

1 payments to which section 707(c) applies)”
2 in clauses (iii) and (iv), and

3 (ii) by striking “(after such gross in-
4 come has been so reduced)” in clause (iv).

5 (D) Section 2701(c)(1)(B) is amended by
6 inserting “or” at the end of clause (i), by strik-
7 ing “, or” at the end of clause (ii) and inserting
8 a period, and by striking clause (iii).

9 (E) Section 7519(d) is amended by strik-
10 ing paragraph (5).

11 (3) EFFECTIVE DATES.—

12 (A) IN GENERAL.—Except as otherwise
13 provided in this paragraph, the amendments
14 made by this subsection shall apply to partner-
15 ship taxable years beginning after December
16 31, 2014.

17 (B) TRANSFERS.—The amendment made
18 by paragraph (2)(E) shall apply to transfers
19 after December 31, 2014.

20 (b) PAYMENTS MADE IN LIQUIDATION OF RETIRING
21 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 a deceased partner’s successor in interest shall be
7 treated as a partner until the complete liquidation of
8 such interest.”

9 (3) CONFORMING AMENDMENT.—

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

15 (B) Section 731(d) is amended—

16 (i) by striking “section 736 (relating
17 to payments to a retiring partner or a de-
18 ceased partner’s successor in interest),”,
19 and

20 (ii) by striking “items), and” and in-
21 serting “items) and”.

22 (C) Section 751(b)(2) is amended—

23 (i) by striking subparagraph (B), and

24 (ii) by striking “shall not apply to—
25 ” and all that follows through “a distribu-

1 tion of property” and inserting the fol-
2 lowing: “shall not apply to a distribution of
3 property”.

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 striking
9 subsection (e).

10 (4) EFFECTIVE DATE.—The amendments made
11 by this subsection shall apply to partners retiring or
12 dying after December 31, 2014.

13 **SEC. 3612. MANDATORY ADJUSTMENTS TO BASIS OF PART-**
14 **nership Property in Case of Transfer**
15 **of Partnership Interests.**

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

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

20 (2) in subsection (a) (as so redesignated) by
21 striking “with respect to which the election provided
22 in section 754 is in effect or which has a substantial
23 built-in loss immediately after such transfer”, and

24 (3) by adding at the end the following new sub-
25 section:

1 “(b) ALLOCATION OF BASIS.—

2 “(1) GENERAL RULE.—Any increase or de-
3 crease in the adjusted basis of partnership property
4 under subsection (a) shall, except as provided in
5 paragraph (2), be allocated—

6 “(A) in a manner which has the effect of
7 reducing the difference between the fair market
8 value and the adjusted basis of partnership
9 properties, or

10 “(B) in any other manner permitted by
11 regulations prescribed by the Secretary.

12 “(2) SPECIAL RULE.—In applying the allocation
13 rules provided in paragraph (1), increases or de-
14 creases in the adjusted basis of partnership property
15 arising from a transfer of an interest attributable to
16 property consisting of—

17 “(A) capital assets and property described
18 in section 1231(b), or

19 “(B) any other property of the partner-
20 ship,

21 shall be allocated to partnership property of a like
22 character except that the basis of any such partner-
23 ship property shall not be reduced below zero.”.

24 (b) CONFORMING AMENDMENTS.—

25 (1) Section 704(c)(1) is amended—

1 (A) by adding “and” at the end of sub-
2 paragraph (A),

3 (B) by striking “, and” at the end of sub-
4 paragraph (B) and inserting a period, and

5 (C) by striking all that follows subpara-
6 graph (B).

7 (2) Section 732 is amended by striking sub-
8 section (d) and by redesignating subsections (e) and
9 (f) as subsections (d) and (e), respectively.

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

12 (4) Section 6031 is amended by striking sub-
13 section (f).

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

17 (6) The heading for subsection (a) (as redesign-
18 dated by the preceding provisions of this Act) of sec-
19 tion 743 is amended by striking “ADJUSTMENT TO
20 BASIS OF PARTNERSHIP PROPERTY” and inserting
21 “IN GENERAL”.

22 (c) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to transfers after December 31,
24 2014.

1 **SEC. 3613. MANDATORY ADJUSTMENTS TO BASIS OF UNDIS-**
2 **TRIBUTED PARTNERSHIP PROPERTY.**

3 (a) IN GENERAL.—Section 734 is amended to read
4 as follows:

5 **“SEC. 734. ADJUSTMENT TO BASIS OF UNDISTRIBUTED**
6 **PARTNERSHIP PROPERTY.**

7 “(a) IN GENERAL.—In the case of any distribution
8 to a partner, the partnership shall adjust the basis of part-
9 nership property such that each remaining partner’s net
10 liquidation amount immediately after such distribution is
11 equal to such partner’s net liquidation amount imme-
12 diately before such distribution.

13 “(b) DISTRIBUTIONS OTHER THAN IN LIQUIDATION
14 OF A PARTNER’S INTEREST.—In the case of any distribu-
15 tion to a partner other than in liquidation of such part-
16 ner’s interest, proper adjustment shall be made under sub-
17 section (a) with respect to such partner to take into ac-
18 count—

19 “(1) the amount of any gain recognized by such
20 partner with respect to such distribution under sec-
21 tion 731(a), and

22 “(2) the amount of any gain or loss which
23 would be recognized by such partner if such partner
24 sold the property distributed at fair market value
25 immediately after such distribution.

1 “(c) NET LIQUIDATION AMOUNT.—For purposes of
2 this section, the term ‘net liquidation amount’ means, with
3 respect to any partner, the net amount of gain or loss (if
4 any) which would be taken into account by the partner
5 under section 702 if the partnership sold all of its assets
6 at fair market value (and no other amounts were taken
7 into account under such section).

8 “(d) ALLOCATION OF BASIS.—

9 “(1) DECREASES IN BASIS.—Any decrease in
10 the adjusted basis of partnership property which is
11 required under this section—

12 “(A) shall be made in accordance with
13 paragraph (3) of section 732(c), and

14 “(B) shall be made first with respect to
15 property other than unrealized receivables (as
16 defined in section 751(c)) and inventory (as de-
17 fined in section 751(d)) to the extent thereof.

18 If any such decrease is prevented by the absence of
19 sufficient adjusted basis of partnership property,
20 each partner shall recognize gain in the amount of
21 such partner’s distributive share of such prevented
22 decrease. Such gain shall be treated as gain from
23 the sale of the partner’s partnership interest.

1 “(2) INCREASES IN BASIS.—Any increase in the
2 adjusted basis of partnership property which is re-
3 quired under this section—

4 “(A) shall be made in accordance with
5 paragraph (2) of section 732(c), and

6 “(B) shall be made only with respect to
7 property other than unrealized receivables (as
8 defined in section 751(c)) and inventory (as de-
9 fined in section 751(d)).

10 If any such increase is prevented by the absence of
11 property described in subparagraph (B), each part-
12 ners shall recognize a loss in the amount of such
13 partner’s distributive share of such prevented in-
14 crease. Such loss shall be treated as a loss from the
15 sale of the partner’s partnership interest.

16 “(e) NO ALLOCATION OF BASIS DECREASE TO
17 STOCK OF CORPORATE PARTNER.—In making an alloca-
18 tion under subsection (d) of any decrease in the adjusted
19 basis of partnership property required under subsection
20 (a)—

21 “(1) no allocation may be made to stock in a
22 corporation (or any person related (within the mean-
23 ing of section 267(b) or 707(b)(1)) to such corpora-
24 tion) which is a partner in the partnership, and

1 “(2) any amount not allocable to stock by rea-
2 son of paragraph (1) shall be allocated under sub-
3 section (d) to other partnership property.

4 Gain shall be recognized by the partnership to the extent
5 that the amount required to be allocated to other partner-
6 ship property under subsection (e)(2) exceeds the aggre-
7 gate adjusted basis of such other property immediately be-
8 fore the allocation required by subsection (a).”.

9 (b) CONFORMING AMENDMENTS.—

10 (1)(A) Subpart D of part II of subchapter K of
11 chapter 1 is amended by striking sections 754 and
12 755 (and by striking items relating to such sections
13 in the table of sections of such subpart).

14 (B) Clause (ii) of section 706(d)(2)(D) is
15 amended by striking “section 755” and inserting
16 “section 743(b)”.

17 (2) Subsection (d) of section 1060 is amend-
18 ed—

19 (A) by striking “section 755” in paragraph
20 (1) and inserting “sections 734 and 743”, and

21 (B) by striking “section 755” in paragraph
22 (2) and inserting “section 734 or 743”.

23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to distributions after December 31,
25 2014.

1 **SEC. 3614. CORRESPONDING ADJUSTMENTS TO BASIS OF**
2 **PROPERTIES HELD BY PARTNERSHIP WHERE**
3 **PARTNERSHIP BASIS ADJUSTED.**

4 (a) IN GENERAL.—Subpart B of part II of sub-
5 chapter K of chapter 1, as amended by the preceding pro-
6 visions of this Act, is amended by inserting after section
7 735 the following new section:

8 **“SEC. 736. CORRESPONDING ADJUSTMENT TO BASIS OF**
9 **PROPERTIES HELD BY LOWER-TIER PART-**
10 **nership IN CASE OF UPPER-TIER PARTNER-**
11 **SHIP BASIS ADJUSTMENTS.**

12 “(a) DISTRIBUTIONS BY UPPER-TIER PARTNER-
13 SHIP.—In the case of any distribution of property to a
14 partner by an upper-tier partnership, if such distribution
15 results in an adjustment in the upper-tier partnership’s
16 adjusted basis in an interest in a lower-tier partnership
17 under section 734, then such lower-tier partnership shall
18 make a corresponding adjustment to the adjusted basis
19 of its partnership property.

20 “(b) DISTRIBUTIONS OF INTERESTS IN LOWER-TIER
21 PARTNERSHIP.—In the case of any distribution of an in-
22 terest in a lower-tier partnership by an upper-tier partner-
23 ship—

24 “(1) if the adjusted basis of such interest in the
25 hands of the upper-tier partnership (determined im-
26 mediately before such distribution) exceeds the ad-

1 justed basis of such interest in the hands of the dis-
2 tributee partner (determined immediately after such
3 distribution), then such lower-tier partnership shall
4 decrease the adjusted basis of its partnership prop-
5 erty by the amount of such excess, or

6 “(2) if the adjusted basis of such interest in the
7 hands of the distributee partner (determined imme-
8 diately after such distribution) exceeds the adjusted
9 basis of such interest in the hands of the upper-tier
10 partnership (determined immediately before such
11 distribution), then such lower-tier partnership shall
12 increase the adjusted basis of its partnership prop-
13 erty by the amount of such excess.

14 “(c) DISPOSITIONS OF INTERESTS IN UPPER-TIER
15 PARTNERSHIP.—In the case of a disposition of an interest
16 in an upper-tier partnership which holds an interest in a
17 lower-tier partnership, if there is an adjustment to the ad-
18 justed basis of the lower-tier partnership under section
19 743, then such lower-tier partnership shall make a cor-
20 responding adjustment to the adjusted basis of its part-
21 nership property.

22 “(d) MULTI-TIERED PARTNERSHIPS.—In the case of
23 any adjustment under subsection (a), (b), or (c) in the
24 adjusted basis of an interest in another partnership, such

1 other partnership shall make a corresponding adjustment
2 in the adjusted basis of its partnership property.

3 “(e) ALLOCATION OF BASIS; RECOGNITION OF
4 GAIN.—In the case of any adjustment in the adjusted
5 basis of partnership property—

6 “(1) under subsection (a), (b), (c), or (d), such
7 adjustment shall be made only with respect to the
8 upper-tier partnership’s proportionate share (as de-
9 termined under section 743(a)) of the adjusted basis
10 of the lower-tier partnership’s property,

11 “(2) under subsection (a) or (b) (or so much of
12 subsection (d) as relates to either such subsection),
13 rules similar to the rules of section 734(d) shall
14 apply, and

15 “(3) under subsection (c) (or so much of sub-
16 section (d) as relates to such subsection), rules simi-
17 lar to the rules of section 743(b) shall apply.

18 “(f) REPORTING.—In the case of any adjustment in
19 the adjusted basis of partnership property by a lower-tier
20 partnership under this section by reason of a distribution
21 by, or a disposition of an interest in, an upper-tier part-
22 nership, such upper-tier partnership shall furnish (in such
23 manner as the Secretary shall prescribe) to such lower-
24 tier partnership such information as is necessary to enable
25 such lower-tier partnership to make such adjustment.

1 “(g) UPPER- AND LOWER-TIER PARTNERSHIPS.—

2 For purposes of this section—

3 “(1) UPPER-TIER PARTNERSHIP.—The term
4 ‘upper-tier partnership’ means a partnership owning
5 an interest in another partnership.

6 “(2) LOWER-TIER PARTNERSHIP.—The term
7 ‘lower-tier partnership’ means the partnership re-
8 ferred to in paragraph (1) an interest in which is
9 owned by the upper-tier partnership.”.

10 (b) EFFECTIVE DATES.—The amendments made by
11 this section shall apply to distributions and transfers after
12 December 31, 2014.

13 **SEC. 3615. CHARITABLE CONTRIBUTIONS AND FOREIGN**
14 **TAXES TAKEN INTO ACCOUNT IN DETER-**
15 **MINING LIMITATION ON ALLOWANCE OF**
16 **PARTNER’S SHARE OF LOSS.**

17 (a) IN GENERAL.—Subsection (d) of section 704 is
18 amended—

19 (1) by striking “A partner’s distributive share”
20 and inserting the following:

21 “(1) IN GENERAL.—A partner’s distributive
22 share”,

23 (2) by striking “Any excess of such loss” and
24 inserting the following:

1 (2) CONFORMING AMENDMENT.—Section
2 751(b) is amended by striking paragraph (3).

3 (3) EFFECTIVE DATE.—The amendments made
4 by this subsection shall apply to distributions after
5 December 31, 2014.

6 (b) REVISION OF REGULATIONS RELATING TO
7 TREATMENT OF UNREALIZED RECEIVABLES AND INVEN-
8 TORY ITEMS.—The Secretary of the Treasury shall revise
9 regulations issued under section 751(b) of the Internal
10 Revenue Code of 1986 to take into account the partner's
11 share of income and gain rather than the partner's share
12 of partnership assets.

13 (c) SIMPLIFICATION OF DEFINITION OF UNREALIZED
14 RECEIVABLES.—

15 (1) IN GENERAL.—Section 751(c) is amended
16 by striking all that follows paragraph (2) and insert-
17 ing the following:

18 “For purposes of this section and sections 731, 732, 734,
19 and 741, such term also includes any property other than
20 inventory items, but only to the extent of the amount
21 which would be treated as ordinary income if (at the time
22 of the transaction described in the applicable section) such
23 property had been sold by the partnership for its fair mar-
24 ket value.”.

1 (2) EFFECTIVE DATE.—The amendment made
2 by this subsection shall apply to partnership taxable
3 years beginning after December 31, 2014.

4 **SEC. 3617. REPEAL OF TIME LIMITATION ON TAXING**
5 **PRECONTRIBUTION GAIN.**

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

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

12 (c) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to property contributed to a part-
14 nership after December 31, 2014.

15 **SEC. 3618. PARTNERSHIP INTERESTS CREATED BY GIFT.**

16 (a) IN GENERAL.—Section 761(b) is amended by
17 adding at the end the following: “In the case of a capital
18 interest in a partnership in which capital is a material in-
19 come-producing factor, whether a person is a partner with
20 respect to such interest shall be determined without regard
21 to whether such interest was derived by gift from any
22 other person.”.

23 (b) CONFORMING AMENDMENTS.—Section 704(e) is
24 amended—

1 (1) by striking paragraph (1) and by redesignig-
2 nating paragraphs (2) and (3) as paragraphs (1)
3 and (2), respectively,

4 (2) by striking “this section” in paragraph (2)
5 (as so redesignated) and inserting “this subsection”,
6 and

7 (3) by striking “FAMILY PARTNERSHIPS” in
8 the heading and inserting “PARTNERSHIP INTER-
9 ESTS CREATED BY GIFT”.

10 (c) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to partnership taxable years begin-
12 ning after December 31, 2014.

13 **SEC. 3619. REPEAL OF TECHNICAL TERMINATION.**

14 (a) IN GENERAL.—Paragraph (1) of section 708(b)
15 is amended—

16 (1) by striking “, or” and all that follows and
17 inserting a period, and

18 (2) by striking “only if—” and all that follows
19 through “no part of any business” and inserting the
20 following: “only if no part of any business”.

21 (b) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to partnership taxable years begin-
23 ning after December 31, 2014.

1 **SEC. 3620. PUBLICLY TRADED PARTNERSHIP EXCEPTION**
2 **RESTRICTED TO MINING AND NATURAL RE-**
3 **SOURCES PARTNERSHIPS.**

4 (a) IN GENERAL.—Subsection (d) of section 7704 is
5 amended to read as follows:

6 “(d) QUALIFYING INCOME.—For purposes of this
7 section, the term ‘qualifying income’ means—

8 “(1) income and gains derived from the explo-
9 ration, development, mining or production, proc-
10 essing, refining, transportation (including pipelines
11 transporting gas, oil, or products thereof), or the
12 marketing of any mineral or natural resource (in-
13 cluding geothermal energy and excluding fertilizer
14 and timber) or industrial source carbon dioxide, and

15 “(2) any gain from the sale or disposition of a
16 capital asset (or property described in section
17 1231(b)) held for the production of income described
18 in paragraph (1).

19 For purposes of this subsection, the term ‘mineral or nat-
20 ural resource’ means any product of a character with re-
21 spect to which a deduction for depletion is allowable under
22 section 611 (other than minerals from sea water or the
23 air (or similar inexhaustible sources), soil, sod, dirt, turf,
24 water, or mosses).”.

25 (b) CONFORMING AMENDMENTS.—Section
26 988(c)(1)(E) is amended—

1 (1) by striking “income or gains described in
2 subparagraph (A), (B), or (G) of section
3 7704(d)(1)” in clause (iii)(III) and inserting “quali-
4 fying income or gains”,

5 (2) by striking subclause (III) of clause (vi) and
6 by redesignating subclause (IV) as subclause (III),

7 (3) by redesignating clause (vi) (as amended by
8 this subparagraph) as clause (viii), and

9 (4) by inserting after clause (v) the following
10 new clauses:

11 “(vi) QUALIFYING INCOME OR
12 GAINS.—The term ‘qualifying income or
13 gains’ means—

14 “(I) interest,

15 “(II) dividends, and

16 “(III) in the case of a partner-
17 ship described in the second sentence
18 of section 7704(c)(3), income and
19 gains from commodities (not described
20 in section 1221(a)(1)) or futures, for-
21 wards, and options with respect to
22 commodities.

23 “(vii) INADVERTENT TERMI-
24 NATIONS.—If—

1 “(I) A partnership fails to meet
2 the gross income requirements of this
3 subparagraph,

4 “(II) the Secretary determines
5 that such failure was inadvertent,

6 “(III) 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

11 “(IV) such partnership agrees to
12 make such adjustments (including ad-
13 justments with respect to the part-
14 ners) or to pay such amounts as may
15 be required by the Secretary with re-
16 spect to such period,

17 then, notwithstanding such failure, such
18 entity shall be treated as continuing to
19 meet such gross income requirements for
20 such period.”.

21 (c) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to taxable years beginning after
23 December 31, 2016.

1 **SEC. 3621. ORDINARY INCOME TREATMENT IN THE CASE OF**
2 **PARTNERSHIP INTERESTS HELD IN CONNEC-**
3 **TION WITH PERFORMANCE OF SERVICES.**

4 (a) IN GENERAL.—Part IV of subchapter O of chap-
5 ter 1 is amended—

6 (1) by redesignating section 1061 as section
7 1062, and

8 (2) by inserting after section 1060 the following
9 new section:

10 **“SEC. 1061. PARTNERSHIP INTERESTS HELD IN CONNEC-**
11 **TION WITH PERFORMANCE OF SERVICES.**

12 “(a) IN GENERAL.—If one or more applicable part-
13 nership interests are held by a taxpayer at any time during
14 the taxable year, so much of—

15 “(1) the taxpayer’s net capital gain with respect
16 to such interests for such taxable year, as does not
17 exceed

18 “(2) the taxpayer’s recharacterization account
19 balance for such taxable year,
20 shall be treated as ordinary income.

21 “(b) NET CAPITAL GAIN.—

22 “(1) IN GENERAL.—For purposes of subsection
23 (a)(1), net capital gain shall be determined under
24 section 1222, except that such section shall be ap-
25 plied—

1 “(A) without regard to the recharacteriza-
2 tion of any item as ordinary income under this
3 section,

4 “(B) by only taking into account items of
5 gain and loss—

6 “(i) taken into account by the tax-
7 payer under section 702 with respect to
8 any applicable partnership interest,

9 “(ii) recognized by the taxpayer on
10 the disposition of any such interest, or

11 “(iii) recognized by the taxpayer
12 under paragraph (4) on a distribution of
13 property with respect to such interest, and

14 “(C) in the case of a taxable year for
15 which section 1231 gains (as defined in section
16 1231(a)(3)(A)) exceed section 1231 losses (as
17 defined in section 1231(a)(3)(B)), by treating
18 property which is taken into account in deter-
19 mining such gains and losses as capital assets
20 held for more than 1 year.

21 “(2) ALLOCATION TO ITEMS OF GAIN.—The
22 amount treated as ordinary income under subsection
23 (a) shall be allocated ratably among the items of
24 long-term capital gain taken into account in deter-
25 mining net capital gain under paragraph (1).

1 “(3) RECOGNITION OF GAIN ON DISPOSITION
2 OF APPLICABLE PARTNERSHIP INTERESTS.—Any
3 gain on the disposition of any applicable partnership
4 interest shall be recognized notwithstanding any
5 other provision of this title.

6 “(4) RECOGNITION OF GAIN ON DISTRIBUTIONS
7 OF PARTNERSHIP PROPERTY.—

8 “(A) IN GENERAL.—In the case of any dis-
9 tribution of property by a partnership with re-
10 spect to any applicable partnership interest, the
11 partner receiving such property shall recognize
12 gain equal to the excess (if any) of—

13 “(i) the fair market value of such
14 property at the time of such distribution,
15 over

16 “(ii) the adjusted basis of such prop-
17 erty in the hands of such partner (deter-
18 mined without regard to subparagraph
19 (B)).

20 “(B) ADJUSTMENT OF BASIS.—In the case
21 of a distribution to which subparagraph (A) ap-
22 plies, the basis of the distributed property in
23 the hands of the distributee partner shall be the
24 amount determined under subparagraph (A)(i).

25 “(c) RECHARACTERIZATION ACCOUNT BALANCE.—

1 “(1) IN GENERAL.—For purposes of this sec-
2 tion, the term ‘recharacterization account balance’
3 means, with respect to any taxpayer for any taxable
4 year, the excess (if any) of—

5 “(A) the sum of—

6 “(i) the taxpayer’s aggregate annual
7 recharacterization amounts with respect to
8 applicable partnership interests for such
9 taxable year, plus

10 “(ii) the taxpayer’s recharacterization
11 account balance for the taxable year pre-
12 ceding such taxable year, over

13 “(B) the sum of—

14 “(i) the taxpayer’s net ordinary in-
15 come with respect to applicable partnership
16 interests for such taxable year (determined
17 without regard to this section), plus

18 “(ii) the amount treated as ordinary
19 income of the taxpayer under this section
20 for the taxable year preceding such taxable
21 year.

22 “(2) ANNUAL RECHARACTERIZATION
23 AMOUNT.—For purposes of this subsection—

24 “(A) IN GENERAL.—The term ‘annual re-
25 characterization amount’ means, with respect to

1 any applicable partnership interest for any
2 partnership taxable year, an amount equal to
3 the product of—

4 “(i) the specified rate determined
5 under subparagraph (B) for the calendar
6 year in which such taxable year begins,
7 multiplied by

8 “(ii) the excess (if any) of—

9 “(I) an amount equal to the ap-
10 plicable percentage of the partner-
11 ship’s aggregate invested capital for
12 such taxable year, over

13 “(II) the specified capital con-
14 tribution of the partner with respect
15 to the applicable partnership interest
16 for such taxable year.

17 If a taxpayer holds an applicable partnership
18 interest for less than the entire taxable year,
19 the amount determined under the preceding
20 sentence shall be ratably reduced.

21 “(B) SPECIFIED RATE.—For purposes of
22 subparagraph (A), the term ‘specified rate’
23 means, with respect to any calendar year, a per-
24 centage equal to—

1 “(i) the Federal long-term rate deter-
2 mined under section 1274(d)(1) for the
3 last month of the calendar year, plus

4 “(ii) 10 percentage points.

5 “(C) APPLICABLE PERCENTAGE.—

6 “(i) IN GENERAL.—The term ‘applica-
7 ble percentage’ means, with respect to any
8 applicable partnership interest, the highest
9 percentage of profits of the partnership
10 that could be allocated with respect to such
11 interest for the taxable year (consistent
12 with the partnership agreement and as-
13 suming such facts and circumstances with
14 respect to such taxable year as would re-
15 sult in such highest percentage).

16 “(ii) SECRETARIAL AUTHORITY.—The
17 Secretary shall prescribe rules for the de-
18 termination of the applicable percentage in
19 cases in which the percentage of profits of
20 a partnership that are to be allocated with
21 respect to an applicable partnership inter-
22 est varies on the basis of the aggregate
23 amount of such profits. Such rules may
24 provide a percentage which may be used in
25 lieu of the highest percentage determined

1 under clause (i) in cases where such other
2 percentage is consistent with the purposes
3 of this section.

4 “(D) AGGREGATE INVESTED CAPITAL.—

5 “(i) IN GENERAL.—The term ‘aggre-
6 gate invested capital’ means, with respect
7 to any taxable year, the average daily
8 amount of invested capital of the partner-
9 ship for such taxable year.

10 “(ii) INVESTED CAPITAL.—The term
11 ‘invested capital’ means, with respect to
12 any partnership as of any day, the total
13 cumulative value, determined at the time
14 of contribution, of all money or other prop-
15 erty contributed to the partnership on or
16 before such day.

17 “(iii) REDUCTION FOR LIQUIDATION
18 OF PARTNERSHIP INTERESTS.—The in-
19 vested capital of a partnership shall be re-
20 duced by the aggregate amount distributed
21 in liquidation of interests in the partner-
22 ship.

23 “(iv) TREATMENT OF CERTAIN IN-
24 DEBTEDNESS AS INVESTED CAPITAL.—The

1 following amounts shall be treated as in-
2 vested capital:

3 “(I) PARTNER LOANS.—The ag-
4 gregate value (determined as of the
5 time of the loan) of money or other
6 property which a partner loans to the
7 partnership.

8 “(II) INDEBTEDNESS ELIGIBLE
9 TO SHARE IN EQUITY OF THE PART-
10 NERSHIP.—The face amount of any
11 convertible debt of the partnership or
12 any debt obligation providing equity
13 participation in the partnership.

14 “(E) SPECIFIED CAPITAL CONTRIBU-
15 TION.—

16 “(i) IN GENERAL.—The term ‘speci-
17 fied capital contribution’ means, with re-
18 spect to any applicable partnership interest
19 for any taxable year, the average daily
20 amount of contributed capital with respect
21 to such interest for such year.

22 “(ii) CONTRIBUTED CAPITAL.—The
23 term ‘contributed capital’ means, with re-
24 spect to applicable partnership interest as
25 of any day, the excess (if any) of—

1 “(I) the total cumulative value,
2 determined at the time of contribu-
3 tion, of all money or other property
4 contributed by the partner to the
5 partnership with respect to such inter-
6 est as of such day, over

7 “(II) the total cumulative value,
8 determined at the time of distribution,
9 of all money or other property distrib-
10 uted by the partnership to the partner
11 with respect to such interest as of
12 such day.

13 “(iii) TREATMENT OF RELATED
14 PARTY BORROWINGS.—Any amount bor-
15 rowed directly or indirectly from the part-
16 nership or any other partner of the part-
17 nership or any person related to such other
18 partner or such partnership shall not be
19 taken into account under this subpara-
20 graph. For purposes of the preceding sen-
21 tence, a person shall be treated as related
22 to another person if the relationship be-
23 tween such persons would be described in
24 section 267(b) or 707(b) if such sections
25 and section 267(f) were applied by sub-

1 stituting ‘10 percent’ for ‘50 percent’ each
2 place it appears.

3 “(F) MULTIPLE INTERESTS.—If at any
4 time during a taxable year a taxpayer holds di-
5 rectly or indirectly more than 1 applicable part-
6 nership interest in a single partnership, such in-
7 terests shall be treated as 1 applicable partner-
8 ship interest for purposes of applying this para-
9 graph.

10 “(3) NET ORDINARY INCOME.—For purposes of
11 this subsection, the net ordinary income with respect
12 to applicable partnership interests for any taxable
13 year is the excess (if any) of—

14 “(A) the taxpayer’s distributive share of
15 items of income and gain under section 702
16 with respect to applicable partnership interests
17 for such taxable year (determined without re-
18 gard to any items of gain taken into account in
19 determining net capital gain under subsection
20 (b)(1)), over

21 “(B) the taxpayer’s distributive share of
22 items of deduction and loss under section 702
23 with respect to such interests for such taxable
24 year (determined without regard to any items of

1 loss taken into account in determining net cap-
2 ital gain under subsection (b)(1)).

3 “(d) APPLICABLE PARTNERSHIP INTEREST.—For
4 purposes of this section—

5 “(1) IN GENERAL.—The term ‘applicable part-
6 nership interest’ means any interest in a partnership
7 which, directly or indirectly, is transferred to (or is
8 held by) the taxpayer in connection with the per-
9 formance of services by the taxpayer, or any other
10 person, in any applicable trade or business.

11 “(2) APPLICABLE TRADE OR BUSINESS.—

12 “(A) IN GENERAL.—The term ‘applicable
13 trade or business’ means any trade or business
14 conducted on a regular, continuous, and sub-
15 stantial basis which, regardless of whether the
16 activities are conducted in one or more entities,
17 consists, in whole or in part, of—

18 “(i) raising or returning capital,

19 “(ii) investing in (or disposing of)
20 trades or businesses (or identifying trades
21 or businesses for such investing or disposi-
22 tion), and

23 “(iii) developing such trades or busi-
24 nesses.

1 “(B) TREATMENT OF RESEARCH AND EX-
2 PERIMENTATION ACTIVITIES.—Any activity in-
3 volving research or experimentation (within the
4 meaning of section 469(c)(4)) shall be treated
5 as a trade or business for purposes of clauses
6 (ii) and (iii) of subparagraph (A).

7 “(e) TRANSFER OF APPLICABLE PARTNERSHIP IN-
8 TEREST TO RELATED PERSON.—

9 “(1) IN GENERAL.—If a taxpayer transfers any
10 applicable partnership interest, directly or indirectly,
11 to a person related to the taxpayer, the taxpayer
12 shall include in gross income (as ordinary income) so
13 much of the taxpayer’s recharacterization account
14 balance for such taxable year as is allocable to such
15 interest (determined in such manner as the Sec-
16 retary may provide and reduced by any amount
17 treated as ordinary income under subsection (a) with
18 respect to the transfer of such interest).

19 “(2) RELATED PERSON.—For purposes of this
20 paragraph, a person is related to the taxpayer if—

21 “(A) the person is a member of the tax-
22 payer’s family within the meaning of section
23 318(a)(1), or

24 “(B) the person performed a service within
25 the current calendar year or the preceding three

1 calendar years in any applicable trade or busi-
2 ness in which or for which the taxpayer per-
3 formed a service.

4 “(f) REPORTING BY ENTITY OF TAXPAYER’S AN-
5 NUAL RECHARACTERIZATION AMOUNT.—A partnership
6 shall report to the Secretary, and include with the infor-
7 mation required to be furnished under section 6031(b) to
8 each partner, the amount of the partner’s annual re-
9 characterization amount for the taxable year, if any. A
10 similar rule applies to any entity that receives a report
11 of an annual recharacterization amount for the taxable
12 year.

13 “(g) REGULATIONS.—The Secretary shall issue such
14 regulations or other guidance as necessary to carry out
15 this section, including regulations—

16 “(1) to prevent the abuse of the purposes of
17 this section, including through—

18 “(A) the allocation of income to tax indif-
19 ferent parties, or

20 “(B) a reduction in the invested capital of
21 the partnership (including attempts to under-
22 value contributed or loaned property),

23 “(2) which provide that partnership interests
24 shall not fail to be treated as transferred or held in
25 connection with the performance of services merely

1 because the taxpayer also made contributions to the
2 partnership,

3 “(3) which provide for the application of this
4 section in cases where the taxpayer has more than
5 1 applicable interest in a partnership, and

6 “(4) which provide for the application of this
7 section in cases of tiered structures of entities.”.

8 (b) COORDINATION WITH SECTION 83.—Subsection
9 (e) of section 83 is amended by striking “or” at the end
10 of paragraph (4), by striking the period at the end of para-
11 graph (5) and inserting “, or”, and by adding at the end
12 the following new paragraph:

13 “(6) a transfer of a partnership interest to
14 which section 1061 applies.”.

15 (c) CLERICAL AMENDMENT.—The table of sections
16 for part IV of subchapter O of chapter 1 is amended by
17 striking the item relating to 1061 and inserting the fol-
18 lowing new items:

“Sec. 1061. Partnership interests held in connection with performance of serv-
ices.

“Sec. 1062. Cross references.”.

19 (d) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to taxable years beginning after
21 December 31, 2014.

22 **SEC. 3622. PARTNERSHIP AUDITS AND ADJUSTMENTS.**

23 (a) REPEAL OF TEFRA PARTNERSHIP AUDIT
24 RULES.—Chapter 63 is amended by striking subchapter

1 C (and by striking the item relating to such subchapter
2 in the table of subchapters for such chapter).

3 (b) REPEAL OF ELECTING LARGE PARTNERSHIP
4 RULES.—

5 (1) IN GENERAL.—Subchapter K of chapter 1
6 is amended by striking part IV (and by striking the
7 item relating to such part in the table of parts for
8 such subchapter).

9 (2) ASSESSMENT RULES RELATING TO ELECT-
10 ING LARGE PARTNERSHIPS.—Chapter 63 is amended
11 by striking subchapter D (and by striking the item
12 relating to such subchapter in the table of sub-
13 chapters for such chapter).

14 (3) EFFECTIVE DATE.—The amendments made
15 by this section shall apply to returns filed after De-
16 cember 31, 2014.

17 (c) PARTNERSHIP AUDIT REFORM.—

18 (1) IN GENERAL.—Chapter 63, as amended by
19 the preceding provisions of this Act, is amended by
20 inserting after subchapter B the following new sub-
21 chapter:

22 **“Subchapter C—Treatment of Partnerships**

“PART I—IN GENERAL

“PART II—PARTNERSHIP ADJUSTMENTS

“PART III—PROCEDURE

“PART IV—DEFINITIONS AND SPECIAL RULES

1 “(4) the election—

2 “(A) is made with a timely filed return for
3 such taxable year, and

4 “(B) includes (in the manner prescribed by
5 the Secretary) a disclosure of the name and
6 taxpayer identification number of each partner
7 of such partnership, and

8 “(5) the partnership notifies each such partner
9 of such election in the manner prescribed by the
10 Secretary.

11 For purposes of paragraph (4)(B), the Secretary may pro-
12 vide for alternative identification of any foreign partners.

13 **“SEC. 6222. PARTNER’S RETURN MUST BE CONSISTENT**
14 **WITH PARTNERSHIP RETURN.**

15 “(a) IN GENERAL.—A partner of any partnership
16 shall, on the partner’s return, treat each item of income,
17 gain, loss, deduction, or credit attributable to such part-
18 nership in a manner which is consistent with the treat-
19 ment of such income, gain, loss, deduction, or credit on
20 the partnership return.

21 “(b) UNDERPAYMENT DUE TO INCONSISTENT
22 TREATMENT ASSESSED AS MATH ERROR.—Any under-
23 payment of tax by a partner by reason of failing to comply
24 with the requirements of subsection (a) shall be assessed
25 and collected in the same manner as if such underpayment

1 were on account of a mathematical or clerical error ap-
2 pearing on the partner's return. Paragraph (2) of section
3 6213(b) shall not apply to any assessment of an under-
4 payment referred to in the preceding sentence.

5 “(c) ADDITION TO TAX FOR FAILURE TO COMPLY
6 WITH SECTION.—For addition to tax in the case of part-
7 ner's disregard of the requirements of this section, see
8 part II of subchapter A of chapter 68.

9 **“SEC. 6223. PARTNERS BOUND BY ACTIONS OF PARTNER-**
10 **SHIP.**

11 “(a) DESIGNATION OF PARTNER.—Each partnership
12 shall designate (in the manner prescribed by the Sec-
13 retary) a partner (or other person) as the partnership rep-
14 resentative who shall have the sole authority to act on be-
15 half of the partnership under this subchapter. In any case
16 in which such a designation is not in effect, the Secretary
17 may select any partner as the partnership representative.

18 “(b) BINDING EFFECT.—A partnership and all part-
19 ners of such partnership shall be bound—

20 “(1) by actions taken under this subchapter by
21 the partnership, and

22 “(2) by any decision in a proceeding brought
23 under this subchapter.

24 **“PART II—PARTNERSHIP ADJUSTMENTS**

“Sec. 6225. Partnership adjustment by Secretary.

“Sec. 6226. Administrative adjustment request by partnership.

1 **“SEC. 6225. PARTNERSHIP ADJUSTMENT BY SECRETARY.**

2 “(a) IN GENERAL.—In the case of any adjustment
3 by the Secretary in the amount of any item of income,
4 gain, loss, deduction, or credit of a partnership, or any
5 partner’s distributive share thereof—

6 “(1) the partnership shall pay any imputed un-
7 derpayment with respect to such adjustment in the
8 adjustment year as provided in section 6232, and

9 “(2) any imputed overpayment shall be taken
10 into account by the partnership in the adjustment
11 year as a reduction in non-separately stated income
12 or an increase in non-separately stated loss (which-
13 ever is appropriate) under section 702(a)(8).

14 “(b) DETERMINATION OF IMPUTED UNDERPAY-
15 MENTS AND OVERPAYMENTS.—For purposes of this sub-
16 chapter—

17 “(1) IN GENERAL.—Except as provided in sub-
18 section (c), any imputed underpayment or imputed
19 overpayment with respect to any partnership adjust-
20 ment for any reviewed year shall be determined—

21 “(A) by netting all adjustments of items of
22 income, gain, loss, or deduction and multiplying
23 such net amount by the highest rate of tax in
24 effect for the reviewed year under section 1 or
25 11,

1 “(B) by treating any net increase or de-
2 crease in loss under subparagraph (A) as a de-
3 crease or increase, respectively, in income, and

4 “(C) by taking into account any adjust-
5 ments to items of credit as an increase or de-
6 crease, as the case may be, in the amount de-
7 termined under subparagraph (A).

8 “(2) ADJUSTMENTS TO DISTRIBUTIVE SHARES
9 OF PARTNERS NOT NETTED.—In the case of any ad-
10 justment which reallocates the distributive share of
11 any item from one partner to another, such adjust-
12 ment shall be taken into account under paragraph
13 (1) by disregarding—

14 “(A) any decrease in any item of income or
15 gain, and

16 “(B) any increase in any item of deduc-
17 tion, loss, or credit.

18 “(c) MODIFICATION OF IMPUTED UNDERPAY-
19 MENTS.—

20 “(1) METHOD IN GENERAL.—The Secretary
21 shall establish procedures under which the imputed
22 underpayment amount may be modified consistent
23 with the requirements of this subsection.

24 “(2) AMENDED RETURNS OF PARTNERS.—Such
25 procedures shall provide that if—

1 “(A) one or more partners file returns for
2 the taxable year of the partners which includes
3 the end of the reviewed year of the partnership,

4 “(B) such returns take into account all ad-
5 justments under subsection (a) properly allo-
6 cable to such partners (and for any other tax-
7 able year with respect to which any tax at-
8 tribute is affected by reason of such adjust-
9 ments), and

10 “(C) payment of any tax due is included
11 with such return,

12 then the imputed underpayment amount shall be de-
13 termined without regard to the portion of the adjust-
14 ments so taken into account.

15 “(3) REALLOCATION OF DISTRIBUTIVE
16 SHARE.—In the case of any adjustment which reallo-
17 cates the distributive share of any item from one
18 partner to another, paragraph (2) shall apply only if
19 returns are filed by all partners affected by such ad-
20 justment.

21 “(4) YEAR AND DAY FOR SUBMISSION TO SEC-
22 RETARY.—Anything required to be submitted pursu-
23 ant to paragraph (1) shall be submitted to the Sec-
24 retary not later than the close the 180-day period
25 beginning on the date on which the notice of a pro-

1 posed partnership adjustment is mailed under sec-
2 tion 6231 unless such period is extended with the
3 consent of the Secretary.

4 “(5) DECISION OF SECRETARY.—Any modifica-
5 tion of the imputed underpayment amount under
6 this subsection shall be made only upon approval of
7 such modification by the Secretary.

8 “(d) DEFINITIONS AND SPECIAL RULE.—For pur-
9 poses of this subchapter—

10 “(1) REVIEWED YEAR.—The term ‘reviewed
11 year’ means the partnership taxable year to which
12 the item being adjusted relates.

13 “(2) ADJUSTMENT YEAR.—The term ‘adjust-
14 ment year’ means the partnership taxable year in
15 which—

16 “(A) in the case of an adjustment pursu-
17 ant to the decision of a court in a proceeding
18 brought under section 6234, such decision be-
19 comes final,

20 “(B) in the case of an administrative ad-
21 justment request under section 6226, such ad-
22 ministrative adjustment request is made, or

23 “(C) in any other case, notice of the final
24 partnership adjustment is mailed under section
25 6231.

1 **“SEC. 6226. ADMINISTRATIVE ADJUSTMENT REQUEST BY**
2 **PARTNERSHIP.**

3 “(a) IN GENERAL.—A partnership may file a request
4 for an administrative adjustment in the amount of any
5 item of income, gain, loss, deduction, or credit of the part-
6 nership for any partnership taxable year, but only to the
7 extent such adjustment results in an imputed under-
8 payment.

9 “(b) ADJUSTMENT.—Any adjustment under sub-
10 section (a) shall be determined and taken into account by
11 the partnership under rules similar to the rules of section
12 6225 (other than subsection (c) thereof) for the partner-
13 ship taxable year in which the administrative adjustment
14 request is made.

15 “(c) PERIOD OF LIMITATIONS.—A partnership may
16 not file such a request—

17 “(1) more than 3 years after the later of—

18 “(A) the date on which the partnership re-
19 turn for such year is filed, or

20 “(B) the last day for filing the partnership
21 return for such year (determined without re-
22 gard to extensions), and

23 “(2) after any notice of an administrative pro-
24 ceeding with respect to the taxable year is mailed
25 under section 6231.

1 **“PART III—PROCEDURE**

“Sec. 6231. Notice of proceedings and adjustment.

“Sec. 6232. Assessment, collection, and payment.

“Sec. 6233. Penalties and interest.

“Sec. 6234. Judicial review of partnership adjustment.

“Sec. 6235. Period of limitations on making adjustments.

2 **“SEC. 6231. NOTICE OF PROCEEDINGS AND ADJUSTMENT.**

3 “(a) IN GENERAL.—The Secretary shall mail to the

4 partnership and the partnership representative—

5 “(1) notice of any administrative proceeding

6 initiated at the partnership level with respect to an

7 adjustment of any item of income, gain, loss, deduc-

8 tion, or credit of a partnership for a partnership tax-

9 able year, or any partner’s distributive share thereof,

10 “(2) notice of any proposed partnership adjust-

11 ment resulting from such proceeding, and

12 “(3) notice of any final partnership adjustment

13 resulting from such proceeding.

14 Any notice of a final partnership adjustment shall not be

15 mailed earlier than 180 days after the date on which the

16 notice of the proposed partnership adjustment is mailed.

17 Such notices shall be sufficient if mailed to the last known

18 address of the partnership representative or the partner-

19 ship (even if the partnership has terminated its existence).

20 The first sentence shall apply to any proceeding with re-

21 spect to an administrative adjustment request filed by a

22 partnership under section 6226.

1 “(b) FURTHER NOTICES RESTRICTED.—If the Sec-
2 retary mails a notice of a final partnership adjustment to
3 any partnership for any partnership taxable year and the
4 partnership files a petition under section 6234 with re-
5 spect to such notice, in the absence of a showing of fraud,
6 malfeasance, or misrepresentation of a material fact, the
7 Secretary shall not mail another such notice to such part-
8 nership with respect to such taxable year.

9 “(c) AUTHORITY TO RESCIND NOTICE WITH PART-
10 NERSHIP CONSENT.—The Secretary may, with the con-
11 sent of the partnership, rescind any notice of a partner-
12 ship adjustment mailed to such partnership. Any notice
13 so rescinded shall not be treated as a notice of a partner-
14 ship adjustment for purposes of this subchapter, and the
15 taxpayer shall have no right to bring a proceeding under
16 section 6234 with respect to such notice.

17 **“SEC. 6232. ASSESSMENT, COLLECTION, AND PAYMENT.**

18 “(a) IN GENERAL.—Any imputed underpayment—
19 “(1) shall be assessed and collected in the same
20 manner as if it were a tax imposed for the adjust-
21 ment year by subtitle A, and
22 “(2) shall be paid on or before the return due
23 date for the adjustment year.

24 “(b) LIMITATION ON ASSESSMENT.—Except as oth-
25 erwise provided in this chapter, no assessment of a defi-

1 ciency may be made (and no levy or proceeding in any
2 court for the collection of any amount resulting from such
3 adjustment may be made, begun or prosecuted) before—

4 “(1) the close of the 90th day after the day on
5 which a notice of a final partnership adjustment was
6 mailed, and

7 “(2) if a petition is filed under section 6234
8 with respect to such notice, the decision of the court
9 has become final.

10 “(c) PREMATURE ACTION MAY BE ENJOINED.—Not-
11 withstanding section 7421(a), any action which violates
12 subsection (b) may be enjoined in the proper court, includ-
13 ing the Tax Court. The Tax Court shall have no jurisdic-
14 tion to enjoin any action under this subsection unless a
15 timely petition has been filed under section 6234 and then
16 only in respect of the adjustments that are the subject
17 of such petition.

18 “(d) EXCEPTIONS TO RESTRICTIONS ON ADJUST-
19 MENTS.—

20 “(1) ADJUSTMENTS ARISING OUT OF MATH OR
21 CLERICAL ERRORS.—

22 “(A) IN GENERAL.— If the partnership is
23 notified that, on account of a mathematical or
24 clerical error appearing on the partnership re-
25 turn, an adjustment to a partnership item is re-

1 required, rules similar to the rules of paragraphs
2 (1) and (2) of section 6213(b) shall apply to
3 such adjustment.

4 “(B) SPECIAL RULE.—If a partnership is
5 a partner in another partnership, any adjust-
6 ment on account of such partnership’s failure to
7 comply with the requirements of section
8 6222(a) with respect to its interest in such
9 other partnership shall be treated as an adjust-
10 ment referred to in subparagraph (A), except
11 that paragraph (2) of section 6213(b) shall not
12 apply to such adjustment.

13 “(2) PARTNERSHIP MAY WAIVE RESTRIC-
14 TIONS.—The partnership may at any time (whether
15 or not any notice of partnership adjustment has
16 been issued), by a signed notice in writing filed with
17 the Secretary, waive the restrictions provided in sub-
18 section (b) on the making of any partnership adjust-
19 ment.

20 “(e) LIMIT WHERE NO PROCEEDING BEGUN.—If no
21 proceeding under section 6234 is begun with respect to
22 any notice of a final partnership adjustment during the
23 90-day period described in subsection (b) thereof, the
24 amount for which the partnership is liable under section

1 6225 shall not exceed the amount determined in accord-
2 ance with such notice.

3 **“SEC. 6233. PENALTIES AND INTEREST.**

4 “(a) PENALTIES AND INTEREST DETERMINED FROM
5 REVIEWED YEAR.—

6 “(1) IN GENERAL.—In the case of an imputed
7 underpayment with respect to a partnership adjust-
8 ment for a reviewed year, the partnership—

9 “(A) shall pay to the Secretary interest
10 computed under paragraph (2), and

11 “(B) shall be liable for any penalty, addi-
12 tion to tax, or additional amount as provided in
13 paragraph (3).

14 “(2) DETERMINATION OF AMOUNT OF INTER-
15 EST.—The interest computed under this paragraph
16 with respect to any partnership adjustment is the in-
17 terest which would be determined under chapter
18 67—

19 “(A) on the imputed underpayment deter-
20 mined with respect to such adjustment,

21 “(B) for the period beginning on the day
22 after the return due date for the reviewed year
23 and ending on the return due date for the ad-
24 justment year (or, if earlier, the date payment
25 of the imputed underpayment is made).

1 Proper adjustments in the amount determined under
2 the preceding sentence shall be made for adjust-
3 ments required for partnership taxable years after
4 the reviewed year and before the adjustment year by
5 reason of such partnership adjustment.

6 “(3) PENALTIES.—A partnership shall be liable
7 for any penalty, addition to tax, or additional
8 amount for which it would have been liable if such
9 partnership had been an individual subject to tax
10 under chapter 1 for the reviewed year and the im-
11 puted underpayment were an actual underpayment
12 (or understatement) for such year.

13 “(b) INTEREST AND PENALTIES WITH RESPECT TO
14 ADJUSTMENT YEAR RETURN.—

15 “(1) IN GENERAL.—In the case of any failure
16 to pay an imputed underpayment on the date pre-
17 scribed therefor, the partnership shall be liable—

18 “(A) for interest as determined under
19 paragraph (2), and

20 “(B) for any penalty, addition to tax, or
21 additional amount as determined under para-
22 graph (3).

23 “(2) INTEREST.—Interest determined under
24 this paragraph is the interest that would be deter-
25 mined by treating the imputed underpayment as an

1 underpayment of tax imposed in the adjustment
2 year.

3 “(3) PENALTIES.—Penalties, additions to tax,
4 or additional amounts determined under this para-
5 graph are the penalties, additions to tax, or addi-
6 tional amounts that would be determined—

7 “(A) by applying section 6651(a)(2) to
8 such failure to pay.

9 “(B) by treating the imputed under-
10 payment as an underpayment of tax for pur-
11 poses of part II of subchapter A of chapter 68.

12 **“SEC. 6234. JUDICIAL REVIEW OF PARTNERSHIP ADJUST-**
13 **MENT.**

14 “(a) IN GENERAL.—Within 90 days after the date
15 on which a notice of a final partnership adjustment is
16 mailed under section 6231 with respect to any partnership
17 taxable year, the partnership may file a petition for a re-
18 adjustment for such taxable year with—

19 “(1) the Tax Court,

20 “(2) the district court of the United States for
21 the district in which the partnership’s principal place
22 of business is located, or

23 “(3) the Claims Court.

24 “(b) JURISDICTIONAL REQUIREMENT FOR BRINGING
25 ACTION IN DISTRICT COURT OR CLAIMS COURT.—

1 “(1) IN GENERAL.—A readjustment petition
2 under this section may be filed in a district court of
3 the United States or the Claims Court only if the
4 partnership filing the petition deposits with the Sec-
5 retary, on or before the date the petition is filed, the
6 amount of the imputed underpayment (as of the
7 date of the filing of the petition) if the partnership
8 adjustment was made as provided by the notice of
9 final partnership adjustment. The court may by
10 order provide that the jurisdictional requirements of
11 this paragraph are satisfied where there has been a
12 good faith attempt to satisfy such requirement and
13 any shortfall of the amount required to be deposited
14 is timely corrected.

15 “(2) INTEREST PAYABLE.—Any amount depos-
16 ited under paragraph (1), while deposited, shall not
17 be treated as a payment of tax for purposes of this
18 title (other than chapter 67).

19 “(c) SCOPE OF JUDICIAL REVIEW.—A court with
20 which a petition is filed in accordance with this section
21 shall have jurisdiction to determine all items of income,
22 gain, loss, deduction, or credit of the partnership for the
23 partnership taxable year to which the notice of final part-
24 nership adjustment relates, the proper allocation of such
25 items among the partners, and the applicability of any

1 penalty, addition to tax, or additional amount for which
2 the partnership may be liable under this subchapter.

3 “(d) DETERMINATION OF COURT REVIEWABLE.—
4 Any determination by a court under this section shall have
5 the force and effect of a decision of the Tax Court or a
6 final judgment or decree of the district court or the Claims
7 Court, as the case may be, and shall be reviewable as such.
8 The date of any such determination shall be treated as
9 being the date of the court’s order entering the decision.

10 “(e) EFFECT OF DECISION DISMISSING ACTION.—If
11 an action brought under this section is dismissed other
12 than by reason of a rescission under section 6231(c), the
13 decision of the court dismissing the action shall be consid-
14 ered as its decision that the notice of final partnership
15 adjustment is correct, and an appropriate order shall be
16 entered in the records of the court.

17 **“SEC. 6235. PERIOD OF LIMITATIONS ON MAKING ADJUST-**
18 **MENTS.**

19 “(a) IN GENERAL.—Except as otherwise provided in
20 this section, no adjustment under this subpart for any
21 partnership taxable year may be made after the date
22 which is 3 years after the latest of—

23 “(1) the date on which the partnership return
24 for such taxable year was filed,

1 “(2) the return due date for the taxable year,
2 or

3 “(3) the date on which the partnership filed an
4 administrative adjustment request with respect to
5 such year under section 6226.

6 “(b) EXTENSION BY AGREEMENT.— The period de-
7 scribed in subsection (a) (including an extension period
8 under this subsection) may be extended by an agreement
9 entered into by the Secretary and the partnership before
10 the expiration of such period.

11 “(c) SPECIAL RULE IN CASE OF FRAUD, ETC.—

12 “(1) FALSE RETURN.— In the case of a false
13 or fraudulent partnership return with intent to
14 evade tax, the adjustment may be made at any time.

15 “(2) SUBSTANTIAL OMISSION OF INCOME.—If
16 any partnership omits from gross income an amount
17 properly includible therein and such amount is de-
18 scribed in section 6501(e)(1)(A), subsection (a) shall
19 be applied by substituting ‘6 years’ for ‘3 years’.

20 “(3) NO RETURN.—In the case of a failure by
21 a partnership to file a return for any taxable year,
22 the adjustment may be made at any time.

23 “(4) RETURN FILED BY SECRETARY.—For pur-
24 poses of this section, a return executed by the Sec-
25 retary under subsection (b) of section 6020 on be-

1 half of the partnership shall not be treated as a re-
2 turn of the partnership.

3 “(d) **SUSPENSION WHEN SECRETARY MAILS NOTICE**
4 **OF ADJUSTMENT.**—If notice of a final partnership adjust-
5 ment with respect to any taxable year is mailed under sec-
6 tion 6231, the running of the period specified in sub-
7 section (a) (as modified by the other provisions of this sec-
8 tion) shall be suspended—

9 “(1) for the period during which an action may
10 be brought under section 6234 (and, if a petition is
11 filed under such section with respect to such notice,
12 until the decision of the court becomes final), and

13 “(2) for 1 year thereafter.

14 **“PART IV—DEFINITIONS AND SPECIAL RULES**

“Sec. 6241. Definitions and special rules.

15 **“SEC. 6241. DEFINITIONS AND SPECIAL RULES.**

16 “(a) **DEFINITIONS AND SPECIAL RULES.**—For pur-
17 poses of this subchapter—

18 “(1) **PARTNERSHIP.**—The term ‘partnership’
19 means any partnership required to file a return
20 under section 6031(a).

21 “(2) **PARTNER.**—The term ‘partner’ means—

22 “(A) a partner in the partnership, and

23 “(B) any other person whose income tax li-
24 ability under subtitle A is determined in whole

1 or in part by taking into account directly or in-
2 directly income, gain, deduction, or loss of the
3 partnership.

4 “(b) PARTNERSHIP ADJUSTMENT.—The term ‘part-
5 nership adjustment’ means any adjustment in the amount
6 of any item of income, gain, loss, deduction, or credit of
7 a partnership, or any partner’s distributive share thereof.

8 “(c) RETURN DUE DATE.—The term ‘return due
9 date’ means, with respect to the taxable year, the date
10 prescribed for filing the partnership return for such tax-
11 able year (determined without regard to extensions).

12 “(d) JOINT AND SEVERAL LIABILITY.—

13 “(1) IN GENERAL.—The partnership and any
14 partner of the partnership shall be jointly and sever-
15 ally liable for any imputed underpayment and any
16 penalty, addition to tax, or additional amount attrib-
17 utable thereto.

18 “(2) PERIOD FOR ASSESSMENT OF PART-
19 NERS.—The period for assessment of an imputed
20 underpayment with respect to a partner of a part-
21 nership shall not expire earlier than 3 years after
22 the date on which an assessment of such imputed
23 underpayment was made with respect to the partner-
24 ship.

1 “(3) DETERMINING PARTNERS.—A person shall
2 be treated as partner of the partnership if such per-
3 son is a partner of such partnership at any time
4 during the reviewed or adjustment year.

5 “(e) PAYMENTS NONDEDUCTIBLE.—No deduction
6 shall be allowed under subtitle A for any payment required
7 to be made by a partnership under this subchapter.

8 “(f) SPECIAL RULE FOR DEDUCTIONS, LOSSES, AND
9 CREDITS OF FOREIGN PARTNERSHIPS.—Except to the ex-
10 tent otherwise provided in regulations, in the case of any
11 partnership the partnership representative of which re-
12 sides outside the United States or the books of which are
13 maintained outside the United States, no deduction, loss,
14 or credit shall be allowable to any partner unless section
15 6031 is complied with for the partnership’s taxable year
16 in which such deduction, loss, or credit arose at such time
17 as the Secretary prescribes by regulations.

18 “(g) PARTNERSHIPS HAVING PRINCIPAL PLACE OF
19 BUSINESS OUTSIDE UNITED STATES.—For purposes of
20 sections 6234, a principal place of business located outside
21 the United States shall be treated as located in the Dis-
22 trict of Columbia.

23 “(h) PARTNERSHIPS IN CASES UNDER TITLE 11 OF
24 UNITED STATES CODE.—

1 “(1) SUSPENSION OF PERIOD OF LIMITATIONS
2 ON MAKING ADJUSTMENT, ASSESSMENT, OR COLLEC-
3 TION.—The running of any period of limitations pro-
4 vided in this subchapter on making a partnership
5 adjustment (or provided by section 6501 or 6502 on
6 the assessment or collection of any imputed under-
7 payment determined under this subchapter) shall, in
8 a case under title 11 of the United States Code, be
9 suspended during the period during which the Sec-
10 retary is prohibited by reason of such case from
11 making the adjustment (or assessment or collection)
12 and—

13 “(A) for adjustment or assessment, 60
14 days thereafter, and

15 “(B) for collection, 6 months thereafter.

16 A rule similar to the rule of section 6213(f)(2) shall
17 apply for purposes of section 6232(b).

18 “(2) SUSPENSION OF PERIOD OF LIMITATION
19 FOR FILING FOR JUDICIAL REVIEW.—The running
20 of the period specified in section 6234 shall, in a
21 case under title 11 of the United States Code, be
22 suspended during the period during which the part-
23 nership is prohibited by reason of such case from fil-
24 ing a petition under section 6234 and for 60 days
25 thereafter.”.

1 (2) CLERICAL AMENDMENT.—The table of sub-
2 chapters for chapter 63 is amended by inserting
3 after the item relating to subchapter B the following
4 new items:

“SUBCHAPTER C. TREATMENT OF PARTNERSHIPS.”.

5 (d) CONFORMING AMENDMENTS.—

6 (1) Section 6422 is amended by striking para-
7 graph (12).

8 (2) Section 6501(n) is amended by striking
9 paragraphs (2) and (3) and by striking “CROSS
10 REFERENCES” and all that follows through “For pe-
11 riod of limitations” and inserting “CROSS REF-
12ERENCE.—For period of limitations”.

13 (3) Section 6503(a)(1) is amended by striking
14 “(or section 6229” and all that follows through “of
15 section 6230(a))”.

16 (4) Section 6504 is amended by striking para-
17 graph (11).

18 (5) Section 6511 is amended by striking sub-
19 section (g).

20 (6) Section 6512(b)(3) is amended by striking
21 the second sentence.

22 (7) Section 6515 is amended by striking para-
23 graph (6).

24 (8) Section 6601(c) is amended by striking the
25 last sentence.

1 (9) Section 7421(a) is amended by striking
2 “6225(b), 6246(b)” and inserting “6232(c)”.

3 (10) Section 7422 is amended by striking sub-
4 section (h).

5 (11) Section 7459(c) is amended by striking
6 “section 6226” and all that follows through “or
7 6252” and inserting “section 6234”.

8 (12) Section 7482(b)(1) is amended—

9 (A) in subparagraph (E), by striking “sec-
10 tion 6226, 6228, 6247, or 6252” and inserting
11 “section 6234”,

12 (B) by striking subparagraph (F), by strik-
13 ing “or” at the end of subparagraph (E) and
14 inserting a period, and by inserting “or” at the
15 end of subparagraph (D), and

16 (C) in the last sentence, by striking “sec-
17 tion 6226, 6228(a), or 6234(c)” and inserting
18 “section 6234”.

19 (13) Section 7485(b) is amended by striking
20 “section 6226, 6228(a), 6247, or 6252” and insert-
21 ing “section 6234”.

22 (e) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to returns filed for partnership tax-
24 able years ending after December 31, 2014, except that
25 a partnership may elect (at such time and in such form

1 and manner as the Secretary of the Treasury may pre-
2 scribe) for such amendments to apply to any return of the
3 partnership filed for partnership taxable years ending
4 after the date of the enactment of this Act and before Jan-
5 uary 1, 2015.

6 **PART 3—REITS AND RICS**

7 **SEC. 3631. PREVENTION OF TAX-FREE SPINOFFS INVOLV-**
8 **ING REITS.**

9 (a) IN GENERAL.—Section 355 is amended by adding
10 at the end the following new subsection:

11 “(h) SECTION NOT TO APPLY TO DISTRIBUTIONS IN-
12 VOLVING REAL ESTATE INVESTMENT TRUSTS.—This sec-
13 tion (and so much of section 356 as relates to this section)
14 shall not apply to any distribution if either the distributing
15 corporation or controlled corporation is a real estate in-
16 vestment trust.”.

17 (b) PREVENTION OF REIT ELECTION FOLLOWING
18 TAX-FREE SPIN OFF.—Section 856(c) is amended by re-
19 designating paragraph (8) as paragraph (9) and by insert-
20 ing after paragraph (7) the following new paragraph:

21 “(8) ELECTION AFTER TAX-FREE REORGANIZA-
22 TION.—If a corporation was a distributing corpora-
23 tion or a controlled corporation with respect to any
24 distribution to which section 355 applied, such cor-
25 poration (and any successor corporation) shall not