

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—

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,

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,

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”.

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),

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).

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.”.

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

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

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

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 ated 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-

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.

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—

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:

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.