SEC. 01. COORDINATION OF PARTNERSHIP AUDIT RULES.

Section 701 is amended to read as follows:

"SEC. 701. PARTNERS, NOT PARTNERSHIP, SUBJECT TO TAX.

"Except as otherwise provided in this title—

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

"(2) persons carrying on business as partners shall be liable for income tax only in their separate or individual capacities."

SEC. 02. DETERMINATION OF PARTNER'S DISTRIBUTIVE SHARE.

(a) IN GENERAL.—Section 704 is amended by striking subsections (a) and (b) and inserting the following:

"(a) IN GENERAL.—A partner’s distributive share of a partnership’s applicable items shall, except as otherwise provided in this chapter, be determined in accordance with the partner’s interest in the partnership taking into account—

"(1) the partner’s contributions to the partnership,

"(2) the partner’s interest in cash flow and other non-liquidating distributions,"
“(3) the partner’s entitlements to distributions upon liquidation,

“(4) the partnership agreement, and

“(5) any other factor prescribed by the Secretary.”.

(b) REQUIRED USE OF CONSISTENT PERCENTAGE METHOD.—

(1) IN GENERAL.—Section 704, as amended by subsection (a), is amended by inserting after subsection (a) the following new subsection:

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

“(1) IN GENERAL.—Except as otherwise provided by the Secretary, in the case of a partnership to which this subsection applies, a partner’s distributive share of the partnership’s applicable items shall be determined using the consistent percentage method.

“(2) PARTNERSHIP TO WHICH THIS SUBSECTION APPLIES.—This subsection applies to a partnership if—

“(A) two or more members of a controlled group (within the meaning of section 267(f)) own (within the meaning of section 267(e)(3))
50 percent or more of the capital or profits interests in such partnership, or

“(B) it is a partnership which is specified by the Secretary in regulations or other guidance as being of a type to which this subparagraph applies in order to prevent the avoidance of the purposes of this subsection.

“(3) REPORTING RULE.—Each partnership to which this subsection applies shall submit to the Secretary, at such time and in such manner as the Secretary may prescribe, a statement that such partnership is a partnership to which this subsection applies.

“(4) DEFINITIONS.—For purposes of this section—

“(A) CONSISTENT PERCENTAGE METHOD.—The term ‘consistent percentage method’ means a method under which—

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

“(ii) except as otherwise provided in this subchapter, the partner is allocated
the same share of each applicable item of
the partnership.

“(B) Net contributed capital.—The
term ‘net contributed capital’ means, with re-
pect to any partner in a partnership, the ex-
cess of—

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

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

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

(2) Treatment of certain rights and dis-
tributions not in accordance with consistent
percentage method.—Section 707 is amended by
adding at the end the following new subsection:

“(d) Deemed transfers in certain cases
where certain rights do not reflect partner-
ship distributive share.—
“(1) IN GENERAL.—Except as otherwise provided by the Secretary, if a partner has an excess share with respect to any applicable partnership on any applicable date—

“(A) such partner shall be treated as having received an interest in the partnership in a transaction between 2 or more partners acting other than in their capacity as members of the partnership, and

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

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

“(ii) no deduction or loss shall be allowed with respect to such transfer to any partner treated as transferring all or a portion of such interest in such transaction.

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

“(A) IN GENERAL.—The term ‘excess share’ means, with respect to any partner, the amount by which—
“(i) the partner’s interest in partnership assets distributable to such partner upon liquidation of the partnership as of any applicable date, exceeds

“(ii) the partner’s interest in partnership assets, determined as if such assets were distributable upon liquidation of the partnership to all partners based on each partner’s net contributed capital (as defined in section 704(b)(4)(B)) on such applicable date.

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

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

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

“(3) APPLICABLE PARTNERSHIP.—For purposes of this subsection, the term ‘applicable partnership’ means any partnership to which subsection (b) of section 704 applies.”.

(e) APPLICABLE ITEMS AND REGULATIONS.—Section 704 is amended by redesignating subsection (f) as sub-
section (h) and by inserting after subsection (e) the fol-
lowing new subsections:

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

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

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

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

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

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

(e) CONFORMING AMENDMENTS.—

(1) Section 168(h)(6)(B)(ii) is amended to read
as follows:
“(ii) is determined in accordance with the partner’s interest in the partnership as determined under section 704(a).”.

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

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

SEC. __03. ALLOCATION OF BUILT-IN-GAINS WITH RESPECT TO CONTRIBUTED PROPERTY.

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

“(A) income, gain, loss, and deduction (including notional items thereof) with respect to property contributed to the partnership by a partner shall be shared among the partners under the remedial method prescribed by the Secretary so as to take into account all of the variation between the basis of the property to the partnership and its fair market value at the time of contribution,”.
(b) **Effective Date.**—The amendment made by this section shall apply to property contributed to a partnership after December 31, 2021.

**SEC.  __04. Treatment of Revalued Property.**

(a) **In General.**—Section 704, as amended by section __02(b), is amended by redesignating subsections (f), (g), and (h), as subsection (g), (h), and (i), respectively, and by inserting after subsection (e) the following new subsection:

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(f) **Revalued Property.**—

(1) **In General.**—Under regulations prescribed by the Secretary, rules similar to the rules of paragraphs (1)(A) and (1)(C) of subsection (c) shall apply to any property held by a partnership at the time of a revaluation event.

(2) **Revaluation Event.**—For purposes of this subsection, the term ‘revaluation event’ means—

(A) any disproportionate contribution of money or other property (other than a de minimis amount) to the partnership,

(B) any disproportionate distribution of money or other property (other than a de minimis amount) by the partnership,
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“(C) any grant of an interest in the partnership (other than a de minimis interest) as consideration for the provision of services,

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

“(E) except as provided by the Secretary, any agreement to change (other than a de minimis change) the manner in which the partners share any item or class of items of income, gain, loss, deduction, or credit of the partnership, or

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

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

“(A) a partnership (hereinafter in this paragraph referred to as the ‘upper-tier partnership’) is a partner in another partnership (hereinafter in this paragraph referred to as the ‘lower-tier partnership’), and

“(B) the upper-tier partnership holds more than 50 percent of the capital or profits interests in the lower-tier partnership,
then a revaluation event with respect to the upper-tier partnership shall be treated as a revaluation event with respect to the lower-tier partnership.”.

(b) CONFORMING AMENDMENTS.—

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

(2) Section 514(c)(9)(E)(i) is amended by striking “section 704(c)” and inserting “subsections (c) and (f) of section 704”.

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

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

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

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

SEC. __05. REPEAL OF TIME LIMITATION ON TAXING PRECONTRIBUTION GAIN.

(a) Repeal of Time Limitation.—

(1) In general.—Subparagraph (B) of section 704(c)(1) is amended to read as follows:

“(B) if any property so contributed is distributed (directly or indirectly) by the partnership (other than to the contributing partner)—

“(i) the contributing partner shall be treated as recognizing gain from the sale of such property in an amount equal to the gain which would have been allocated to such partner under subparagraph (A) by reason of the variation described in subparagraph (A) if the property had been sold at its fair market value at the time of the distribution,

“(ii) the character of such gain shall be determined by reference to the character of the gain which would have resulted
if such property had been sold by the partnership to the distributee, and

“(iii) appropriate adjustments shall be made to the adjusted basis of the contributing partner’s interest in the partnership and to the adjusted basis of the property distributed to reflect any gain recognized under this subparagraph, and”.

(2) Conforming amendment.—Paragraph (1) of section 737(b) is amended by striking “within 7 years of the distribution”.

(b) Effective date.—The amendments made by this section shall apply to property contributed to a partnership after December 31, 2021.

SEC. 106. MODIFICATION TO ALTERNATIVE RULE FOR DETERMINATION OF PARTNER’S BASIS IN INTEREST.

(a) In general.—Section 705(b) is amended by striking “upon a termination of the partnership”.

(b) Effective date.—The amendment made by this section shall take effect on the date of the enactment of this Act.
SEC. 07. RULES RELATING TO TRANSACTIONS BETWEEN
PARTNERS AND THE PARTNERSHIP, GUARAN-
TEED PAYMENTS, AND LIQUIDATING DIS-
TRIBUTIONS.

(a) Payment to Partner for Services or Use
of Capital.—

(1) Transactions between partner and
partnership.—Paragraph (1) of section 707(a) is
amended to read as follows:

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

(2) Repeal of treatment of guaranteed
payments.—

(A) In general.—Section 707, as amend-
ed by section ____02, is amended by striking
subsection (c) and by redesignating subsection
(d) as subsection (c).

(B) Conforming amendments.—

(i) Section 199A(c)(4) is amended by
inserting “and” at the end of subpara-
graph (A), by striking subparagraph (B),
and by redesignating subparagraph (C) as subparagraph (B).

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

(iii) Section 704(b)(5), as amended by section ____02, is amended by striking “707(d)” and inserting “707(c)”.

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

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

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

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

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

(1) IN GENERAL.—Subpart B of part II of subchapter K of chapter 1 is amended by striking section 736 (and by striking the item relating to such section in the table of sections for such subpart).
(2) Retired partners and successors in interest of deceased partners treated as partners until liquidation.—Section 761(d) is amended by adding at the end the following: “For purposes of this subchapter, any retired partner or any deceased partner’s successor in interest shall be treated as a partner until the complete liquidation of such partner’s or successor’s interest in the partnership.”.

(3) Conforming amendment.—

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

(B) Section 731(d) is amended—

(i) by striking “section 736 (relating to payments to a retiring partner or a deceased partner’s successor in interest),”, and

(ii) by striking “items), and” and inserting “items) and”.

(C) Section 751(b)(2) is amended to read as follows:
“(2) Exception.—Paragraph (1) shall not apply to a distribution of property which the distributee contributed to the partnership.”.

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

(ii) Section 691 is amended by striking subsection (e).

(4) Effective date.—The amendments made by this subsection shall apply to partners retiring or dying after December 31, 2021.

SEC. _08. APPLICATION OF RULES RELATING TO PAYMENTS TO PARTNERS FOR PROPERTY OR SERVICES.

(a) In general.—Section 707(a)(2) is amended by striking “Under regulations prescribed by the Secretary—” and inserting “Except as provided by the Secretary—”.

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

(e) Rule of construction.—Nothing in this section or the amendments made by this section shall be construed to create any inference with respect to the proper...
treatment under section 707(a) of the Internal Revenue
Code of 1986 with respect to payments from a partnership
to a partner for property transferred or services performed
on or before the date of the enactment of this Act.

SEC. 09. ELIMINATION OF PREFORMATION EXPENDITURE
EXCEPTION TO PARTNERSHIP TRANSACTION
RULES.

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

(b) Effective Date.—

(1) In General.—The amendment made by
this section shall apply to property transferred after
the date of the enactment of this Act.

(2) Binding Contract Exception.—The
amendment made by subsection (a) shall not apply
to a transfer of property described in section
707(a)(2)(B)(i) of the Internal Revenue Code of
1986 if such transfer is pursuant to a binding contract in effect on the date of the enactment of this Act, and at all times thereafter before the transfer.

SEC. 10. PARTNERSHIP TERMINATIONS.

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

(1) by inserting ``(or any related person to any of its partners)'' after ``by any of its partners'', and

(2) by adding at the end the following sentence:``For purposes of the preceding sentence, a person is a related person to another person if the relationship between such persons would result in a disallowance of losses under section 267 or 707(b).''.

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

SEC. 11. REPEAL OF REQUIREMENT THAT INVENTORY BE SUBSTANTIALLY APPRECIATED IN CERTAIN PARTNERSHIP DISTRIBUTIONS TREATED AS SALE OR EXCHANGE.

(a) IN GENERAL.—Clause (ii) of section 751(b)(1)(A) is amended by striking ``which have appreciated substantially in value''.

(b) CONFORMING AMENDMENT.—Section 751(b) is amended by striking paragraph (3).
(c) **Effective Date.**—The amendments made by this section shall apply to distributions after the date of the enactment of this Act.

**SEC. 12. Treatment of Partnership Debt.**

(a) **In General.**—Section 752 is amended by adding at the end the following new subsection:

"(e) **Treatment and Allocation of Partnership Liabilities.**—

"(1) **In General.**—Except as provided in paragraph (2) or by the Secretary, all liabilities of a partnership shall be allocated among partners in accordance with each partner’s share of partnership profits.

"(2) **Exception.**—

"(A) **In General.**—Paragraph (1) shall not apply to bona fide indebtedness of the partnership to a partner or to any related person to a partner. For purposes of the preceding sentence, a person is a related person to another person if the relationship between such persons would result in a disallowance of losses under section 267 or 707(b).

"(B) **Nonapplication to Guarantees.**—Subparagraph (A) shall not apply to any guarantee or similar arrangement.".
(b) **Clarification of Liability to Which Property is Subject.**—Section 752(e) is amended to read as follows:

“(e) **Liability to Which Property Is Subject.**—

For purposes of this section—

“(1) a liability to which property is subject shall be considered as a liability of the owner of the property, and

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

(c) **Treatment of Gain.**—

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

(2) **Date for Payment of Installments.**—

If an election is made under paragraph (1), the first installment shall be paid on the due date (determined without regard to any extension of time for filing the return) for the return of tax for the taxable year described paragraph (1)) and each succeeding installment shall be paid on the due date (as
so determined) for the return of tax for the taxable
year following the taxable year with respect to which
the preceding installment was made.

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

(4) PRORATION OF DEFICIENCY TO INSTALL-
MENTS.—If an election is made under paragraph (1)
to pay the net tax liability under this subsection in
installments and a deficiency has been assessed with
respect to such net tax liability, the deficiency shall
be prorated to the installments payable under para-
The part of the deficiency so prorated to any installment the date for payment of which has not arrived shall be collected at the same time as, and as a part of, such installment. The part of the deficiency so prorated to any installment the date for payment of which has arrived shall be paid upon notice and demand from the Secretary. This subsection shall not apply if the deficiency is due to negligence, to intentional disregard of rules and regulations, or to fraud with intent to evade tax.

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

(6) NET TAX LIABILITY UNDER THIS SUBSECTION.—For purposes of this subsection—

(A) IN GENERAL.—The net tax liability under this subsection with respect to any taxpayer is the excess (if any) of—

(i) such taxpayer’s net income tax for the taxable year in which an amount is included in the gross income of such taxpayer under the Internal Revenue Code of
1986 by reason of the amendments made
by subsection (a), over
(ii) such taxpayer’s net income tax for
such taxable year determined without re-
gard to the amendments made by such
subsection.

(B) Net income tax.—The term “net in-
come tax” means the regular tax liability (as
defined in section 26 of the Internal Revenue
Code of 1986) reduced by the credits allowed
under subparts A, B, and D of part IV of sub-
chapter A of chapter 1 of such Code.

(7) Installments not to prevent credit
or refund of overpayments or increase es-
imated taxes.—If an election is made under para-
graph (1) to pay the net tax liability under this sub-
section in installments—

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

(i) in the case of a request for credit
or refund, be taken into account as a li-
ability for purposes of determining whether
an overpayment exists for purposes of sec-
section 6402 of the Internal Revenue Code of
1986 before the date on which such install-
ment is due, or

(ii) for purposes of sections 6425, 6654, and 6655 of such Code, be treated as a tax imposed by section 1 of such Code, section 11 of such Code, or sub-
chapter L of chapter 1 of such Code, and

(B) the first sentence of section 6403 of such Code shall not apply with respect to any such installment.

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

SEC. 13. MANDATORY ADJUSTMENTS TO BASIS OF PART-
NERSHIP PROPERTY IN CASE OF TRANSFER OF PARTNERSHIP INTERESTS.

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

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

(2) in subsection (a) (as so redesignated) by striking “with respect to which the election provided in section 754 is in effect or which has a substantial built-in loss immediately after such transfer”, and
(3) by adding at the end the following new subsection:

“(b) **Allocation of Basis.**—The allocation of basis among partnership properties where subsection (a) is applicable shall be made in accordance with the rules provided in section 755.”.

(b) **Reporting.**—

(1) **In General.**—Section 6050K is amended—

(A) in subsection (a), by striking “described in section 751(a)”,

(B) in subsection (c)(1), by striking the period at the end and inserting “, the amount received, and such other information as the Secretary may require. Such notification shall be furnished at such time and in such manner as the Secretary may require.”, and

(C) in the heading, by striking “**CERTAIN**”.

(2) **Conforming Amendment.**—The item relating to section 6050K in the table of sections for subpart B of part III of subchapter A of chapter 61 is amended by striking “certain”.

(c) **Conforming Amendments.**—
(1) Section 732 is amended by striking subsection (d) and by redesignating subsections (e) and (f) as subsections (d) and (e), respectively.

(2) Section 755 is amended—

   (A) in subsection (a), by striking “section 734(b) (relating to optional adjustment to the basis of partnership property in the case of a transfer of an interest in a partnership)” and inserting “section 734(a) (relating to adjustment to basis of partnership property)”, and

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

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

(4) Section 6031 is amended by striking subsection (f).

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

   (B) The item relating to section 743 in the table of sections for subpart C of part II of subchapter K of chapter 1 is amended to read as follows:

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

(6) The heading for subsection (a) (as redesignated by the preceding provisions of this Act) of sec-
(d) Effective Date.—The amendments made by this section shall apply to transfers after December 31, 2021.

SEC. 14. MANDATORY ADJUSTMENTS TO BASIS OF UNDISTRIBUTED PARTNERSHIP PROPERTY.

(a) In General.—Section 734 is amended to read as follows:

“SEC. 734. ADJUSTMENT TO BASIS OF UNDISTRIBUTED PARTNERSHIP PROPERTY.

“(a) Adjustment.—

“(1) In general.—In the case of any distribution to a partner, the partnership shall adjust the basis of partnership property such that each remaining partner’s net liquidation amount immediately after such distribution is equal to such partner’s net liquidation amount immediately before such distribution.

“(2) Determination.—For purposes of paragraph (1), a partner’s net liquidation amount immediately before a distribution shall be calculated after taking into account any adjustment to the basis of property made under paragraph (1).”
property required by section 704(c)(1)(B) or 737
with respect to such distribution.

“(b) Distributions Other Than in Liquidation
of a Partner’s Interest.—

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

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

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

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

“(c) Net Liquidation Amount.—For purposes of
this section, the term ‘net liquidation amount’ means, with
respect to any partner, the net amount of gain or loss (if
any) which would be taken into account (including gain
or loss that would be taken into account by reason of sub-
sections (c)(1)(A), (c)(1)(C), or (f)(1) of section 704) by the partner if the partnership sold all of its assets at fair market value (and no other amounts were taken into account under such section).

“(d) **Allocation of Basis.**—The allocation of basis among partnership properties where subsection (a) is applicable shall be made in accordance with the rules provided in section 755.”.

(b) **Conforming Amendments.**—

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

(2) Section 755(a) is amended by striking “section 734(b) (relating to optional adjustment to the basis of undistributed partnership property)” and inserting “section 734(a) (relating to adjustment to basis of undistributed partnership property)”.

(3) Section 901(m)(2)(C) is amended by striking “which has an election in effect under section 754”.

(c) **Effective Date.**—The amendments made by this section shall apply to distributions after December 31, 2021.
SEC. 15. APPLICATION OF LIMITATION ON BUSINESS INTEREST TO PARTNERSHIPS.

(a) In General.—Section 163(j)(4) is amended to read as follows:

“(4) Application to partnerships, etc.—

“(A) In general.—In the case of any partnership—

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

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

“(I) such partner’s aggregate disallowed business interest with respect to such partnership for the taxable year, or

“(II) the sum of such partner’s share of such partnership’s excess business interest income, plus 30 percent of such partner’s share of such partnership’s excess taxable income,

“(iii) the business interest income and adjusted taxable income of each partner of such partnership shall be determined without regard to such partner’s distributive
share of any items of income, gain, deduction, or loss of such partnership, and

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

“(B) BASIS ADJUSTMENTS.—

“(i) IN GENERAL.—A partner’s adjusted basis in a partnership interest shall be reduced (but not below zero) by such partner’s share of the disallowed business interest of such partnership.

“(ii) SPECIAL RULE FOR DISPOSITIONS.—If a partner disposes of a partnership interest, the partner’s adjusted basis in the partnership interest shall be increased immediately before the disposition by the amount of the excess (if any) of the aggregate basis reduction under clause (i) over the aggregate deductions allowed under subparagraph (A)(ii). The preceding sentence shall also apply to transfers of the partnership interest (including by reason of death) in a transaction in which gain is not recognized in whole or in part. No de-
duction shall be allowed to the transferor or transferee under this chapter for any disallowed business interest resulting in a basis increase under this subclause.

“(C) **EXCESS TAXABLE INCOME.**—For purposes of this paragraph, the term ‘excess taxable income’ means, with respect to any partnership for any taxable year, the amount which bears the same ratio to the partnership’s adjusted taxable income for such taxable year as—

“(i) the excess (if any) of—

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

“(II) the amount (if any) by which the business interest of the partnership, reduced by the floor plan financing interest, exceeds the business interest income of the partnership for such taxable year, bears to

“(ii) the amount determined for the partnership under paragraph (1)(B) for such taxable year.
“(D) Excess business interest income.—For purposes of this paragraph, the term ‘excess business interest income’ means, with respect to any partnership for any taxable year, the amount (if any) by which the business interest income of such partnership for such taxable year exceeds the business interest, reduced by floor plan financing interest, of such partnership for such taxable year.

“(E) Disallowed business interest.—
For purposes of this paragraph, the term ‘disallowed business interest’ means, with respect to any partnership for any taxable year, the amount (if any) by which business interest of such partnership for such taxable year exceeds the amount allowed as a deduction under paragraph (1) with respect to such partnership for such taxable year.

“(F) Aggregate disallowed business interest.—For purposes of this paragraph, the term ‘aggregate disallowed business interest’ means, with respect to any partner in a partnership for any taxable year, the excess (if any) of—
“(i) the aggregate of such partner’s share of disallowed business interest of such partnership for all taxable years preceding such taxable year, over

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

“(G) Allocation Rules.—For purposes of this subsection, with respect to any partnership, a partner’s share of such partnership’s disallowed business interest, excess business interest income, and excess taxable income, shall be determined—

“(i) in the case of disallowed business interest, in the same manner as the items of business interest expense of the partnership,

“(ii) in the case of excess business interest income, in the same manner as the items of business interest income of the partnership, and

“(iii) in the case of excess taxable income, in the same manner as the items
that comprise adjusted taxable income of
the partnership.

“(H) Application to S corporations.—
Rules similar to the rules of subparagraph (A)
(other than clauses (ii) and (iv)) shall apply
with respect to any S corporation and its share-
holders.

“(I) Regulations and guidance.—The
Secretary shall prescribe such regulations and
guidance as necessary to carry out the purposes
of this paragraph, including regulations or
guidance—

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

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

(b) Effective date.—The amendment made by
this section shall apply to taxable years beginning after
December 31, 2021.
SEC. 16. REPEAL OF EXCEPTIONS FOR TREATMENT OF PUBLICLY TRADED PARTNERSHIPS.

(a) In general.—Section 7704 is amended by striking subsections (c), (d), (e), and (g) and by redesignating subsection (f) as subsection (e).

(b) Conforming amendments.—

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

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

(3) Section 897(k)(3)(B) is amended by inserting “or” at the end of clause (i), by striking clause (ii), and by redesignating clause (iii) as clause (ii).

(4) Section 988(c)(1)(E) is amended—

(A) by striking “income or gains described in subparagraph (A), (B), or (G) of section 7704(d)(1) or” in clause (iii)(III) and inserting “interest income, dividend income, income and gains from commodities (not described in section 1221(a)(1)) or from futures, forwards, and options with respect to commodities, or ‘’, and”

(B) by striking subclause (III) of clause (vi) and inserting the following:
“(III) Inadvertent Termination.—If a partnership fails to meet the gross income requirements of clause (iii)(III), the Secretary determines that such failure was inadvertent, no later than a reasonable time after the discovery of such failure, steps are taken so that such partnership once more meets such gross income requirements, and such partnership agrees to make such adjustments (including adjustments with respect to the partners) or to pay such amounts as may be required by the Secretary with respect to such period, then, notwithstanding such failure, such entity shall be treated as continuing to meet such gross income requirements for such period.”.

(e) Effective Date.—The amendments made by this section shall apply to taxable years beginning after December 31, 2022.
SEC. 17. RECOGNITION OF GAIN ON CERTAIN DISTRIBUTIONS BY REGULATED INVESTMENT COMPANIES.

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

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

SEC. 18. RULES RELATING TO COMMON CONTROL.

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

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