

119TH CONGRESS  
1ST SESSION

**S.** \_\_\_\_\_

To amend the Internal Revenue Code of 1986 to improve the rules related to partners and partnerships, and for other purposes.

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IN THE SENATE OF THE UNITED STATES

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Mr. WYDEN introduced the following bill; which was read twice and referred to the Committee on \_\_\_\_\_

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**A BILL**

To amend the Internal Revenue Code of 1986 to improve the rules related to partners and partnerships, and for other purposes.

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

3       **SECTION 1. REFERENCE, ETC.**

4       (a) REFERENCE.—Except as otherwise expressly pro-  
5       vided, whenever in this Act, an amendment or repeal is  
6       expressed in terms of an amendment to, or repeal of, a  
7       section or other provision, the reference shall be consid-  
8       ered to be made to a section or other provision of the In-  
9       ternal Revenue Code of 1986.

1           (b) TABLE OF CONTENTS.—The table of contents of  
2 this Act is as follows:

- Sec. 1. Reference, etc.
- Sec. 2. Determination of partner's distributive share.
- Sec. 3. Allocation of built-in-gains with respect to contributed property.
- Sec. 4. Treatment of revalued property.
- Sec. 5. Repeal of time limitation on taxing precontribution gain.
- Sec. 6. Repeal of rules relating to certain liquidating distributions.
- Sec. 7. Clarification of rules relating to payments to partners for property or services.
- Sec. 8. Elimination of preformation expenditure exception to partnership transaction rules.
- Sec. 9. Partnership terminations.
- Sec. 10. Repeal of requirement that inventory be substantially appreciated in certain partnership distributions treated as sale or exchange.
- Sec. 11. Treatment of partnership debt.
- Sec. 12. Adjustments to basis of partnership property.
- Sec. 13. Application of net investment income tax to trade or business income of certain high income individuals.
- Sec. 14. Recognition of gain on transfers to swap funds.
- Sec. 15. Modifications to treatment of certain losses.
- Sec. 16. Codification of anti-abuse rule.

3   **SEC. 2. DETERMINATION OF PARTNER'S DISTRIBUTIVE**  
4                                   **SHARE.**

5           (a) IN GENERAL.—Section 704(b) is amended to  
6 read as follows:

7           “(b) DETERMINATION OF DISTRIBUTIVE SHARE.—

8                   “(1) IN GENERAL.—Except as provided in para-  
9 graph (2), a partner's distributive share of income,  
10 gain, loss, deduction, or credit (or item thereof) shall  
11 be determined in accordance with the partner's in-  
12 terest in the partnership (determined by taking into  
13 account all facts and circumstances), if—

14                           “(A) the partnership agreement does not  
15 provide as to the partner's distributive share of

1 income, gain, loss, deduction, or credit (or item  
2 thereof), or

3 “(B) the allocation to a partner under the  
4 agreement of income, gain, loss, deduction, or  
5 credit (or item thereof) does not have substan-  
6 tial economic effect.

7 “(2) REQUIRED USE OF CONSISTENT PERCENT-  
8 AGE METHOD FOR CERTAIN PARTNERS.—

9 “(A) IN GENERAL.—Except as otherwise  
10 provided in this subchapter or by the Secretary,  
11 in the case of any covered partner which is a  
12 partner in a partnership which is a covered  
13 partnership for the taxable year of such part-  
14 nership, such covered partner’s distributive  
15 share of the covered partnership’s applicable  
16 items for such taxable year shall be determined  
17 using the consistent percentage method.

18 “(B) COVERED PARTNER; COVERED PART-  
19 NERSHIP.—For purposes of this paragraph—

20 “(i) COVERED PARTNERSHIP.—The  
21 term ‘covered partnership’ means any part-  
22 nership if, during any day during the tax-  
23 able year of the partnership—

24 “(I) two or more members of a  
25 controlled group (within the meaning

1 of section 267(f)) own (within the  
2 meaning of section 267(e)(3)) 50 per-  
3 cent or more of the capital or profits  
4 interests in such partnership, or

5 “(II) it is a partnership which is  
6 specified by the Secretary in regula-  
7 tions or other guidance as being of a  
8 type to which this subparagraph ap-  
9 plies in order to prevent the avoidance  
10 of the purposes of this paragraph.

11 “(ii) COVERED PARTNER.—The term  
12 ‘covered partner’ means—

13 “(I) in the case of a covered  
14 partnership described in clause (i)(I),  
15 any partner which is a member of a  
16 controlled group described in such  
17 clause or any other partner any own-  
18 ership interest (other than a de mini-  
19 mis interest) in which is held directly  
20 or indirectly by a member of such a  
21 controlled group, and

22 “(II) in the case of a covered  
23 partnership described in clause (i)(II),  
24 any partner which meets such speci-  
25 fications as prescribed by the Sec-

1                   retary under the regulations or guid-  
2                   ance referred to in such clause.

3                   “(iii) REPORTING RULE.—Each cov-  
4                   ered partnership shall submit to the Sec-  
5                   retary, at such time and in such manner as  
6                   prescribed by the Secretary—

7                   “(I) a statement that such part-  
8                   nership is a covered partnership, and

9                   “(II) such other information as  
10                  the Secretary shall require.

11                  “(C) CONSISTENT PERCENTAGE METH-  
12                  OD.—For purposes of this paragraph, the term  
13                  ‘consistent percentage method’ means a method  
14                  under which—

15                  “(i) a covered partner’s distributive  
16                  share of any applicable item of a covered  
17                  partnership bears the same ratio to the ag-  
18                  gregate distributive shares of such item for  
19                  all covered partners in such partnership  
20                  (determined without regard to this para-  
21                  graph) as—

22                  “(I) the covered partner’s net eq-  
23                  uity in the covered partnership, bears  
24                  to

1 “(II) the net equity of all covered  
2 partners in the covered partnership,  
3 and

4 “(ii) the covered partner is allocated  
5 the same share of each applicable item of  
6 the covered partnership.

7 Clause (i) shall only apply to an applicable item  
8 if it is included in the distributive share of at  
9 least 1 covered partner (determined without re-  
10 gard to this paragraph).

11 “(D) NET EQUITY.—For purposes of this  
12 paragraph—

13 “(i) IN GENERAL.—The term ‘net eq-  
14 uity’ means, with respect to any covered  
15 partner in a covered partnership, the con-  
16 tributed equity of such covered partner,  
17 properly adjusted to take into account any  
18 revaluation event described in subpara-  
19 graphs (A), (B), (C), (D), or (F) of sub-  
20 section (f)(3).

21 “(ii) CONTRIBUTED EQUITY.—The  
22 term ‘contributed equity’ means, with re-  
23 spect to any covered partner in a covered  
24 partnership, the excess of—

1                   “(I) the sum of the value of all  
2                   property and money contributed by  
3                   the covered partner (or any prede-  
4                   cessor of such partner) to the covered  
5                   partnership plus the amount of liabil-  
6                   ities (within the meaning of section  
7                   752) of the covered partnership that  
8                   are assumed by the covered partner  
9                   (or any predecessor of such partner),  
10                  over

11                  “(II) the sum of the value of all  
12                  property and money distributed to the  
13                  covered partner (or any predecessor of  
14                  such partner) by the covered partner-  
15                  ship plus the amount of liabilities  
16                  (within the meaning of section 752) of  
17                  the covered partner (or any prede-  
18                  cessor of such partner) that are as-  
19                  sumed by the covered partnership.

20                  For purposes of this clause, a predecessor  
21                  of a partner includes any person treated as  
22                  transferring an interest to such partner in  
23                  a transaction described in section  
24                  707(d)(1)(A).

1           “(E) APPLICABLE ITEMS.—For purposes  
2           of this paragraph, the term ‘applicable item’  
3           means, with respect to any partnership, any  
4           item of income, gain, deduction, loss, or credit.

5           “(F) CROSS-REFERENCE.—For the treat-  
6           ment of covered partners in the event of certain  
7           rights or distributions not in accordance with  
8           the consistent percentage method, see section  
9           707(d).”.

10       (b) TREATMENT OF CERTAIN RIGHTS AND DIS-  
11       TRIBUTIONS NOT IN ACCORDANCE WITH CONSISTENT  
12       PERCENTAGE METHOD.—Section 707 is amended by add-  
13       ing at the end the following new subsection:

14       “(d) DEEMED TRANSFERS IN CERTAIN CASES  
15       WHERE CERTAIN RIGHTS DO NOT REFLECT PARTNER-  
16       SHIP DISTRIBUTIVE SHARE.—

17           “(1) IN GENERAL.—If a covered partner has an  
18       excess share with respect to any covered partnership  
19       on any applicable date—

20           “(A) such partner shall be treated as hav-  
21       ing received an interest in the partnership in a  
22       transaction between 2 or more partners acting  
23       other than in their capacity as members of the  
24       partnership, and



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

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

7                   “(ii) no deduction or loss shall be al-  
8 lowed with respect to such transfer to any  
9 covered partner treated as transferring all  
10 or a portion of such interest in such trans-  
11 action.

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

14                   “(A) IN GENERAL.—The term ‘excess  
15 share’ means, with respect to any covered part-  
16 ner, the amount by which—

17                   “(i) the covered partner’s interest in  
18 partnership assets distributable to such  
19 covered partner upon liquidation of the  
20 covered partnership as of any applicable  
21 date, exceeds

22                   “(ii) the covered partner’s interest in  
23 partnership assets, determined as if the  
24 amount distributable upon liquidation to  
25 all covered partners as of such applicable

1 date were distributable to each covered  
2 partner based on the ratio of—

3 “(I) such covered partner’s net  
4 equity (as defined in section  
5 704(b)(2)(D)) in the covered partner-  
6 ship on such applicable date, to

7 “(II) the net equity (as so de-  
8 fined) of all covered partners in the  
9 covered partnership on such applicable  
10 date.

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

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

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

18 “(3) COVERED PARTNER; COVERED PARTNER-  
19 SHIP.—For purposes of this subsection, the terms  
20 ‘covered partnership’ and ‘covered partner’ have the  
21 meanings give such terms under section 704(b)(2).

22 “(4) REGULATIONS AND GUIDANCE.—The Sec-  
23 retary shall prescribe such regulations and other  
24 guidance as necessary to carry out the purposes of  
25 this subsection, including regulations or other guid-

1       ance providing exceptions to the application of para-  
2       graph (1) to the extent such exceptions are con-  
3       sistent with the purposes of this subsection.”.

4       (c) REGULATIONS AND GUIDANCE.—Section 704 is  
5       amended by redesignating subsection (f) as subsection (g)  
6       and by inserting after subsection (e) the following new  
7       subsection:

8       “(f) REGULATIONS AND GUIDANCE.—The Secretary  
9       shall prescribe such regulations and other guidance as nec-  
10      essary to carry out the purposes of this section, including  
11      regulations or other guidance for the application of this  
12      section to one or more tiers of entities.”.

13      (d) REPORTING PENALTIES.—Section 6724(d)(1)(B)  
14      is amended by striking “or” at the end of clause (xxvii),  
15      by striking “and” at the end of clause (xxviii) and insert-  
16      ing “or”, and by adding at the end the following new  
17      clause:

18                               “(xxix) section 704(b)(2)(B)(iii) (re-  
19                               lating to reporting rule for required use of  
20                               consistent percentage method), and”.

21      (e) CONFORMING AMENDMENTS.—

22              (1) Section 168(h)(6)(B)(ii) is amended by  
23      striking “section 704(b)(2)” and inserting “section  
24      704(b)(1)(B)”.

1           (2) Section 514(c)(9)(E)(i)(II) is amended by  
2           striking “section 704(b)(2)” and inserting “section  
3           704(b)(1)(B)”.

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

7   **SEC. 3. ALLOCATION OF BUILT-IN-GAINS WITH RESPECT TO**  
8                           **CONTRIBUTED PROPERTY.**

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

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

20          (b) EFFECTIVE DATE.—The amendment made by  
21          this section shall apply to property contributed to a part-  
22          nership after the date of the enactment of this Act.

23   **SEC. 4. TREATMENT OF REVALUED PROPERTY.**

24          (a) IN GENERAL.—Section 704, as amended by sec-  
25          tion 2, is amended by redesignating subsections (f) and

1 (g) as subsections (g) and (h), respectively, and by insert-  
2 ing after subsection (e) the following new subsection:

3 “(f) REVALUED PROPERTY.—

4 “(1) IN GENERAL.—Under regulations pre-  
5 scribed by the Secretary, rules similar to the rules  
6 of paragraphs (1)(A) and (1)(C) of subsection (c)  
7 shall apply to any property held by a partnership at  
8 the time of a revaluation event.

9 “(2) EXCEPTION.—Paragraph (1) shall not  
10 apply to any revaluation event which occurs during  
11 a taxable year in which the partnership meets the  
12 gross receipts test of section 448(c) unless the part-  
13 nership elects, at such time and in such manner as  
14 prescribed by the Secretary, to not have this para-  
15 graph apply.

16 “(3) 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          “(4) 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 serting 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)) which occurs before such transfer,  
21 section 704(f) shall apply in determining such  
22 share.”.

23 (5) Section 897(k)(4)(C) is amended by striking  
24 “section 704(c)” each place it appears and inserting  
25 “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 the date of the  
5 enactment of this Act.

6 **SEC. 5. REPEAL OF TIME LIMITATION ON TAXING**  
7 **PRECONTRIBUTION GAIN.**

8 (a) IN GENERAL.—Subparagraph (B) of section  
9 704(c)(1) is amended by striking “within 7 years of being  
10 contributed”.

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

14 (c) EFFECTIVE DATE.—The amendments made by  
15 this section shall apply to property contributed to a part-  
16 nership after the date of the enactment of this Act.

17 **SEC. 6. REPEAL OF RULES RELATING TO CERTAIN LIQUIDATING DISTRIBUTIONS.**

18 (a) IN GENERAL.—Subpart B of part II of sub-  
19 chapter K of chapter 1 is amended by striking section 736  
20 (and by striking the item relating to such section in the  
21 table of sections for such subpart).

22 (b) RETIRED PARTNERS AND SUCCESSORS IN INTEREST OF DECEASED PARTNERS TREATED AS PARTNERS UNTIL LIQUIDATION.—Section 761(d) is amended by add-



1 ing at the end the following: “For purposes of this sub-  
2 chapter, any retired partner or any deceased partner’s  
3 successor in interest shall be treated as a partner until  
4 the complete liquidation of such retired partner’s or suc-  
5 cessor’s interest in the partnership.”.

6 (c) CONFORMING AMENDMENTS.—

7 (1) Section 357(c)(3)(A) is amended by striking  
8 “payment of which either—” and all that follows  
9 through “then, for purposes of” and inserting “pay-  
10 ment of which would give rise to a deduction, then,  
11 for purposes of”.

12 (2) Section 731(d) is amended—

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

16 (B) by striking “items), and” and insert-  
17 ing “items) and”.

18 (3) Section 751(b)(2) is amended to read as fol-  
19 lows:

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

23 (4)(A) Section 753 is amended by striking  
24 “The amount includible” and all that follows and in-

1       serting “For treatment of income in respect of a de-  
2       cedent, see section 691.”

3               (B) Section 691 is amended by striking  
4       subsection (e).

5       (d) EFFECTIVE DATE.—The amendments made by  
6 this section shall apply to partners retiring or dying after  
7 the date of the enactment of this Act.

8 **SEC. 7. CLARIFICATION OF RULES RELATING TO PAY-**  
9 **MENTS TO PARTNERS FOR PROPERTY OR**  
10 **SERVICES.**

11       (a) IN GENERAL.—Section 707(a)(2) is amended by  
12 striking “Under regulations prescribed by the Secretary—  
13 ” and inserting “Except as provided by the Secretary—  
14 ”.

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

18       (c) NO INFERENCE.—Nothing in this section or the  
19 amendments made by this section shall be construed to  
20 create any inference with respect to the proper treatment  
21 under section 707(a) of the Internal Revenue Code of  
22 1986 with respect to payments from a partnership to a  
23 partner for property transferred or services performed on  
24 or before the date of the enactment of this Act.

1 **SEC. 8. ELIMINATION OF PREFORMATION EXPENDITURE**  
2 **EXCEPTION TO PARTNERSHIP TRANSACTION**  
3 **RULES.**

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

14 (b) EFFECTIVE DATE.—

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

18 (2) BINDING CONTRACT EXCEPTION.—The  
19 amendment made by subsection (a) shall not apply  
20 to a transfer of property described in section  
21 707(a)(2)(B)(i) of the Internal Revenue Code of  
22 1986 if such transfer is pursuant to a written bind-  
23 ing contract in effect on the date of the enactment  
24 of this Act, and at all times thereafter before the  
25 transfer.

1 **SEC. 9. PARTNERSHIP TERMINATIONS.**

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

3 (1) by striking “by any of its partners” and in-  
4 serting “by any of its historic partners (or any re-  
5 lated person to any of its partners)”, and

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

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

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

14 (c) NO INFERENCE.—Nothing in this section or the  
15 amendments made by this section shall be construed to  
16 create any inference with respect to the proper treatment  
17 under section 708(b) of the Internal Revenue Code of  
18 1986 with respect to the activities of persons related (as  
19 determined under the last sentence of section 708(b)(1)  
20 of such Code, as added by subsection (a)) to partners for  
21 taxable years beginning on or before the date of the enact-  
22 ment of this Act.

1 **SEC. 10. REPEAL OF REQUIREMENT THAT INVENTORY BE**  
2 **SUBSTANTIALLY APPRECIATED IN CERTAIN**  
3 **PARTNERSHIP DISTRIBUTIONS TREATED AS**  
4 **SALE OR EXCHANGE.**

5 (a) IN GENERAL.—Clause (ii) of section  
6 751(b)(1)(A) is amended by striking “which have appre-  
7 ciated substantially in value”.

8 (b) CONFORMING AMENDMENT.—Section 751(b) is  
9 amended by striking paragraph (3).

10 (c) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to distributions after the date of  
12 the enactment of this Act.

13 **SEC. 11. TREATMENT OF PARTNERSHIP DEBT.**

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

16 “(e) TREATMENT AND ALLOCATION OF PARTNER-  
17 SHIP LIABILITIES.—

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

23 “(2) EXCEPTION.—

24 “(A) IN GENERAL.—Paragraph (1) shall  
25 not apply to bona fide indebtedness of the part-  
26 nership to a partner or to any related person to

1           a partner. For purposes of the preceding sen-  
2           tence, a person is a related person to another  
3           person if the relationship between such persons  
4           would result in a disallowance of losses under  
5           section 267 or 707(b).

6                   “(B) NONAPPLICATION TO GUARAN-  
7           TEES.—Subparagraph (A) shall not apply to  
8           any guarantee or similar arrangement.

9                   “(3) REGULATIONS AND OTHER GUIDANCE.—  
10          The Secretary shall prescribe such regulations and  
11          other guidance as necessary to carry out the pur-  
12          poses of this subsection, including regulations or  
13          other guidance with respect to arrangements that  
14          are similar to guarantees for purposes of paragraph  
15          (2)(B).”.

16          (b) EFFECTIVE DATE.—The amendment made by  
17          subsection (a) shall apply to taxable years beginning after  
18          December 31, 2025.

19          (c) TREATMENT OF GAIN.—

20                   (1) IN GENERAL.—In the case of a taxpayer  
21          which recognizes gain by reason of the application of  
22          the amendments made by subsection (a) with respect  
23          to its first taxable year beginning after December  
24          31, 2025, such taxpayer may elect to pay the net tax  
25          liability under this subsection in 6 equal annual in-

1        stallments over the 6-taxable year period beginning  
2        with the first taxable year beginning after December  
3        31, 2025.

4            (2) DATE FOR PAYMENT OF INSTALLMENTS.—

5        If an election is made under paragraph (1), the first  
6        installment shall be paid on the due date (deter-  
7        mined without regard to any extension of time for  
8        filing the return) for the return of tax for the tax-  
9        able year described in paragraph (1)) and each suc-  
10       ceeding installment shall be paid on the due date (as  
11       so determined) for the return of tax for the taxable  
12       year following the taxable year with respect to which  
13       the preceding installment was made.

14           (3) ACCELERATION OF PAYMENT.—If there is  
15        an addition to tax for failure to timely pay any in-  
16        stallment required under this subsection, a liquida-  
17        tion or sale of substantially all the assets of the tax-  
18        payer (including in a title 11 or similar case), a ces-  
19        sation of business by the taxpayer, or any similar  
20        circumstance, then the unpaid portion of all remain-  
21        ing installments shall be due on the date of such  
22        event (or in the case of a title 11 or similar case,  
23        the day before the petition is filed). The preceding  
24        sentence shall not apply to the sale of substantially  
25        all the assets of a taxpayer to a buyer if such buyer

1 enters into an agreement with the Secretary under  
2 which such buyer is liable for the remaining install-  
3 ments due under this subsection in the same manner  
4 as if such buyer were the taxpayer.

5 (4) PRORATION OF DEFICIENCY TO INSTALL-  
6 MENTS.—If an election is made under paragraph (1)  
7 to pay the net tax liability under this subsection in  
8 installments and a deficiency has been assessed with  
9 respect to such net tax liability, the deficiency shall  
10 be prorated to the installments payable under para-  
11 graph (1). The part of the deficiency so prorated to  
12 any installment the date for payment of which has  
13 not arrived shall be collected at the same time as,  
14 and as a part of, such installment. The part of the  
15 deficiency so prorated to any installment the date  
16 for payment of which has arrived shall be paid upon  
17 notice and demand from the Secretary. This sub-  
18 section shall not apply if the deficiency is due to  
19 negligence, to intentional disregard of rules and reg-  
20 ulations, or to fraud with intent to evade tax.

21 (5) ELECTION.—Any election under paragraph  
22 (1) shall be made not later than the due date for the  
23 return of tax for the first taxable year beginning  
24 after December 31, 2025 and shall be made in such  
25 manner as the Secretary shall provide.



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

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

6           (i) such taxpayer’s net income tax for  
7       the taxable year beginning after December  
8       31, 2025, over

9           (ii) such taxpayer’s net income tax for  
10      such taxable year determined without re-  
11      gard to any amount included in gross in-  
12      come by reason of the amendments made  
13      by subsection (a).

14          (B) NET INCOME TAX.—The term “net in-  
15      come tax” means the regular tax liability (as  
16      defined in section 26 of the Internal Revenue  
17      Code of 1986) reduced by the credits allowed  
18      under subparts A, B, and D of part IV of sub-  
19      chapter A of chapter 1 of such Code.

20          (7) INSTALLMENTS NOT TO PREVENT CREDIT  
21      OR REFUND OF OVERPAYMENTS OR INCREASE ESTI-  
22      MATED TAXES.—If an election is made under para-  
23      graph (1) to pay the net tax liability under this sub-  
24      section in installments—

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

3 (i) in the case of a request for credit  
4 or refund, be taken into account as a li-  
5 ability for purposes of determining whether  
6 an overpayment exists for purposes of sec-  
7 tion 6402 of the Internal Revenue Code of  
8 1986 before the date on which such install-  
9 ment is due, or

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

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

18 **SEC. 12. ADJUSTMENTS TO BASIS OF PARTNERSHIP PROP-**  
19 **ERTY.**

20 (a) SECTION 754 ELECTIONS LIMITED TO QUALI-  
21 FIED SMALL BUSINESS PARTNERSHIPS.—Section 754 is  
22 amended—

23 (1) by striking “If a partnership files an elec-  
24 tion” and inserting the following:

1       “(a) IN GENERAL.—If a partnership which is a quali-  
2       fied small business partnership files an election”,

3               (2) by inserting “with respect to which such  
4       partnership is a qualified small business partner-  
5       ship” after “all subsequent taxable years”, and

6               (3) by adding at the end the following new sub-  
7       section:

8       “(b) QUALIFIED SMALL BUSINESS PARTNERSHIP.—  
9       For purposes of this section—

10              “(1) IN GENERAL.—The term ‘qualified small  
11       business partnership’ means, with respect to any  
12       taxable year, any partnership which meets the gross  
13       receipts test under section 448(c) (determined with  
14       the modification described in paragraph (3)) for  
15       such taxable year.

16              “(2) EXCEPTION NOT TO APPLY TO PARTNER-  
17       SHIPS PREVIOUSLY FAILING TEST OR TAX SHEL-  
18       TERS.—

19              “(A) PARTNERSHIPS FAILING TEST DIS-  
20       QUALIFIED PROSPECTIVELY.—If a partnership  
21       fails to meet the gross receipts test described in  
22       paragraph (1) for any taxable year which be-  
23       gins after the date of the enactment of this sub-  
24       section, paragraph (1) shall not apply to such

1 partnership (or any successor) for such taxable  
2 year or any succeeding taxable year.

3 “(B) TAX SHELTERS.—

4 “(i) IN GENERAL.—Paragraph (1)  
5 shall not apply to a tax shelter prohibited  
6 from using the cash receipts and disburse-  
7 ments method of accounting under section  
8 448(a)(3).

9 “(ii) SPECIAL RULES FOR SYN-  
10 DICATES.—Clause (i) shall not apply to  
11 any syndicate (within the meaning of sec-  
12 tion 1256(e)(3)(B)).

13 “(3) MODIFICATION.—In applying section 52(b)  
14 to section 448(c)(2) for purposes of this subsection,  
15 the term ‘trade or business’ shall include any activ-  
16 ity treated as a trade or business under paragraph  
17 (5) or (6) of section 469(c) (determined without re-  
18 gard to the phrase ‘To the extent provided in regula-  
19 tions’ in such paragraph (6)).”.

20 (b) ADJUSTMENTS IN THE CASE OF TRANSFER OF  
21 PARTNERSHIP INTERESTS.—

22 (1) IN GENERAL.—Section 743 is amended—

23 (A) by striking subsection (a) and insert-  
24 ing the following:

25 “(a) GENERAL RULE.—

1           “(1) ADJUSTMENTS REQUIRED.—Except as  
2           provided in paragraph (2), in the case of a transfer  
3           of an interest in a partnership by sale or exchange  
4           or upon the death of a partner, the basis of partner-  
5           ship property shall be adjusted as provided in sub-  
6           section (b).

7           “(2) EXCEPTION FOR QUALIFIED SMALL BUSI-  
8           NESS PARTNERSHIPS.—Paragraph (1) shall not  
9           apply to a qualified small business partnership (as  
10          defined in section 754(b)) if—

11           “(A) the election provided by section 754  
12           (relating to optional adjustment to basis of  
13           partnership property) is not in effect with re-  
14           spect to such partnership, and

15           “(B) in the case of a transfer, the partner-  
16           ship does not have a substantial built-in loss  
17           immediately after such transfer.”, and

18           (B) in subsection (b), by striking “with re-  
19           spect to which the election provided in section  
20           754 is in effect or which has a substantial built-  
21           in loss immediately after such transfer” and in-  
22           serting “a partnership which is required to ad-  
23           just the basis of partnership property under  
24           subsection (a)”.

25          (2) REPORTING.—

1 (A) IN GENERAL.—Section 6050K is  
2 amended—

3 (i) in subsection (a), by striking “de-  
4 scribed in section 751(a)”,

5 (ii) in subsection (c)(1), by striking  
6 the period at the end and inserting “, the  
7 amount received, and such other informa-  
8 tion as the Secretary may require. Such  
9 notification shall be furnished at such time  
10 and in such manner as the Secretary may  
11 require.”, and

12 (iii) in the heading, by striking “**CER-**  
13 **TAIN**”.

14 (B) CONFORMING AMENDMENT.—The item  
15 relating to section 6050K in the table of sec-  
16 tions for subpart B of part III of subchapter A  
17 of chapter 61 is amended by striking “certain”.

18 (3) CONFORMING AMENDMENTS.—

19 (A) Section 732(d) is amended by striking  
20 “his interest” and inserting “an interest in a  
21 qualified small business partnership (as defined  
22 in section 743(f))”.

23 (B)(i) The heading for section 743 is  
24 amended to read as follows: “**ADJUSTMENT**  
25 **TO BASIS OF PARTNERSHIP PROPERTY**”.

1 (ii) Section 761(e)(2) is amended by strik-  
2 ing “optional”.

3 (iii) The item relating to section 743 in the  
4 table of sections for subpart C of part II of sub-  
5 chapter K of chapter 1 is amended to read as  
6 follows:

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

7 (c) ADJUSTMENTS TO BASIS OF UNDISTRIBUTED  
8 PARTNERSHIP PROPERTY.—

9 (1) IN GENERAL.—Section 734 is amended—

10 (A) by redesignating subsections (b)  
11 through (e) as subsections (c) through (f), re-  
12 spectively, and

13 (B) by striking subsection (a) and insert-  
14 ing the following:

15 “(a) GENERAL RULE.—

16 “(1) MANDATORY ADJUSTMENT.—Except as  
17 provided in paragraph (2), in the case of a distribu-  
18 tion to a partner, the partnership shall adjust the  
19 basis of partnership property in accordance with  
20 subsection (b).

21 “(2) SPECIAL RULE FOR QUALIFIED SMALL  
22 BUSINESS PARTNERSHIPS.—In the case of a dis-  
23 tribution to a partner by a qualified small business  
24 partnership (as defined in section 754(b))—

1                   “(A) if there is an election provided in sec-  
2                   tion 754 in effect with respect to such partner-  
3                   ship or if there is a substantial basis reduction  
4                   with respect to such distribution, the partner-  
5                   ship shall adjust the basis of partnership prop-  
6                   erty in accordance with subsection (c), and

7                   “(B) if subparagraph (A) does not apply,  
8                   no adjustment shall be made to the basis of  
9                   partnership property as the result of such dis-  
10                  tribution.

11               “(b) GENERAL METHOD OF ADJUSTMENT.—

12               “(1) IN GENERAL.—In the case of any distribu-  
13               tion to a partner to which subsection (a)(1) applies,  
14               the partnership shall adjust the basis of partnership  
15               property such that each remaining partner’s net liq-  
16               uidation amount immediately after such distribution  
17               is equal to such partner’s net liquidation amount im-  
18               mediately before such distribution. For purposes of  
19               the preceding sentence, a partner’s net liquidation  
20               amount immediately before a distribution shall be  
21               calculated after taking into account any adjustment  
22               to the basis of property required by section  
23               704(c)(1)(B) or 737 with respect to such distribu-  
24               tion.



1           “(2) DISTRIBUTIONS OTHER THAN IN LIQUIDA-  
2           TION OF A PARTNER’S INTEREST.—

3           “(A) IN GENERAL.—In the case of any dis-  
4           tribution to a partner other than in liquidation  
5           of such partner’s interest, proper adjustment  
6           shall be made under paragraph (1) with respect  
7           to such partner to take into account—

8                   “(i) the amount of any gain recog-  
9                   nized by such partner with respect to such  
10                  distribution under section 731(a), and

11                   “(ii) the amount of any gain or loss  
12                  which would be recognized by such partner  
13                  if such partner sold the property distrib-  
14                  uted at fair market value immediately after  
15                  such distribution.

16           “(B) REPORTING.—The Secretary may re-  
17           quire such reporting as necessary to carry out  
18           this subsection.

19           “(3) NET LIQUIDATION AMOUNT.—For pur-  
20           poses of this subsection, the term ‘net liquidation  
21           amount’ means, with respect to any partner, the net  
22           amount of gain or loss (if any) which would be taken  
23           into account (including gain or loss that would be  
24           taken into account by reason of subsections  
25           (c)(1)(A), (c)(1)(C), or (f)(1) of section 704) by the

1 partner if the partnership sold all of its assets at  
2 fair market value (and no other amounts were taken  
3 into account under such section).”.

4 (2) CONFORMING AMENDMENTS.—

5 (A) Section 734(c), as redesignated by  
6 paragraph (1), is amended by striking “by a  
7 partnership with respect to which the election  
8 provided in section 754 is in effect or with re-  
9 spect to which there is a substantial basis re-  
10 duction” and inserting “by a partnership to  
11 which subsection (a)(2)(A) applies”.

12 (B) Section 734(d), as redesignated by  
13 paragraph (1), is amended by striking “sub-  
14 section (b)” and inserting “subsection (b) or  
15 (c)”.

16 (C) Section 755 is amended—

17 (i) in subsection (a), by striking “sec-  
18 tion 734(b) (relating to optional adjust-  
19 ment to the basis of undistributed partner-  
20 ship property)” and inserting “subsection  
21 (b) or (c) of section 734 (relating to ad-  
22 justment to basis of undistributed partner-  
23 ship property)”, and

1 (ii) in subsection (c), by striking “sec-  
2 tion 734(b)” and inserting “subsection  
3 **[(b) or]** (c) of section 734”.

4 (D)(i) The heading for section 734 is  
5 amended by striking “**WHERE SECTION 754**  
6 **ELECTION OR SUBSTANTIAL BASIS REDUC-**  
7 **TION**”.

8 (ii) The item relating to section 734 in the  
9 table of sections for subpart B of part II of  
10 subchapter K of chapter 1 is amended by strik-  
11 ing “where section 754 election or substantial  
12 basis reduction”.

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

16 **SEC. 13. APPLICATION OF NET INVESTMENT INCOME TAX**  
17 **TO TRADE OR BUSINESS INCOME OF CER-**  
18 **TAIN HIGH INCOME INDIVIDUALS.**

19 (a) IN GENERAL.—Section 1411 is amended by add-  
20 ing at the end the following new subsection:

21 “(f) APPLICATION TO CERTAIN HIGH INCOME INDIVIDUALS.—  
22

23 “(1) IN GENERAL.—In the case of any indi-  
24 vidual whose modified adjusted gross income for the  
25 taxable year exceeds the high income threshold

1 amount, subsection (a)(1) shall be applied by sub-  
2 stituting ‘the greater of specified net income or net  
3 investment income’ for ‘net investment income’ in  
4 subparagraph (A) thereof.

5 “(2) PHASE-IN OF INCREASE.—The increase in  
6 the tax imposed under subsection (a)(1) by reason of  
7 the application of paragraph (1) of this subsection  
8 shall not exceed the amount which bears the same  
9 ratio to the amount of such increase (determined  
10 without regard to this paragraph) as—

11 “(A) the excess described in paragraph (1),  
12 bears to

13 “(B) \$100,000 ( $\frac{1}{2}$  such amount in the  
14 case of a married taxpayer (as defined in sec-  
15 tion 7703) filing a separate return).

16 “(3) HIGH INCOME THRESHOLD AMOUNT.—For  
17 purposes of this subsection, the term ‘high income  
18 threshold amount’ means—

19 “(A) except as provided in subparagraph  
20 (B) or (C), \$400,000,

21 “(B) in the case of a taxpayer making a  
22 joint return under section 6013 or a surviving  
23 spouse (as defined in section 2(a)), \$500,000,  
24 and

1           “(C) in the case of a married taxpayer (as  
2           defined in section 7703) filing a separate re-  
3           turn,  $\frac{1}{2}$  of the dollar amount determined under  
4           subparagraph (B).

5           “(4) SPECIFIED NET INCOME.—For purposes of  
6           this section, the term ‘specified net income’ means  
7           net investment income determined—

8           “(A) without regard to the phrase ‘other  
9           than such income which is derived in the ordi-  
10          nary course of a trade or business not described  
11          in paragraph (2),’ in subsection (c)(1)(A)(i),

12          “(B) without regard to the phrase ‘de-  
13          scribed in paragraph (2)’ in subsection  
14          (c)(1)(A)(ii),

15          “(C) without regard to the phrase ‘other  
16          than property held in a trade or business not  
17          described in paragraph (2)’ in subsection  
18          (c)(1)(A)(iii),

19          “(D) without regard to paragraphs (2),  
20          (3), and (4) of subsection (c), and

21          “(E) by treating paragraphs (5) and (6) of  
22          section 469(c) (determined without regard to  
23          the phrase ‘To the extent provided in regula-  
24          tions,’ in such paragraph (6)) as applying for  
25          purposes of subsection (c) of this section.”.

1       (b) APPLICATION TO TRUSTS AND ESTATES.—Sec-  
2       tion 1411(a)(2)(A) is amended by striking “undistributed  
3       net investment income” and inserting “the greater of un-  
4       distributed specified net income or undistributed net in-  
5       vestment income”.

6       (c) CLARIFICATIONS WITH RESPECT TO DETER-  
7       MINATION OF NET INVESTMENT INCOME.—

8               (1) CERTAIN EXCEPTIONS.—Section 1411(c)(6)  
9       is amended to read as follows:

10              “(6) SPECIAL RULES.—Net investment income  
11       shall not include—

12                      “(A) any item taken into account in deter-  
13              mining self-employment income for such taxable  
14              year on which a tax is imposed by section  
15              1401(b),

16                      “(B) wages received with respect to em-  
17              ployment on which a tax is imposed under sec-  
18              tion 3101(b) (determined without regard to sec-  
19              tion 3101(c)) or 3201(a) (including amounts  
20              taken into account under section 3121(v)(2)),  
21              and

22                      “(C) wages received from the performance  
23              of services earned outside the United States for  
24              a foreign employer.”.

1           (2) NET OPERATING LOSSES NOT TAKEN INTO  
2     ACCOUNT.—Section 1411(c)(1)(B) is amended by in-  
3     serting “(other than section 172)” after “this sub-  
4     title”.

5           (3) INCLUSION OF CERTAIN FOREIGN IN-  
6     COME.—

7           (A) IN GENERAL.—Section 1411(c)(1)(A)  
8     is amended by striking “and” at the end of  
9     clause (ii), by striking “over” at the end of  
10    clause (iii) and inserting “and”, and by adding  
11    at the end the following new clause:

12                   “(iv) any amount includible in gross  
13                   income under section 951, 951A, 1293, or  
14                   1296, over”.

15           (B) PROPER TREATMENT OF CERTAIN  
16     PREVIOUSLY TAXED INCOME.—Section 1411(c)  
17     is amended by adding at the end the following  
18     new paragraph:

19           “(7) CERTAIN PREVIOUSLY TAXED INCOME.—  
20     The Secretary shall issue regulations or other guid-  
21     ance providing for the treatment of—

22                   “(A) distributions of amounts previously  
23                   included in gross income for purposes of chap-  
24                   ter 1 but not previously subject to tax under  
25                   this section, and

1                   “(B) distributions described in section  
2                   962(d).”.

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

6           (e) TRANSITION RULE.—The regulations or other  
7 guidance issued by the Secretary under section 1411(c)(7)  
8 of the Internal Revenue Code of 1986 (as added by this  
9 section) shall include provisions which provide for the  
10 proper coordination and application of clauses (i) and (iv)  
11 of section 1411(c)(1)(A) with respect to—

12                   (1) taxable years beginning on or before the  
13                   date of the enactment of this Act, and

14                   (2) taxable years beginning after such date.

15 **SEC. 14. RECOGNITION OF GAIN ON TRANSFERS TO SWAP**  
16 **FUNDS.**

17           (a) INTERESTS SIMILAR TO PREFERRED STOCK  
18 TREATED AS STOCK.—Clause (vi) of section 351(e)(1)(B)  
19 is amended to read as follows:

20                   “(vi) except as otherwise provided in  
21                   regulations prescribed by the Secretary—

22                               “(I) any interest in an entity if  
23                               the return on such interest is limited  
24                               and preferred, and



1 “(II) interests (not described in  
2 subclause (I)) in any entity if substan-  
3 tially all of the assets of such entity  
4 consist (directly or indirectly) of any  
5 assets described in subclause (I), any  
6 preceding clause, or clause (viii).”.

7 (b) CERTAIN TRANSFERS DEEMED TO BE TO IN-  
8 VESTMENT COMPANIES.—Subsection (e) of section 351 is  
9 amended by adding at the end the following new para-  
10 graph:

11 “(3) TRANSFERS OF MARKETABLE SECURITIES  
12 TO CERTAIN CORPORATIONS.—A transfer of property  
13 to a corporation if—

14 “(A) such property is marketable securities  
15 (as defined in section 731(c)(2)), and

16 “(B) such corporation—

17 “(i) is registered under the Invest-  
18 ment Company Act of 1940 as an invest-  
19 ment company, or is exempt from registra-  
20 tion as a investment company under sec-  
21 tion 3(c)(7) of such Act because interests  
22 in such corporation are offered to qualified  
23 purchasers within the meaning of section  
24 2(a)(51) of such Act, or

1 “(ii) allows persons who have blocks  
2 of marketable securities with significant  
3 unrealized appreciation to diversify those  
4 holdings.”.

5 (c) TRANSFERS TO PARTNERSHIPS.—Subsection (b)  
6 of section 721 is amended to read as follows:

7 “(b) SPECIAL RULE.—Subsection (a) shall not apply  
8 to gain realized on a transfer of property to a partnership  
9 if, were the partnership incorporated—

10 “(1) such partnership would be treated as an  
11 investment company (within the meaning of section  
12 351), or

13 “(2) section 351 would not apply to such trans-  
14 fer by reason of section 351(e)(3).”.

15 (d) EFFECTIVE DATE.—The amendments made by  
16 this section shall apply to transfers after the date of the  
17 enactment of this Act.

18 **SEC. 15. MODIFICATIONS TO TREATMENT OF CERTAIN**  
19 **LOSSES.**

20 (a) LOSSES FROM CERTAIN CAPITAL ASSETS WHICH  
21 BECOME WORTHLESS.—

22 (1) WHEN TREATED AS LOSS.—Section  
23 165(g)(1) is amended by striking “on the last day  
24 of the taxable year” and inserting “at the time of  
25 the identifiable event establishing worthlessness”.

1           (2) TREATMENT OF PARTNERSHIP INDEBTED-  
2           NESS.—Section 165(g)(2)(C) is amended by insert-  
3           ing “, by a partnership,” after “by a corporation”.

4           (3) TREATMENT OF ABANDONMENT.—Section  
5           165(g) is amended by adding at the end the fol-  
6           lowing new paragraph:

7           “(4) TREATMENT OF ABANDONMENT.—For  
8           purposes of this subsection and subsection (m),  
9           abandonment shall be treated as an identifiable  
10          event establishing worthlessness.”.

11          (4) TREATMENT OF PARTNERSHIP INTEREST.—  
12          Section 165 is amended by redesignating subsection  
13          (m) as subsection (n) and by inserting after sub-  
14          section (l) the following new subsection:

15          “(m) WORTHLESS PARTNERSHIP INTEREST.—If any  
16          interest in a partnership becomes worthless during the  
17          taxable year, the loss resulting therefrom shall, for pur-  
18          poses of this subtitle, be treated as a loss from the sale  
19          or exchange of the interest in the partnership at the time  
20          of the identifiable event establishing worthlessness.”.

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

24      **SEC. 16. CODIFICATION OF ANTI-ABUSE RULE.**

25          (a) IN GENERAL.—Section 701 is amended—

1           (1) by striking “A partnership” and inserting  
2           the following:

3           “(a) IN GENERAL.—A partnership”, and

4           (2) by adding at the end the following new sub-  
5           section:

6           “(b) REGULATIONS.—Under regulations established  
7           by the Secretary, in the case of a transaction involving  
8           a partnership, the Secretary may recast, disregard, or oth-  
9           erwise modify such transaction for purposes of the Inter-  
10          nal Revenue Code of 1986 so that—

11           “(1) the tax consequences to each partner and  
12          the partnership reflect the partners’ economic agree-  
13          ment and clearly reflect the partners’ income,

14           “(2) the form of such transaction is consistent  
15          with its substance, and

16           “(3) there is a substantial purpose (apart from  
17          Federal income tax effects) for entering into such  
18          transaction.”.

19          (b) NO INFERENCE.—Nothing in this section or the  
20          amendments made by this section shall be construed to  
21          create any inference with respect to the authority of the  
22          Secretary of the Treasury (or the Secretary’s delegate) to  
23          regulate transactions described in section 701(b) of the  
24          Internal Revenue Code (as added by subsection (a)) with-  
25          out regard to the provisions of such section.