Recent Developments in Partnership Taxation

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I. Introduction

This outline discusses the principal developments over approximately the last 12 months affecting the taxation of partnerships. Section II of this outline contains a “Top Ten” list of the ten most important recent developments in the taxation of partnerships, based on their perceived practical importance in structuring business transactions involving partnerships. After the “Top Ten” list, the balance of the outline is arranged topically, with each section covering a specific area of partnership taxation in which Congress has legislated, the Treasury Department or the Internal Revenue Service (the “Service”) have promulgated regulations or rulings, or courts have interpreted existing law. In addition, key developments relating to the taxation of real estate, S corporations and Real Estate Investment Trusts (“REITs”) are noted.

II. Top Ten Recent Developments in Partnership Taxation

A. #1 – Final Regulations on the Treatment of Disregarded Entities for Purposes of Characterizing and Allocating Liabilities Under Section 752 (October 11, 2006)

1. In General.

a. On August 12, 2004, the Service issued proposed regulations addressing the consequences of owning a partnership interest through a disregarded entity (such as a single owner LLC) on the allocation of partnership liabilities under section 752.

b. On October 11, 2006, the Service issued final regulations that largely follow the proposed regulations. The final regulations seek to clarify the effect of the state law liability shield provided by the disregarded entity in

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