

(a) IN GENERAL - Section 6225(c) of the Internal Revenue Code of 1986 is amended by redesignating paragraph (7) as paragraph (8), redesignating paragraph (6) as paragraph (7), redesignating paragraph (5) as paragraph (6), and inserting after paragraph (4) the following new paragraph:

'(5) SPECIAL RULE FOR SECTION 469(k) PASSIVE LOSSES ----Such procedures shall provide for determining the imputed underpayment without regard to the portion thereof that the partnership reasonably demonstrates would not be taxable by reason of passive losses of partners that are subject to section 469(k), and such passive losses shall be adjusted to reflect any reduction in the imputed underpayment.'

(b) Effective date – The amendments made by this section shall apply as if included in the enacting legislation.