secretary may prescribe, a statement that such part-  
12          nership is a partnership to which this subsection ap-  
13          plies.

14          “(4) DEFINITIONS.—For purposes of this sec-  
15          tion—

16                  “(A) CONSISTENT PERCENTAGE METH-  
17                  OD.—The term ‘consistent percentage method’  
18                  means a method under which—

19                          “(i) a partner’s distributive share of  
20                          applicable items of a partnership is based  
21                          on the partner’s net contributed capital to  
22                          the partnership, and

23                          “(ii) except as otherwise provided in  
24                          this subchapter, the partner is allocated

1 the same share of each applicable item of  
2 the partnership.

3 “(B) NET CONTRIBUTED CAPITAL.—The  
4 term ‘net contributed capital’ means, with re-  
5 spect to any partner in a partnership, the ex-  
6 cess of—

7 “(i) the sum of the fair market value  
8 of all property and money contributed by  
9 the partner (or any predecessor of such  
10 partner) to the partnership, over

11 “(ii) the amount of liabilities assumed  
12 by the partnership in connection with any  
13 contribution by the partner (or any prede-  
14 cessor of such partner) to the partnership.

15 “(5) CROSS-REFERENCE.—For the treatment of  
16 partners in the event of certain rights or distribu-  
17 tions not in accordance with the consistent percent-  
18 age method, see section 707(d).”.

19 (2) TREATMENT OF CERTAIN RIGHTS AND DIS-  
20 TRIBUTIONS NOT IN ACCORDANCE WITH CONSISTENT  
21 PERCENTAGE METHOD.—Section 707 is amended by  
22 adding at the end the following new subsection:

23 “(d) DEEMED TRANSFERS IN CERTAIN CASES  
24 WHERE CERTAIN RIGHTS DO NOT REFLECT PARTNER-  
25 SHIP DISTRIBUTIVE SHARE.—

1           “(1) IN GENERAL.—Except as otherwise pro-  
2           vided by the Secretary, if a partner has an excess  
3           share with respect to any applicable partnership on  
4           any applicable date—

5                   “(A) such partner shall be treated as hav-  
6                   ing received an interest in the partnership in a  
7                   transaction between 2 or more partners acting  
8                   other than in their capacity as members of the  
9                   partnership, and

10                   “(B) notwithstanding any other provision  
11                   of this chapter—

12                           “(i) the value of such interest shall be  
13                           included in the gross income of the partner  
14                           receiving such interest in such transaction,  
15                           and

16                           “(ii) no deduction or loss shall be al-  
17                           lowed with respect to such transfer to any  
18                           partner treated as transferring all or a  
19                           portion of such interest in such trans-  
20                           action.

21           “(2) EXCESS SHARE.—For purposes of this  
22           subsection—

23                   “(A) IN GENERAL.—The term ‘excess  
24                   share’ means, with respect to any partner, the  
25                   amount by which—

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1 “(i) the partner’s interest in partner-  
2 ship assets distributable to such partner  
3 upon liquidation of the partnership as of  
4 any applicable date, exceeds

5 “(ii) the partner’s interest in partner-  
6 ship assets, determined as if such assets  
7 were distributable upon liquidation of the  
8 partnership to all partners based on each  
9 partner’s net contributed capital (as de-  
10 fined in section 704(b)(4)(B)) on such ap-  
11 plicable date.

12 “(B) APPLICABLE DATE.—For purposes of  
13 this paragraph, the term ‘applicable date’  
14 means any of the following:

15 “(i) The last day of any taxable year  
16 of the partnership.

17 “(ii) The date of any revaluation  
18 event (as defined in section 704(f)).

19 “(3) APPLICABLE PARTNERSHIP.—For pur-  
20 poses of this subsection, the term ‘applicable part-  
21 nership’ means any partnership to which subsection  
22 (b) of section 704 applies.”.

23 (c) APPLICABLE ITEMS AND REGULATIONS.—Section  
24 704 is amended by redesignating subsection (f) as sub-

1 section (h) and by inserting after subsection (e) the fol-  
2 lowing new subsections:

3 “(f) APPLICABLE ITEMS.—For purposes of this sec-  
4 tion, the term ‘applicable item’ means, with respect to any  
5 partnership, any item of income, gain, deduction, loss, or  
6 credit.

7 “(g) REGULATIONS AND GUIDANCE.—The Secretary  
8 shall prescribe such regulations and other guidance as nec-  
9 essary to carry out the purposes of this section, including  
10 regulations or other guidance—

11 “(1) to simplify the application of this section,  
12 and

13 “(2) for the application of this section to one or  
14 more tiers of partnership entities.”.

15 (d) REPORTING PENALTIES.—Section 6724(d)(1)(B)  
16 is amended by striking “or” at the end of clause (xxv),  
17 by striking “and” at the end of clause (xxvi) and inserting  
18 “or”, and by adding at the end the following new clause:

19 “(xxvii) section 704(b)(3) (relating to  
20 reporting rule for required use of con-  
21 sistent percentage method), and”.

22 (e) CONFORMING AMENDMENTS.—

23 (1) Section 168(h)(6)(B)(ii) is amended to read  
24 as follows:

1                   “(ii) is determined in accordance with  
2                   the partner’s interest in the partnership as  
3                   determined under section 704(a).”.

4                   (2) Section 514(c)(9)(E)(i)(II) is amended by  
5                   striking “has substantial economic effect within the  
6                   meaning of section 704(b)(2)” and inserting “is de-  
7                   termined in accordance with the partner’s interest in  
8                   the partnership as determined under section  
9                   704(a)”.

10                  (f) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to taxable years of partnerships  
12 beginning after December 31, 2023.

13 **SEC. \_\_\_03. ALLOCATION OF BUILT-IN-GAINS WITH RE-**  
14 **SPECT TO CONTRIBUTED PROPERTY.**

15                  (a) IN GENERAL.—Subparagraph (A) of section  
16 704(c)(1) is amended to read as follows:

17                   “(A) income, gain, loss, and deduction (in-  
18                   cluding notional items thereof) with respect to  
19                   property contributed to the partnership by a  
20                   partner shall be shared among the partners  
21                   under the remedial method prescribed by the  
22                   Secretary so as to take into account all of the  
23                   variation between the basis of the property to  
24                   the partnership and its fair market value at the  
25                   time of contribution.”.



1 (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply to property contributed to a part-  
3 nership after December 31, 2021.

4 **SEC. \_\_\_04. TREATMENT OF REVALUED PROPERTY.**

5 (a) IN GENERAL.—Section 704, as amended by sec-  
6 tion \_\_\_02(b), is amended by redesignating subsections (f),  
7 (g), and (h), as subsection (g), (h), and (i), respectively,  
8 and by inserting after subsection (e) the following new  
9 subsection:

10 “(f) REVALUED PROPERTY.—

11 “(1) IN GENERAL.—Under regulations pre-  
12 scribed by the Secretary, rules similar to the rules  
13 of paragraphs (1)(A) and (1)(C) of subsection (c)  
14 shall apply to any property held by a partnership at  
15 the time of a revaluation event.

16 “(2) REVALUATION EVENT.—For purposes of  
17 this subsection, the term ‘revaluation event’  
18 means—

19 “(A) any disproportionate contribution of  
20 money or other property (other than a de mini-  
21 mis amount) to the partnership,

22 “(B) any disproportionate distribution of  
23 money or other property (other than a de mini-  
24 mis amount) by the partnership,

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1           “(C) any grant of an interest in the part-  
2           nership (other than a de minimis interest) as  
3           consideration for the provision of services,

4           “(D) any issuance by the partnership of a  
5           non-compensatory option (other than an option  
6           for a de minimis partnership interest),

7           “(E) except as provided by the Secretary,  
8           any agreement to change (other than a de mini-  
9           mis change) the manner in which the partners  
10          share any item or class of items of income,  
11          gain, loss, deduction, or credit of the partner-  
12          ship, or

13          “(F) any other event prescribed by the  
14          Secretary.

15          “(3) APPLICATION TO TIERED ENTITIES.—If—

16                 “(A) a partnership (hereinafter in this  
17                 paragraph referred to as the ‘upper-tier part-  
18                 nership’) is a partner in another partnership  
19                 (hereinafter in this paragraph referred to as the  
20                 ‘lower-tier partnership’), and

21                 “(B) the upper-tier partnership holds more  
22                 than 50 percent of the capital or profits inter-  
23                 ests in the lower-tier partnership,

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1 then a revaluation event with respect to the upper-  
2 tier partnership shall be treated as a revaluation  
3 event with respect to the lower-tier partnership.”.

4 (b) CONFORMING AMENDMENTS.—

5 (1) Section 168(h)(6) is amended by striking  
6 “section 704(c)” each place it appears in subpara-  
7 graphs (B) and (C) and inserting “subsections (c)  
8 and (f) of section 704”.

9 (2) Section 514(c)(9)(E)(i) is amended by strik-  
10 ing “section 704(c)” and inserting “subsections (c)  
11 and (f) of section 704”.

12 (3) Section 613A(c)(7)(D) is amended by in-  
13 sserting after the fourth sentence the following new  
14 sentence: “In the case of any revaluation event (as  
15 defined in section 704(f)), section 704(f) shall apply  
16 in determining such share.”.

17 (4) Section 743(b) is amended by inserting  
18 after the third sentence the following new sentence:  
19 “In the case of any revaluation event (as defined in  
20 section 704(f)), section 704(f) shall apply in deter-  
21 mining such share.”.

22 (5) Section 897(k)(4)(C) is amended by striking  
23 “section 704(c)” each place it appears and inserting  
24 “subsections (c) and (f) of section 704”.

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1 (c) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply to revaluation events (as defined  
3 in section 704(f)(2) of the Internal Revenue Code of 1986,  
4 as added by this section) occurring after December 31,  
5 2021.

6 **SEC. \_\_\_ 05. REPEAL OF TIME LIMITATION ON TAXING**  
7 **PRECONTRIBUTION GAIN.**

8 (a) REPEAL OF TIME LIMITATION.—

9 (1) IN GENERAL.—Subparagraph (B) of section  
10 704(c)(1) is amended to read as follows:

11 “(B) if any property so contributed is dis-  
12 tributed (directly or indirectly) by the partner-  
13 ship (other than to the contributing partner)—

14 “(i) the contributing partner shall be  
15 treated as recognizing gain from the sale  
16 of such property in an amount equal to the  
17 gain which would have been allocated to  
18 such partner under subparagraph (A) by  
19 reason of the variation described in sub-  
20 paragraph (A) if the property had been  
21 sold at its fair market value at the time of  
22 the distribution,

23 “(ii) the character of such gain shall  
24 be determined by reference to the char-  
25 acter of the gain which would have resulted

1 if such property had been sold by the part-  
2 nership to the distributee, and

3 “(iii) appropriate adjustments shall be  
4 made to the adjusted basis of the contrib-  
5 uting partner’s interest in the partnership  
6 and to the adjusted basis of the property  
7 distributed to reflect any gain recognized  
8 under this subparagraph, and”.

9 (2) CONFORMING AMENDMENT.—Paragraph (1)  
10 of section 737(b) is amended by striking “within 7  
11 years of the distribution”.

12 (b) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to property contributed to a part-  
14 nership after December 31, 2021.

15 **SEC. \_\_\_ 06. MODIFICATION TO ALTERNATIVE RULE FOR**  
16 **DETERMINATION OF PARTNER’S BASIS IN IN-**  
17 **TEREST.**

18 (a) IN GENERAL.—Section 705(b) is amended by  
19 striking “upon a termination of the partnership”.

20 (b) EFFECTIVE DATE.—The amendment made by  
21 this section shall take effect on the date of the enactment  
22 of this Act.

1 **SEC. \_\_\_\_07. RULES RELATING TO TRANSACTIONS BETWEEN**  
2 **PARTNERS AND THE PARTNERSHIP, GUARAN-**  
3 **TEED PAYMENTS, AND LIQUIDATING DIS-**  
4 **TRIBUTIONS.**

5 (a) PAYMENT TO PARTNER FOR SERVICES OR USE  
6 OF CAPITAL.—

7 (1) TRANSACTIONS BETWEEN PARTNER AND  
8 PARTNERSHIP.—Paragraph (1) of section 707(a) is  
9 amended to read as follows:

10 “(1) IN GENERAL.—Except as otherwise pro-  
11 vided in this section or any other provision of this  
12 subchapter, if a partner engages in a transaction  
13 with a partnership, then the transaction shall be  
14 treated as occurring between a partnership and one  
15 who is not a partner.”.

16 (2) REPEAL OF TREATMENT OF GUARANTEED  
17 PAYMENTS.—

18 (A) IN GENERAL.—Section 707, as amend-  
19 ed by section \_\_\_\_02, is amended by striking  
20 subsection (c) and by redesignating subsection  
21 (d) as subsection (c).

22 (B) CONFORMING AMENDMENTS.—

23 (i) Section 199A(c)(4) is amended by  
24 inserting “and” at the end of subpara-  
25 graph (A), by striking subparagraph (B),

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1 and by redesignating subparagraph (C) as  
2 subparagraph (B).

3 (ii) Section 267(e) is amended by  
4 striking paragraph (4).

5 (iii) Section 704(b)(5), as amended by  
6 section \_\_\_\_02, is amended by striking  
7 “707(d)” and inserting “707(c)”.

8 (iv) Section 706(a) is amended by  
9 striking “and section 707(c)”.

10 (v) Section 2701(c)(1)(B) is amended  
11 by inserting “or” at the end of clause (i),  
12 by striking “, or” at the end of clause (ii)  
13 and inserting a period, and by striking  
14 clause (iii).

15 (vi) Section 7519(d) is amended by  
16 striking paragraph (5).

17 (3) EFFECTIVE DATE.—The amendments made  
18 by this subsection shall apply to transactions and  
19 payments after December 31, 2021.

20 (b) REPEAL OF TREATMENT OF PAYMENTS MADE IN  
21 LIQUIDATION OF RETIRING OR DECEASED PARTNER.—

22 (1) IN GENERAL.—Subpart B of part II of sub-  
23 chapter K of chapter 1 is amended by striking sec-  
24 tion 736 (and by striking the item relating to such  
25 section in the table of sections for such subpart).

## 16

1           (2) RETIRED PARTNERS AND SUCCESSORS IN  
2 INTEREST OF DECEASED PARTNERS TREATED AS  
3 PARTNERS UNTIL LIQUIDATION.—Section 761(d) is  
4 amended by adding at the end the following: “For  
5 purposes of this subchapter, any retired partner or  
6 any deceased partner’s successor in interest shall be  
7 treated as a partner until the complete liquidation of  
8 such partner’s or successor’s interest in the partner-  
9 ship.”.

10           (3) CONFORMING AMENDMENT.—

11           (A) Section 357(c)(3)(A) is amended by  
12 striking “payment of which either—” and all  
13 that follows through “then, for purposes of”  
14 and inserting “payment of which would give  
15 rise to a deduction, then, for purposes of”.

16           (B) Section 731(d) is amended—

17           (i) by striking “section 736 (relating  
18 to payments to a retiring partner or a de-  
19 ceased partner’s successor in interest),”,  
20 and

21           (ii) by striking “items), and” and in-  
22 serting “items) and”.

23           (C) Section 751(b)(2) is amended to read  
24 as follows:



1           “(2) EXCEPTION.—Paragraph (1) shall not  
2           apply to a distribution of property which the dis-  
3           tributee contributed to the partnership.”.

4           (D)(i) Section 753 is amended by striking  
5           “The amount includible” and all that follows  
6           and inserting “For treatment of income in re-  
7           spect of a decedent, see section 691.”

8           (ii) Section 691 is amended by strik-  
9           ing subsection (e).

10          (4) EFFECTIVE DATE.—The amendments made  
11          by this subsection shall apply to partners retiring or  
12          dying after December 31, 2021.

13 **SEC. \_08. APPLICATION OF RULES RELATING TO PAY-**  
14 **MENTS TO PARTNERS FOR PROPERTY OR**  
15 **SERVICES.**

16          (a) IN GENERAL.—Section 707(a)(2) is amended by  
17          striking “Under regulations prescribed by the Secretary—  
18          ” and inserting “Except as provided by the Secretary—  
19          ”.

20          (b) EFFECTIVE DATE.—The amendment made by  
21          this section shall apply to services performed or property  
22          transferred after the date of the enactment of this Act.

23          (c) RULE OF CONSTRUCTION.—Nothing in this sec-  
24          tion or the amendments made by this section shall be con-  
25          strued to create any inference with respect to the proper

1 treatment under section 707(a) of the Internal Revenue  
2 Code of 1986 with respect to payments from a partnership  
3 to a partner for property transferred or services performed  
4 on or before the date of the enactment of this Act.

5 **SEC. \_\_09. ELIMINATION OF PREFORMATION EXPENDITURE**

6 **EXCEPTION TO PARTNERSHIP TRANSACTION**

7 **RULES.**

8 (a) IN GENERAL.—Section 707(a)(2)(B) is amended  
9 by adding at the end the following new sentence: “For  
10 purposes of the preceding sentence, a transfer of money  
11 or other property by a partnership to a partner or by a  
12 partner to a partnership will not fail to be characterized  
13 as part of a sale or exchange of property because such  
14 transfer is made to reimburse the partner or partnership  
15 for an expenditure chargeable to capital account (deter-  
16 mined without regard to any election under this chap-  
17 ter).”.

18 (b) EFFECTIVE DATE.—

19 (1) IN GENERAL.—The amendment made by  
20 this section shall apply to property transferred after  
21 the date of the enactment of this Act.

22 (2) BINDING CONTRACT EXCEPTION.—The  
23 amendment made by subsection (a) shall not apply  
24 to a transfer of property described in section  
25 707(a)(2)(B)(i) of the Internal Revenue Code of

1 1986 if such transfer is pursuant to a binding con-  
2 tract in effect on the date of the enactment of this  
3 Act, and at all times thereafter before the transfer.

4 **SEC. \_10. PARTNERSHIP TERMINATIONS.**

5 (a) IN GENERAL.—Section 708(b)(1) is amended—

6 (1) by inserting “(or any related person to any  
7 of its partners)” after “by any of its partners”, and

8 (2) by adding at the end the following sentence:

9 “For purposes of the preceding sentence, a person is  
10 a related person to another person if the relationship  
11 between such persons would result in a disallowance  
12 of losses under section 267 or 707(b).”.

13 (b) EFFECTIVE DATE.—The amendments made by  
14 this section shall apply to taxable years beginning after  
15 the date of the enactment of this Act.

16 **SEC. \_11. REPEAL OF REQUIREMENT THAT INVENTORY BE**  
17 **SUBSTANTIALLY APPRECIATED IN CERTAIN**  
18 **PARTNERSHIP DISTRIBUTIONS TREATED AS**  
19 **SALE OR EXCHANGE.**

20 (a) IN GENERAL.—Clause (ii) of section  
21 751(b)(1)(A) is amended by striking “which have appre-  
22 ciated substantially in value”.

23 (b) CONFORMING AMENDMENT.—Section 751(b) is  
24 amended by striking paragraph (3).

1 (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to distributions after the date of  
3 the enactment of this Act.

4 **SEC. \_12. TREATMENT OF PARTNERSHIP DEBT.**

5 (a) IN GENERAL.—Section 752 is amended by adding  
6 at the end the following new subsection:

7 “(e) TREATMENT AND ALLOCATION OF PARTNER-  
8 SHIP LIABILITIES.—

9 “(1) IN GENERAL.—Except as provided in para-  
10 graph (2) or by the Secretary, all liabilities of a  
11 partnership shall be allocated among partners in ac-  
12 cordance with each partner’s share of partnership  
13 profits.

14 “(2) EXCEPTION.—

15 “(A) IN GENERAL.—Paragraph (1) shall  
16 not apply to bona fide indebtedness of the part-  
17 nership to a partner or to any related person to  
18 a partner. For purposes of the preceding sen-  
19 tence, a person is a related person to another  
20 person if the relationship between such persons  
21 would result in a disallowance of losses under  
22 section 267 or 707(b).

23 “(B) NONAPPLICATION TO GUARAN-  
24 TEES.—Subparagraph (A) shall not apply to  
25 any guarantee or similar arrangement.”.

## 21

1 (b) CLARIFICATION OF LIABILITY TO WHICH PROP-  
2 ERTY IS SUBJECT.—Section 752(c) is amended to read  
3 as follows:

4 “(c) LIABILITY TO WHICH PROPERTY IS SUBJECT.—  
5 For purposes of this section—

6 “(1) a liability to which property is subject shall  
7 be considered as a liability of the owner of the prop-  
8 erty, and

9 “(2) the amount of any such liability shall not  
10 exceed the fair market value of such property.”.

11 (c) TREATMENT OF GAIN.—

12 (1) IN GENERAL.—In the case of a taxpayer  
13 which recognizes gain by reason of the application of  
14 the amendments made by subsection (a), such tax-  
15 payer may elect to pay the net tax liability under  
16 this subsection in 8 equal annual installments over  
17 the 8-taxable year period beginning with the first  
18 taxable year beginning after December 31, 2021.

19 (2) DATE FOR PAYMENT OF INSTALLMENTS.—  
20 If an election is made under paragraph (1), the first  
21 installment shall be paid on the due date (deter-  
22 mined without regard to any extension of time for  
23 filing the return) for the return of tax for the tax-  
24 able year described paragraph (1)) and each suc-  
25 ceeding installment shall be paid on the due date (as

1 so determined) for the return of tax for the taxable  
2 year following the taxable year with respect to which  
3 the preceding installment was made.

4 (3) ACCELERATION OF PAYMENT.—If there is  
5 an addition to tax for failure to timely pay any in-  
6 stallment required under this subsection, a liquida-  
7 tion or sale of substantially all the assets of the tax-  
8 payer (including in a title 11 or similar case), a ces-  
9 sation of business by the taxpayer, or any similar  
10 circumstance, then the unpaid portion of all remain-  
11 ing installments shall be due on the date of such  
12 event (or in the case of a title 11 or similar case,  
13 the day before the petition is filed). The preceding  
14 sentence shall not apply to the sale of substantially  
15 all the assets of a taxpayer to a buyer if such buyer  
16 enters into an agreement with the Secretary under  
17 which such buyer is liable for the remaining install-  
18 ments due under this subsection in the same manner  
19 as if such buyer were the taxpayer.

20 (4) PRORATION OF DEFICIENCY TO INSTALL-  
21 MENTS.—If an election is made under paragraph (1)  
22 to pay the net tax liability under this subsection in  
23 installments and a deficiency has been assessed with  
24 respect to such net tax liability, the deficiency shall  
25 be prorated to the installments payable under para-

1 graph (1). The part of the deficiency so prorated to  
2 any installment the date for payment of which has  
3 not arrived shall be collected at the same time as,  
4 and as a part of, such installment. The part of the  
5 deficiency so prorated to any installment the date  
6 for payment of which has arrived shall be paid upon  
7 notice and demand from the Secretary. This sub-  
8 section shall not apply if the deficiency is due to  
9 negligence, to intentional disregard of rules and reg-  
10 ulations, or to fraud with intent to evade tax.

11 (5) ELECTION.—Any election under paragraph  
12 (1) shall be made not later than the due date for the  
13 return of tax for the first taxable year beginning  
14 after December 31, 2021 and shall be made in such  
15 manner as the Secretary shall provide.

16 (6) NET TAX LIABILITY UNDER THIS SUB-  
17 SECTION.—For purposes of this subsection—

18 (A) IN GENERAL.—The net tax liability  
19 under this subsection with respect to any tax-  
20 payer is the excess (if any) of—

21 (i) such taxpayer's net income tax for  
22 the taxable year in which an amount is in-  
23 cluded in the gross income of such tax-  
24 payer under the Internal Revenue Code of

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1 1986 by reason of the amendments made  
2 by subsection (a), over

3 (ii) such taxpayer's net income tax for  
4 such taxable year determined without re-  
5 gard to the amendments made by such  
6 subsection.

7 (B) NET INCOME TAX.—The term “net in-  
8 come tax” means the regular tax liability (as  
9 defined in section 26 of the Internal Revenue  
10 Code of 1986) reduced by the credits allowed  
11 under subparts A, B, and D of part IV of sub-  
12 chapter A of chapter 1 of such Code.

13 (7) INSTALLMENTS NOT TO PREVENT CREDIT  
14 OR REFUND OF OVERPAYMENTS OR INCREASE ESTI-  
15 MATED TAXES.—If an election is made under para-  
16 graph (1) to pay the net tax liability under this sub-  
17 section in installments—

18 (A) no installment of such net tax liability  
19 shall—

20 (i) in the case of a request for credit  
21 or refund, be taken into account as a li-  
22 ability for purposes of determining whether  
23 an overpayment exists for purposes of sec-  
24 tion 6402 of the Internal Revenue Code of



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1 1986 before the date on which such install-  
2 ment is due, or

3 (ii) for purposes of sections 6425,  
4 6654, and 6655 of such Code, be treated  
5 as a tax imposed by section 1 of such  
6 Code, section 11 of such Code, or sub-  
7 chapter L of chapter 1 of such Code, and  
8 (B) the first sentence of section 6403 of  
9 such Code shall not apply with respect to any  
10 such installment.

11 (d) EFFECTIVE DATE.—The amendments made by  
12 this section shall apply to taxable years beginning after  
13 December 31, 2021.

14 **SEC. 13. MANDATORY ADJUSTMENTS TO BASIS OF PART-**  
15 **nership PROPERTY IN CASE OF TRANSFER**  
16 **OF PARTNERSHIP INTERESTS.**

17 (a) IN GENERAL.—Section 743 is amended—

18 (1) by striking subsections (a), (c), (d), (e), and  
19 (f) and by redesignating subsection (b) as subsection  
20 (a),

21 (2) in subsection (a) (as so redesignated) by  
22 striking “with respect to which the election provided  
23 in section 754 is in effect or which has a substantial  
24 built-in loss immediately after such transfer”, and

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1 (3) by adding at the end the following new sub-  
2 section:

3 “(b) ALLOCATION OF BASIS.—The allocation of basis  
4 among partnership properties where subsection (a) is ap-  
5 plicable shall be made in accordance with the rules pro-  
6 vided in section 755.”.

7 (b) REPORTING.—

8 (1) IN GENERAL.—Section 6050K is amend-  
9 ed—

10 (A) in subsection (a), by striking “de-  
11 scribed in section 751(a)”,

12 (B) in subsection (c)(1), by striking the  
13 period at the end and inserting “, the amount  
14 received, and such other information as the Sec-  
15 retary may require. Such notification shall be  
16 furnished at such time and in such manner as  
17 the Secretary may require.”, and

18 (C) in the heading, by striking “**CER-**  
19 **TAIN**”.

20 (2) CONFORMING AMENDMENT.—The item re-  
21 lating to section 6050K in the table of sections for  
22 subpart B of part III of subchapter A of chapter 61  
23 is amended by striking “certain”.

24 (c) CONFORMING AMENDMENTS.—

1 (1) Section 732 is amended by striking sub-  
2 section (d) and by redesignating subsections (e) and  
3 (f) as subsections (d) and (e), respectively.

4 (2) Section 755 is amended—

5 (A) in subsection (a), by striking “section  
6 734(b) (relating to optional adjustment to the  
7 basis of partnership property in the case of a  
8 transfer of an interest in a partnership)” and  
9 inserting “section 734(a) (relating to adjust-  
10 ment to basis of partnership property)”, and

11 (B) in subsection (c), by striking “section  
12 734(b)” and inserting “section 734(a)”.

13 (3) Section 761(e)(2) is amended by striking  
14 “optional”.

15 (4) Section 6031 is amended by striking sub-  
16 section (f).

17 (5)(A) The heading for section 743 is amended  
18 to read as follows: “**ADJUSTMENT TO BASIS OF**  
19 **PARTNERSHIP PROPERTY**”.

20 (B) The item relating to section 743 in the  
21 table of sections for subpart C of part II of sub-  
22 chapter K of chapter 1 is amended to read as fol-  
23 lows:

“Sec. 743. Adjustment to basis of partnership property.”.

24 (6) The heading for subsection (a) (as redesign-  
25 nated by the preceding provisions of this Act) of sec-

1           tion 743 is amended by striking “ADJUSTMENT TO  
2           BASIS OF PARTNERSHIP PROPERTY” and inserting  
3           “IN GENERAL”.

4           (d) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to transfers after December 31,  
6 2021.

7   **SEC. \_14. MANDATORY ADJUSTMENTS TO BASIS OF UNDIS-**  
8                                   **TRIBUTED PARTNERSHIP PROPERTY.**

9           (a) IN GENERAL.—Section 734 is amended to read  
10 as follows:

11   **“SEC. 734. ADJUSTMENT TO BASIS OF UNDISTRIBUTED**  
12                                   **PARTNERSHIP PROPERTY.**

13           “(a) ADJUSTMENT.—

14                   “(1) IN GENERAL.—In the case of any distribu-  
15           tion to a partner, the partnership shall adjust the  
16           basis of partnership property such that each remain-  
17           ing partner’s net liquidation amount immediately  
18           after such distribution is equal to such partner’s net  
19           liquidation amount immediately before such distribu-  
20           tion.

21                   “(2) DETERMINATION.—For purposes of para-  
22           graph (1), a partner’s net liquidation amount imme-  
23           diately before a distribution shall be calculated after  
24           taking into account any adjustment to the basis of

1 property required by section 704(c)(1)(B) or 737  
2 with respect to such distribution.

3 “(b) DISTRIBUTIONS OTHER THAN IN LIQUIDATION  
4 OF A PARTNER’S INTEREST.—

5 “(1) IN GENERAL.—In the case of any distribu-  
6 tion to a partner other than in liquidation of such  
7 partner’s interest, proper adjustment shall be made  
8 under subsection (a) with respect to such partner to  
9 take into account—

10 “(A) the amount of any gain recognized by  
11 such partner with respect to such distribution  
12 under section 731(a), and

13 “(B) the amount of any gain or loss which  
14 would be recognized by such partner if such  
15 partner sold the property distributed at fair  
16 market value immediately after such distribu-  
17 tion.

18 “(2) REPORTING.—The Secretary may require  
19 such reporting as necessary to carry out this sub-  
20 section.

21 “(c) NET LIQUIDATION AMOUNT.—For purposes of  
22 this section, the term ‘net liquidation amount’ means, with  
23 respect to any partner, the net amount of gain or loss (if  
24 any) which would be taken into account (including gain  
25 or loss that would be taken into account by reason of sub-

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1 sections (c)(1)(A), (c)(1)(C), or (f)(1) of section 704) by  
2 the partner if the partnership sold all of its assets at fair  
3 market value (and no other amounts were taken into ac-  
4 count under such section).

5 “(d) ALLOCATION OF BASIS.—The allocation of basis  
6 among partnership properties where subsection (a) is ap-  
7 plicable shall be made in accordance with the rules pro-  
8 vided in section 755.”.

9 (b) CONFORMING AMENDMENTS.—

10 (1) Subpart D of part II of subchapter K of  
11 chapter 1 is amended by striking section 754 (and  
12 by striking the item relating to such section in the  
13 table of sections of such subpart).

14 (2) Section 755(a) is amended by striking “sec-  
15 tion 734(b) (relating to optional adjustment to the  
16 basis of undistributed partnership property)” and in-  
17 serting “section 734(a) (relating to adjustment to  
18 basis of undistributed partnership property)”.

19 (3) Section 901(m)(2)(C) is amended by strik-  
20 ing “which has an election in effect under section  
21 754”.

22 (c) EFFECTIVE DATE.—The amendments made by  
23 this section shall apply to distributions after December 31,  
24 2021.

1 **SEC. 15. APPLICATION OF LIMITATION ON BUSINESS IN-**  
2 **TEREST TO PARTNERSHIPS.**

3 (a) IN GENERAL.—Section 163(j)(4) is amended to  
4 read as follows:

5 “(4) APPLICATION TO PARTNERSHIPS, ETC.—

6 “(A) IN GENERAL.—In the case of any  
7 partnership—

8 “(i) this subsection shall be applied at  
9 the partnership level,

10 “(ii) each partner of such partnership  
11 shall be allowed a deduction equal to the  
12 lesser of—

13 “(I) such partner’s aggregate dis-  
14 allowed business interest with respect  
15 to such partnership for the taxable  
16 year, or

17 “(II) the sum of such partner’s  
18 share of such partnership’s excess  
19 business interest income, plus 30 per-  
20 cent of such partner’s share of such  
21 partnership’s excess taxable income,

22 “(iii) the business interest income and  
23 adjusted taxable income of each partner of  
24 such partnership shall be determined with-  
25 out regard to such partner’s distributive

1 share of any items of income, gain, deduc-  
2 tion, or loss of such partnership, and

3 “(iv) paragraph (2) shall not apply  
4 with respect to any business interest not  
5 allowed as a deduction at the partnership  
6 level.

7 “(B) BASIS ADJUSTMENTS.—

8 “(i) IN GENERAL.—A partner’s ad-  
9 justed basis in a partnership interest shall  
10 be reduced (but not below zero) by such  
11 partner’s share of the disallowed business  
12 interest of such partnership.

13 “(ii) SPECIAL RULE FOR DISPOSI-  
14 TIONS.—If a partner disposes of a partner-  
15 ship interest, the partner’s adjusted basis  
16 in the partnership interest shall be in-  
17 creased immediately before the disposition  
18 by the amount of the excess (if any) of the  
19 aggregate basis reduction under clause (i)  
20 over the aggregate deductions allowed  
21 under subparagraph (A)(ii). The preceding  
22 sentence shall also apply to transfers of the  
23 partnership interest (including by reason  
24 of death) in a transaction in which gain is  
25 not recognized in whole or in part. No de-



1           duction shall be allowed to the transferor  
2           or transferee under this chapter for any  
3           disallowed business interest resulting in a  
4           basis increase under this subclause.

5           “(C) EXCESS TAXABLE INCOME.—For pur-  
6           poses of this paragraph, the term ‘excess tax-  
7           able income’ means, with respect to any part-  
8           nership for any taxable year, the amount which  
9           bears the same ratio to the partnership’s ad-  
10          justed taxable income for such taxable year  
11          as—

12                   “(i) the excess (if any) of—

13                           “(I) the amount determined for  
14                           the partnership under paragraph  
15                           (1)(B) for such taxable year, over

16                           “(II) the amount (if any) by  
17                           which the business interest of the  
18                           partnership, reduced by the floor plan  
19                           financing interest, exceeds the busi-  
20                           ness interest income of the partner-  
21                           ship for such taxable year, bears to

22                           “(ii) the amount determined for the  
23                           partnership under paragraph (1)(B) for  
24                           such taxable year.

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1           “(D) EXCESS BUSINESS INTEREST IN-  
2 COME.—For purposes of this paragraph, the  
3 term ‘excess business interest income’ means,  
4 with respect to any partnership for any taxable  
5 year, the amount (if any) by which the business  
6 interest income of such partnership for such  
7 taxable year exceeds the business interest, re-  
8 duced by floor plan financing interest, of such  
9 partnership for such taxable year.

10           “(E) DISALLOWED BUSINESS INTEREST.—  
11 For purposes of this paragraph, the term ‘dis-  
12 allowed business interest’ means, with respect  
13 to any partnership for any taxable year, the  
14 amount (if any) by which business interest of  
15 such partnership for such taxable year exceeds  
16 the amount allowed as a deduction under para-  
17 graph (1) with respect to such partnership for  
18 such taxable year.

19           “(F) AGGREGATE DISALLOWED BUSINESS  
20 INTEREST.—For purposes of this paragraph,  
21 the term ‘aggregate disallowed business inter-  
22 est’ means, with respect to any partner in a  
23 partnership for any taxable year, the excess (if  
24 any) of—

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1           “(i) the aggregate of such partner’s  
2           share of disallowed business interest of  
3           such partnership for all taxable years pre-  
4           ceding such taxable year, over

5           “(ii) the aggregate of such partner’s  
6           share of disallowed business interest of  
7           such partnership for which a deduction has  
8           been allowed for all taxable years preceding  
9           such taxable year.

10          “(G) ALLOCATION RULES.—For purposes  
11          of this subsection, with respect to any partner-  
12          ship, a partner’s share of such partnership’s  
13          disallowed business interest, excess business in-  
14          terest income, and excess taxable income, shall  
15          be determined—

16               “(i) in the case of disallowed business  
17               interest, in the same manner as the items  
18               of business interest expense of the partner-  
19               ship,

20               “(ii) in the case of excess business in-  
21               terest income, in the same manner as the  
22               items of business interest income of the  
23               partnership, and

24               “(iii) in the case of excess taxable in-  
25               come, in the same manner as the items

1           that comprise adjusted taxable income of  
2           the partnership.

3           “(H) APPLICATION TO S CORPORATIONS.—  
4           Rules similar to the rules of subparagraph (A)  
5           (other than clauses (ii) and (iv)) shall apply  
6           with respect to any S corporation and its share-  
7           holders.

8           “(I) REGULATIONS AND GUIDANCE.—The  
9           Secretary shall prescribe such regulations and  
10          guidance as necessary to carry out the purposes  
11          of this paragraph, including regulations or  
12          guidance—

13                 “(i) for the application of this para-  
14                 graph to tiered partnerships, and

15                 “(ii) with respect to the determination  
16                 of a partner’s share of disallowed business  
17                 interest, excess business interest income,  
18                 and excess taxable income under subpara-  
19                 graph (G).”.

20          (b) EFFECTIVE DATE.—The amendment made by  
21          this section shall apply to taxable years beginning after  
22          December 31, 2021.

1 **SEC. \_\_16. REPEAL OF EXCEPTIONS FOR TREATMENT OF**  
2 **PUBLICLY TRADED PARTNERSHIPS.**

3 (a) IN GENERAL.—Section 7704 is amended by strik-  
4 ing subsections (c), (d), (e), and (g) and by redesignating  
5 subsection (f) as subsection (c).

6 (b) CONFORMING AMENDMENTS.—

7 (1) Section 199A(e) is amended by striking  
8 paragraph (4).

9 (2) Section 851(h) is amended by striking  
10 “other than a partnership which would satisfy the  
11 gross income requirements of section 7704(c)(2) if  
12 qualifying income included only income described in  
13 subsection (b)(2)(A)”.

14 (3) Section 897(k)(3)(B) is amended by insert-  
15 ing “or” at the end of clause (i), by striking clause  
16 (ii), and by redesignating clause (iii) as clause (ii).

17 (4) Section 988(c)(1)(E) is amended—

18 (A) by striking “income or gains described  
19 in subparagraph (A), (B), or (G) of section  
20 7704(d)(1) or” in clause (iii)(III) and inserting  
21 “interest income, dividend income, income and  
22 gains from commodities (not described in sec-  
23 tion 1221(a)(1)) or from futures, forwards, and  
24 options with respect to commodities, or “, and”

25 (B) by striking subclause (III) of clause  
26 (vi) and inserting the following:

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1                   “(III) INADVERTENT TERMI-  
2                   NATION.—If a partnership fails to  
3                   meet the gross income requirements  
4                   of clause (iii)(III), the Secretary de-  
5                   termines that such failure was inad-  
6                   vertent, no later than a reasonable  
7                   time after the discovery of such fail-  
8                   ure, steps are taken so that such part-  
9                   nership once more meets such gross  
10                  income requirements, and such part-  
11                  nership agrees to make such adjust-  
12                  ments (including adjustments with re-  
13                  spect to the partners) or to pay such  
14                  amounts as may be required by the  
15                  Secretary with respect to such period,  
16                  then, notwithstanding such failure,  
17                  such entity shall be treated as con-  
18                  tinuing to meet such gross income re-  
19                  quirements for such period.”.

20           (c) EFFECTIVE DATE.—The amendments made by  
21 this section shall apply to taxable years beginning after  
22 December 31, 2022.

1 **SEC. \_17. RECOGNITION OF GAIN ON CERTAIN DISTRIBUTIONS BY REGULATED INVESTMENT COMPANIES.**  
2  
3

4 (a) **IN GENERAL.**—Section 852(b) is amended by  
5 striking paragraph (6).

6 (b) **EFFECTIVE DATE.**—The amendments made by  
7 this section shall apply to taxable years beginning after  
8 December 31, 2022.

9 **SEC. \_18. RULES RELATING TO COMMON CONTROL.**

10 (a) **CLARIFICATION OF TRADE OR BUSINESS.**—Section  
11 52(b) is amended by adding at the end the following  
12 new sentence: “For purposes of this subsection, the term  
13 ‘trade or business’ includes any activity treated as a trade  
14 or business under paragraph (5) or (6) of section 469(c).”.

15 (b) **EFFECTIVE DATE.**—The amendment made by  
16 this section shall apply to taxable years beginning after  
17 December 31, 2021.