

with the month in which the partnership begins business.

**(2) Dispositions before close of amortization period**

In any case in which a partnership is liquidated before the end of the period to which paragraph (1)(B) applies, any deferred expenses attributable to the partnership which were not allowed as a deduction by reason of this section may be deducted to the extent allowable under section 165.

**(3) Organizational expenses defined**

The organizational expenses to which paragraph (1) applies, are expenditures which—

(A) are incident to the creation of the partnership;

(B) are chargeable to capital account; and

(C) are of a character which, if expended incident to the creation of a partnership having an ascertainable life, would be amortized over such life.

(Added Pub. L. 94-455, title II, §213(b)(1), Oct. 4, 1976, 90 Stat. 1547; amended Pub. L. 108-357, title VIII, §902(c), Oct. 22, 2004, 118 Stat. 1651; Pub. L. 109-135, title IV, §403(l), Dec. 21, 2005, 119 Stat. 2632.)

AMENDMENTS

2005—Subsec. (b)(1). Pub. L. 109-135 substituted “partnership” for “taxpayer” in introductory provisions and before “shall be allowed” in subpar. (A).

2004—Subsec. (b). Pub. L. 108-357 substituted “Deduction” for “Amortization” in heading, added par. (2), redesignated former par. (2) as (3), and amended heading and text of par. (1) generally. Prior to amendment, text of par. (1) read as follows: “Amounts paid or incurred to organize a partnership may, at the election of the partnership (made in accordance with regulations prescribed by the Secretary), be treated as deferred expenses. Such deferred expenses shall be allowed as a deduction ratably over such period of not less than 60 months as may be selected by the partnership (beginning with the month in which the partnership begins business), or if the partnership is liquidated before the end of such 60-month period, such deferred expenses (to the extent not deducted under this section) may be deducted to the extent provided in section 165.”

EFFECTIVE DATE OF 2005 AMENDMENT

Amendment by Pub. L. 109-135 effective as if included in the provision of the American Jobs Creation Act of 2004, Pub. L. 108-357, to which such amendment relates, see section 403(nn) of Pub. L. 109-135, set out as a note under section 26 of this title.

EFFECTIVE DATE OF 2004 AMENDMENT

Amendment by Pub. L. 108-357 applicable to amounts paid or incurred after Oct. 22, 2004, see section 902(d) of Pub. L. 108-357, set out as a note under section 195 of this title.

EFFECTIVE DATE

Section 213(f) of Pub. L. 94-455, as amended by Pub. L. 99-514, §2, Oct. 22, 1986, 100 Stat. 2095, provided that:

“(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section [enacting this section and amending sections 179, 704, 706, 707, and 761 of this title] shall apply in the case of partnership taxable years beginning after December 31, 1975.

“(2) SUBSECTION (e).—The amendment made by subsection (e) [amending section 704 of this title] shall apply to liabilities incurred after December 31, 1976.

“(3) SECTION 709(b) OF THE CODE.—Section 709(b) of the Internal Revenue Code of 1986 [formerly I.R.C. 1954] (as

added by the amendment made by subsection (b)(1) of this section) shall apply in the case of amounts paid or incurred in taxable years beginning after December 31, 1976.”

PART II—CONTRIBUTIONS, DISTRIBUTIONS, AND TRANSFERS

Subpart

- A. Contributions to a partnership.
- B. Distributions by a partnership.
- C. Transfers of interests in a partnership.
- D. Provisions common to other subparts.

SUBPART A—CONTRIBUTIONS TO A PARTNERSHIP

Sec.

- 721. Nonrecognition of gain or loss on contribution.
- 722. Basis of contributing partner’s interest.
- 723. Basis of property contributed to partnership.
- 724. Character of gain or loss on contributed unrealized receivables, inventory items, and capital loss property.

AMENDMENTS

1984—Pub. L. 98-369, div. A, title I, §74(c), July 18, 1984, 98 Stat. 593, added item 724.

**§ 721. Nonrecognition of gain or loss on contribution**

**(a) General rule**

No gain or loss shall be recognized to a partnership or to any of its partners in the case of a contribution of property to the partnership in exchange for an interest in the partnership.

**(b) Special rule**

Subsection (a) shall not apply to gain realized on a transfer of property to a partnership which would be treated as an investment company (within the meaning of section 351) if the partnership were incorporated.

**(c) Regulations relating to certain transfers to partnerships**

The Secretary may provide by regulations that subsection (a) shall not apply to gain realized on the transfer of property to a partnership if such gain, when recognized, will be includible in the gross income of a person other than a United States person.

**(d) Transfers of intangibles**

**For regulatory authority to treat intangibles transferred to a partnership as sold, see section 367(d)(3).**

(Aug. 16, 1954, ch. 736, 68A Stat. 245; Pub. L. 94-455, title XXI, §2131(b), Oct. 4, 1976, 90 Stat. 1924; Pub. L. 105-34, title XI, §1131(b)(3), (5)(B), Aug. 5, 1997, 111 Stat. 979, 980.)

CODIFICATION

Another section 1131(b) of Pub. L. 105-34 enacted section 684 of this title.

AMENDMENTS

1997—Subsec. (c). Pub. L. 105-34, §1131(b)(3), added subsec. (c).

Subsec. (d). Pub. L. 105-34, §1131(b)(5)(B), added subsec. (d).

1976—Pub. L. 94-455 designated existing provisions as subsec. (a), added subsec. (a) heading “General rule”, and added subsec. (b).

EFFECTIVE DATE OF 1976 AMENDMENT

Section 2131(f)(3)–(5) of Pub. L. 94-455 provided that:

“(3) Except as provided in paragraph (4), the amendments made by subsections (b) and (c) [amending this 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

Section 722(f)(2) of Pub. L. 98-369 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 “Subparagaph”.

EFFECTIVE DATE OF 1997 AMENDMENT

Section 1062(c) of Pub. L. 105-34 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

Section 74(d)(1) of Pub. L. 98-369 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—