



Partnership General Tax Information

Course #3181B

Taxes

2 Credit Hours

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PARTNERSHIP GENERAL TAX INFORMATION

This course is designed to give a general overview of the taxation of partnerships. It explains how income tax laws apply to partnerships and partners.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

SUBJECTS

Partnership General Tax Information

Study the course materials from pages 1 to 43

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

Recognize how the income tax law applies to partnerships, as well as partners

Identify which partnership items partners must include on their partnership return.

NOTICE

This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.

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EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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PARTNERSHIP GENERAL TAX INFORMATION

Course Objectives

After completing this course, you should be able to:

- Recognize how the income tax law applies to partnerships, as well as partners.
- Identify which partnership items partners must include on their partnership return.

I. REMINDERS

Technical terminations. Technical terminations do not apply for partnership tax years beginning after 2017.

Bipartisan Budget Act. The Bipartisan Budget Act of 2015 (BBA) created a new centralized partnership audit regime effective for partnership tax years beginning after 2017.

Electing large partnerships. The BBA repealed the electing large partnership rules for partnership tax years beginning after 2017.

Partnership representative. Under the centralized partnership audit regime, partnerships are generally required to designate a partnership representative. See *Role of Partnership Representative*, later.

Electing out of the centralized partnership audit regime. A partnership can elect out of the centralized partnership audit regime for a tax year if the partnership is an eligible partnership that year. See *Electing Out of the Centralized Partnership Audit Regime*, later.

Business interest expense limitation. Public Law 115-97 amended section 163(j) to reflect a limitation on business interest expense. For tax years beginning after 2017, a business interest expense deduction may be limited for certain taxpayers. The Instructions for Form 8990, Limitation on Business Interest Expense Under Section 163(j), explain when a business interest expense deduction is limited, who is required to file Form 8990, and how certain businesses may elect out of the business interest expense limitation.

II. INTRODUCTION

This chapter explains how the income tax law applies to partnerships and to partners. Generally, a partnership does not pay tax on its income but “passes through” any profits or losses to its partners. Partners must include partnership items on their tax returns.

III. IMPORTANT ISSUES

Withholding on foreign partner or firm. A partnership that has foreign partners or engages in certain transactions with foreign persons may have one (or more) of the following obligations.

Fixed or determinable annual or periodical (FDAP) income. A partnership may have to withhold tax on distributions to a foreign partner or a foreign partner's distributive share when it earns income not effectively connected with a U.S. trade or business. A partnership may also have to withhold on payments to a foreign person of FDAP income not effectively connected with a U.S. trade or business.

Withholding under the Foreign Investment in Real Property Tax Act (FIRPTA). If a partnership acquires a U.S. real property interest from a foreign person or firm, the partnership may have to withhold tax on the amount it pays for the property (including cash, the fair market value of other property, and any assumed liability).

Withholding on foreign partner's effectively connected taxable income (ECTI). If a partnership has income effectively connected with a trade or business in the United States (including gain on the disposition of a U.S. real property interest), it must withhold on the ECTI allocable to its foreign partners.

Withholding on foreign partner's sale of a partnership interest. A purchaser of a partnership interest, which may include the partnership itself, may have to withhold tax on the amount realized by a foreign partner on the sale for that partnership interest if the partnership is engaged in a trade or business in the United States.

Withholding under the Foreign Account Tax Compliance Act (FATCA). A partnership may have to withhold tax on distributions to a foreign partner of a foreign partner's distributive share when it earns withholdable payments. A partnership may also have to withhold on withholdable payments that it makes to a foreign entity. A partnership that has a duty to withhold but fails to withhold may be held liable for the tax, applicable penalties, and interest.

IV. FORMING A PARTNERSHIP

The following sections contain general information about partnerships.

ORGANIZATIONS CLASSIFIED AS PARTNERSHIPS

An unincorporated organization with two or more members is generally classified as a partnership for federal tax purposes if its members carry on a trade, business, financial operation, or venture and divide its profits. However, a joint undertaking merely to share expenses is not a partnership. For example, co-ownership of property maintained and rented or leased is not a partnership unless the co-owners provide services to the tenants.

The rules you must use to determine whether an organization is classified as a partnership changed for organizations formed after 1996.

Organizations formed after 1996. An organization formed after 1996 is classified as a partnership for federal tax purposes if it has two or more members and it is none of the following.

- An organization formed under a federal or state law that refers to it as incorporated or as a corporation, body corporate, or body politic.
- An organization formed under a state law that refers to it as a joint-stock company or joint-stock association.
- An insurance company.
- Certain banks.
- An organization wholly owned by a state, local, or foreign government.
- An organization specifically required to be taxed as a corporation by the Internal Revenue Code (for example, certain publicly traded partnerships).
- Certain foreign organizations identified in section 301.7701-2(b)(8) of the regulations.
- A tax-exempt organization.
- A real estate investment trust.
- An organization classified as a trust under section 301.7701-4 of the regulations or otherwise subject to special treatment under the Internal Revenue Code.
- Any other organization that elects to be classified as a corporation by filing Form 8832.

Limited liability company. A limited liability company (LLC) is an entity formed under state law by filing articles of organization as an LLC. Unlike a partnership, none of the members of an LLC are personally liable for its debts. An LLC may be classified for federal income tax purposes as either a partnership, a corporation, or an entity disregarded as an entity separate from its owner by applying the rules in regulations section 301.7701-3.

Tip



A domestic LLC with at least two members that does not file Form 8832 is classified as a partnership for federal income tax purposes.

Organizations formed before 1997. An organization formed before 1997 and classified as a partnership under the old rules will generally continue to be classified as a partnership as long as the organization has at least two members and does not elect to be classified as a corporation by filing Form 8832.