

## **Section 751(b)**

Under proposed regulations almost certain to be finalized, section 751(b) is applied to both current and liquidating distributions as follows:

- (1) Compute each partner's share of the ordinary gain in the partnership's section 751(b) assets immediately prior to the distribution.
- (2) Compute each partner's share of the ordinary gain in the partnership's section 751(b) assets immediately after the distribution as the sum of (a) the partner's share of the ordinary gain from the undistributed partnership's section 751(b) assets plus (b) for each distributee, the ordinary gain that would be recognized to the partner if any section 751(b) assets received in the distribution were sold immediately following the distribution.
- (3) For each nondistributee partner whose share of the partnership's ordinary gain from section 751(b) assets declines, do the following:
  - i. Such partner must report such decline as ordinary income;
  - ii. Such partner increases outside basis by the amount included under (i);
  - iii. The inside basis of distributed section 751(b) assets is increased by the amount included under (i) immediately prior to the distribution; and
  - iv. The actual distribution is then taxed under sections 731, 732, 733, and 734.
- (4) For each distributee partner whose share of the partnership's ordinary gain from section 751(b) assets declines, do the following:
  - i. Such partner must report such decline as ordinary income;
  - ii. Such partner increases outside basis by the amount included under (i) immediately prior to the actual distribution;
  - iii. The inside basis of undistributed section 751(b) assets is increased by the amount included under (i) immediately prior to the distribution; and
  - iv. The actual distribution is then taxed under sections 731, 732, 733 and 734.