

110TH CONGRESS
1ST SESSION

S. _____

To amend the Internal Revenue Code of 1986 to provide that the exception from the treatment of publicly traded partnerships as corporations for partnerships with passive-type income shall not apply to partnerships directly or indirectly deriving income from providing investment adviser and related asset management services.

IN THE SENATE OF THE UNITED STATES

Mr. BAUCUS (for himself and Mr. GRASSLEY) introduced the following bill; which was read twice and referred to the Committee on

A BILL

To amend the Internal Revenue Code of 1986 to provide that the exception from the treatment of publicly traded partnerships as corporations for partnerships with passive-type income shall not apply to partnerships directly or indirectly deriving income from providing investment adviser and related asset management services.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. EXCEPTION FROM TREATMENT OF PUBLICLY**
2 **TRADED PARTNERSHIPS AS CORPORATIONS**
3 **NOT TO APPLY TO PARTNERSHIPS DIRECTLY**
4 **OR INDIRECTLY DERIVING INCOME FROM**
5 **PROVIDING INVESTMENT ADVISER AND RE-**
6 **LATED ASSET MANAGEMENT SERVICES.**

7 (a) IN GENERAL.—Section 7704(c) of the Internal
8 Revenue Code of 1986 (relating to exception for partner-
9 ships with passive-type income) is amended by adding at
10 the end the following new paragraph:

11 “(4) EXCEPTION NOT TO APPLY TO PARTNER-
12 SHIPS PROVIDING CERTAIN INVESTMENT ADVISER
13 AND RELATED ASSET MANAGEMENT SERVICES.—
14 This subsection shall not apply to any partnership
15 which directly or indirectly has any item of income
16 or gain (including capital gains or dividends), the
17 rights to which are derived from—

18 “(A) services provided by any person as an
19 investment adviser (as defined in section
20 202(a)(11) of the Investment Advisers Act of
21 1940, 15 U.S.C. 80b-2(a)(11)) or as a person
22 associated with an investment adviser (as de-
23 fined in section 202(a)(17) of the Investment
24 Advisers Act of 1940, 15 U.S.C. 80b-2(a)(17)),
25 or

1 “(B) asset management services provided
2 by any person described in subparagraph (A)
3 (or any related person) in connection with the
4 management of assets with respect to which
5 services described in subparagraph (A) were
6 provided.

7 For purposes of subparagraph (A), the determina-
8 tion as to whether services provided by any person
9 were provided as an investment adviser shall be
10 made without regard to whether the person is re-
11 quired to register as an investment adviser under
12 the Investment Advisers Act of 1940.”.

13 (b) EFFECTIVE DATE.—

14 (1) IN GENERAL.—Except as provided in para-
15 graph (2), the amendment made by this section shall
16 apply to taxable years of a partnership beginning on
17 or after June 14, 2007.

18 (2) TRANSITION RULE FOR CERTAIN PARTNER-
19 SHIPS.—In the case of a partnership—

20 (A) the interests in which on June 14,
21 2007, were—

22 (i) traded on an established securities
23 market, or

1 (ii) readily tradeable on a secondary
2 market (or the substantial equivalent
3 thereof), or

4 (B) which, on or before June 14, 2007,
5 filed a registration statement with the Securi-
6 ties and Exchange Commission under section 6
7 of the Securities Act of 1933 (15 U.S.C. 77f)
8 which was required solely by reason of an initial
9 public offering of interests in the partnership,
10 the amendment made by this section shall apply to
11 taxable years of the partnership beginning on or
12 after June 14, 2012. Subparagraph (B) shall not
13 apply to a registration statement which is filed with
14 respect to securities which are to be issued on a de-
15 layed or continuous basis (as determined under the
16 rules of the Securities and Exchange Commission
17 promulgated under such Act).