

119TH CONGRESS
1ST SESSION

S. 2095

To amend the Internal Revenue Code of 1986 to improve the rules related to partners and partnerships, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JUNE 17, 2025

Mr. WYDEN introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to improve the rules related to partners and partnerships, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. REFERENCE, ETC.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Preventing Abusive Routine Tax Nonsense Enabled by
6 Rip-offs Shelters and Havens and Instead Promoting Sim-
7 plicity Act” or the “PARTNERSHIPS Act”.

8 (b) REFERENCE.—Except as otherwise expressly pro-
9 vided, whenever in this Act, an amendment or repeal is
10 expressed in terms of an amendment to, or repeal of, a

1 section or other provision, the reference shall be consid-
 2 ered to be made to a section or other provision of the In-
 3 ternal Revenue Code of 1986.

4 (c) TABLE OF CONTENTS.—The table of contents of
 5 this Act is as follows:

- Sec. 1. Reference, etc.
- Sec. 2. Determination of partner's distributive share.
- Sec. 3. Allocation of built-in-gains with respect to contributed property.
- Sec. 4. Treatment of revalued property.
- Sec. 5. Repeal of time limitation on taxing precontribution gain.
- Sec. 6. Repeal of rules relating to certain liquidating distributions.
- Sec. 7. Clarification of rules relating to payments to partners for property or services.
- Sec. 8. Elimination of preformation expenditure exception to partnership transaction rules.
- Sec. 9. Partnership terminations.
- Sec. 10. Repeal of requirement that inventory be substantially appreciated in certain partnership distributions treated as sale or exchange.
- Sec. 11. Treatment of partnership debt.
- Sec. 12. Adjustments to basis of partnership property.
- Sec. 13. Application of net investment income tax to trade or business income of certain high income individuals.
- Sec. 14. Recognition of gain on transfers to swap funds.
- Sec. 15. Modifications to treatment of certain losses.
- Sec. 16. Codification of anti-abuse rule.

6 **SEC. 2. DETERMINATION OF PARTNER'S DISTRIBUTIVE**
 7 **SHARE.**

8 (a) IN GENERAL.—Section 704(b) is amended to
 9 read as follows:

10 “(b) DETERMINATION OF DISTRIBUTIVE SHARE.—

11 “(1) IN GENERAL.—Except as provided in para-
 12 graph (2), a partner's distributive share of income,
 13 gain, loss, deduction, or credit (or item thereof) shall
 14 be determined in accordance with the partner's in-
 15 terest in the partnership (determined by taking into
 16 account all facts and circumstances), if—

1 “(A) the partnership agreement does not
 2 provide as to the partner’s distributive share of
 3 income, gain, loss, deduction, or credit (or item
 4 thereof), or

5 “(B) the allocation to a partner under the
 6 agreement of income, gain, loss, deduction, or
 7 credit (or item thereof) does not have substan-
 8 tial economic effect.

9 “(2) REQUIRED USE OF CONSISTENT PERCENT-
 10 AGE METHOD FOR CERTAIN PARTNERS.—

11 “(A) IN GENERAL.—Except as otherwise
 12 provided in this subchapter or by the Secretary,
 13 in the case of any covered partner which is a
 14 partner in a partnership which is a covered
 15 partnership for the taxable year of such part-
 16 nership, such covered partner’s distributive
 17 share of the covered partnership’s applicable
 18 items for such taxable year shall be determined
 19 using the consistent percentage method.

20 “(B) COVERED PARTNER; COVERED PART-
 21 NERSHIP.—For purposes of this paragraph—

22 “(i) COVERED PARTNERSHIP.—The
 23 term ‘covered partnership’ means any part-
 24 nership if, during any day during the tax-
 25 able year of the partnership—

“(I) two or more members of a controlled group (within the meaning of section 267(f)) own (within the meaning of section 267(e)(3)) 50 percent or more of the capital or profits interests in such partnership, or

“(II) it is a partnership which is specified by the Secretary in regulations or other guidance as being of a type to which this subparagraph applies in order to prevent the avoidance of the purposes of this paragraph.

“(ii) COVERED PARTNER.—The term ‘covered partner’ means—

“(I) in the case of a covered partnership described in clause (i)(I), any partner which is a member of a controlled group described in such clause or any other partner any ownership interest (other than a de minimis interest) in which is held directly or indirectly by a member of such a controlled group, and

“(II) in the case of a covered partnership described in clause (i)(II),

1 any partner which meets such speci-
2 fications as prescribed by the Sec-
3 retary under the regulations or guid-
4 ance referred to in such clause.

5 “(iii) REPORTING RULE.—Each cov-
6 ered partnership shall submit to the Sec-
7 retary, at such time and in such manner as
8 prescribed by the Secretary—

9 “(I) a statement that such part-
10 nership is a covered partnership, and

11 “(II) such other information as
12 the Secretary shall require.

13 “(C) CONSISTENT PERCENTAGE METH-
14 OD.—For purposes of this paragraph, the term
15 ‘consistent percentage method’ means a method
16 under which—

17 “(i) a covered partner’s distributive
18 share of any applicable item of a covered
19 partnership bears the same ratio to the ag-
20 gregate distributive shares of such item for
21 all covered partners in such partnership
22 (determined without regard to this para-
23 graph) as—

1 “(I) the covered partner’s net eq-
 2 uity in the covered partnership, bears
 3 to

4 “(II) the net equity of all covered
 5 partners in the covered partnership,
 6 and

7 “(ii) the covered partner is allocated
 8 the same share of each applicable item of
 9 the covered partnership.

10 Clause (i) shall only apply to an applicable item
 11 if it is included in the distributive share of at
 12 least 1 covered partner (determined without re-
 13 gard to this paragraph).

14 “(D) NET EQUITY.—For purposes of this
 15 paragraph—

16 “(i) IN GENERAL.—The term ‘net eq-
 17 uity’ means, with respect to any covered
 18 partner in a covered partnership, the con-
 19 tributed equity of such covered partner,
 20 properly adjusted to take into account any
 21 revaluation event described in subpara-
 22 graphs (A), (B), (C), (D), or (F) of sub-
 23 section (f)(3).

24 “(ii) CONTRIBUTED EQUITY.—The
 25 term ‘contributed equity’ means, with re-

spect to any covered partner in a covered partnership, the excess of—

“(I) the sum of the value of all property and money contributed by the covered partner (or any predecessor of such partner) to the covered partnership plus the amount of liabilities (within the meaning of section 752) of the covered partnership that are assumed by the covered partner (or any predecessor of such partner), over

“(II) the sum of the value of all property and money distributed to the covered partner (or any predecessor of such partner) by the covered partnership plus the amount of liabilities (within the meaning of section 752) of the covered partner (or any predecessor of such partner) that are assumed by the covered partnership.

For purposes of this clause, a predecessor of a partner includes any person treated as transferring an interest to such partner in

1 a transaction described in section
2 707(d)(1)(A).

3 “(E) APPLICABLE ITEMS.—For purposes
4 of this paragraph, the term ‘applicable item’
5 means, with respect to any partnership, any
6 item of income, gain, deduction, loss, or credit.

7 “(F) CROSS-REFERENCE.—For the treat-
8 ment of covered partners in the event of certain
9 rights or distributions not in accordance with
10 the consistent percentage method, see section
11 707(d).”.

12 (b) TREATMENT OF CERTAIN RIGHTS AND DIS-
13 TRIBUTIONS NOT IN ACCORDANCE WITH CONSISTENT
14 PERCENTAGE METHOD.—Section 707 is amended by add-
15 ing at the end the following new subsection:

16 “(d) DEEMED TRANSFERS IN CERTAIN CASES
17 WHERE CERTAIN RIGHTS DO NOT REFLECT PARTNER-
18 SHIP DISTRIBUTIVE SHARE.—

19 “(1) IN GENERAL.—If a covered partner has an
20 excess share with respect to any covered partnership
21 on any applicable date—

22 “(A) such partner shall be treated as hav-
23 ing received an interest in the partnership in a
24 transaction between 2 or more partners acting

1 other than in their capacity as members of the
 2 partnership, and

3 “(B) notwithstanding any other provision
 4 of this chapter—

5 “(i) the value of such interest shall be
 6 included in the gross income of the covered
 7 partner receiving such interest in such
 8 transaction, and

9 “(ii) no deduction or loss shall be al-
 10 lowed with respect to such transfer to any
 11 covered partner treated as transferring all
 12 or a portion of such interest in such trans-
 13 action.

14 “(2) EXCESS SHARE.—For purposes of this
 15 subsection—

16 “(A) IN GENERAL.—The term ‘excess
 17 share’ means, with respect to any covered part-
 18 ner, the amount by which—

19 “(i) the covered partner’s interest in
 20 partnership assets distributable to such
 21 covered partner upon liquidation of the
 22 covered partnership as of any applicable
 23 date, exceeds

24 “(ii) the covered partner’s interest in
 25 partnership assets, determined as if the

1 amount distributable upon liquidation to
 2 all covered partners as of such applicable
 3 date were distributable to each covered
 4 partner based on the ratio of—

5 “(I) such covered partner’s net
 6 equity (as defined in section
 7 704(b)(2)(D)) in the covered partner-
 8 ship on such applicable date, to

9 “(II) the net equity (as so de-
 10 fined) of all covered partners in the
 11 covered partnership on such applicable
 12 date.

13 “(B) APPLICABLE DATE.—For purposes of
 14 this paragraph, the term ‘applicable date’
 15 means any of the following:

16 “(i) The last day of any taxable year
 17 of the covered partnership.

18 “(ii) The date of any revaluation
 19 event (as defined in section 704(f)).

20 “(3) COVERED PARTNER; COVERED PARTNER-
 21 SHIP.—For purposes of this subsection, the terms
 22 ‘covered partnership’ and ‘covered partner’ have the
 23 meanings give such terms under section 704(b)(2).

24 “(4) REGULATIONS AND GUIDANCE.—The Sec-
 25 retary shall prescribe such regulations and other

1 guidance as necessary to carry out the purposes of
2 this subsection, including regulations or other guid-
3 ance providing exceptions to the application of para-
4 graph (1) to the extent such exceptions are con-
5 sistent with the purposes of this subsection.”.

6 (c) REGULATIONS AND GUIDANCE.—Section 704 is
7 amended by redesignating subsection (f) as subsection (g)
8 and by inserting after subsection (e) the following new
9 subsection:

10 “(f) REGULATIONS AND GUIDANCE.—The Secretary
11 shall prescribe such regulations and other guidance as nec-
12 essary to carry out the purposes of this section, including
13 regulations or other guidance for the application of this
14 section to one or more tiers of entities.”.

15 (d) REPORTING PENALTIES.—Section 6724(d)(1)(B)
16 is amended by striking “or” at the end of clause (xxvii),
17 by striking “and” at the end of clause (xxviii) and insert-
18 ing “or”, and by adding at the end the following new
19 clause:

20 “(xxix) section 704(b)(2)(B)(iii) (re-
21 lating to reporting rule for required use of
22 consistent percentage method), and”.

23 (e) CONFORMING AMENDMENTS.—

1 (1) Section 168(h)(6)(B)(ii) is amended by
 2 striking “section 704(b)(2)” and inserting “section
 3 704(b)(1)(B)”.

4 (2) Section 514(c)(9)(E)(i)(II) is amended by
 5 striking “section 704(b)(2)” and inserting “section
 6 704(b)(1)(B)”.

7 (f) EFFECTIVE DATE.—The amendments made by
 8 this section shall apply to taxable years of partnerships
 9 beginning after the date of the enactment of this Act.

10 **SEC. 3. ALLOCATION OF BUILT-IN-GAINS WITH RESPECT TO**
 11 **CONTRIBUTED PROPERTY.**

12 (a) IN GENERAL.—Subparagraph (A) of section
 13 704(c)(1) is amended to read as follows:

14 “(A) income, gain, loss, and deduction (in-
 15 cluding notional items thereof) with respect to
 16 property contributed to the partnership by a
 17 partner shall be shared among the partners
 18 under the remedial method prescribed by the
 19 Secretary so as to take into account all of the
 20 variation between the basis of the property to
 21 the partnership and its fair market value at the
 22 time of contribution.”.

23 (b) EFFECTIVE DATE.—The amendment made by
 24 this section shall apply to property contributed to a part-
 25 nership after the date of the enactment of this Act.

1 **SEC. 4. TREATMENT OF REVALUED PROPERTY.**

2 (a) IN GENERAL.—Section 704, as amended by sec-
 3 tion 2, is amended by redesignating subsections (f) and
 4 (g) as subsections (g) and (h), respectively, and by insert-
 5 ing after subsection (e) the following new subsection:

6 “(f) REVALUED PROPERTY.—

7 “(1) IN GENERAL.—Under regulations pre-
 8 scribed by the Secretary, rules similar to the rules
 9 of paragraphs (1)(A) and (1)(C) of subsection (c)
 10 shall apply to any property held by a partnership at
 11 the time of a revaluation event.

12 “(2) EXCEPTION.—Paragraph (1) shall not
 13 apply to any revaluation event which occurs during
 14 a taxable year in which the partnership meets the
 15 gross receipts test of section 448(c) unless the part-
 16 nership elects, at such time and in such manner as
 17 prescribed by the Secretary, to not have this para-
 18 graph apply.

19 “(3) REVALUATION EVENT.—For purposes of
 20 this subsection, the term ‘revaluation event’
 21 means—

22 “(A) any disproportionate contribution of
 23 money or other property (other than a de mini-
 24 mis amount) to the partnership,

1 “(B) any disproportionate distribution of
 2 money or other property (other than a de mini-
 3 mis amount) by the partnership,

4 “(C) any grant of an interest in the part-
 5 nership (other than a de minimis interest) as
 6 consideration for the provision of services,

7 “(D) any issuance by the partnership of a
 8 non-compensatory option (other than an option
 9 for a de minimis partnership interest),

10 “(E) except as provided by the Secretary,
 11 any agreement to change (other than a de mini-
 12 mis change) the manner in which the partners
 13 share any item or class of items of income,
 14 gain, loss, deduction, or credit of the partner-
 15 ship, or

16 “(F) any other event prescribed by the
 17 Secretary.

18 “(4) APPLICATION TO TIERED ENTITIES.—If—

19 “(A) a partnership (hereinafter in this
 20 paragraph referred to as the ‘upper-tier part-
 21 nership’) is a partner in another partnership
 22 (hereinafter in this paragraph referred to as the
 23 ‘lower-tier partnership’), and

1 “(B) the upper-tier partnership holds more
2 than 50 percent of the capital or profits inter-
3 ests in the lower-tier partnership,
4 then a revaluation event with respect to the upper-
5 tier partnership shall be treated as a revaluation
6 event with respect to the lower-tier partnership.”.

7 (b) CONFORMING AMENDMENTS.—

8 (1) Section 168(h)(6) is amended by striking
9 “section 704(c)” each place it appears in subpara-
10 graphs (B) and (C) and inserting “subsections (c)
11 and (f) of section 704”.

12 (2) Section 514(c)(9)(E)(i) is amended by strik-
13 ing “section 704(c)” and inserting “subsections (c)
14 and (f) of section 704”.

15 (3) Section 613A(c)(7)(D) is amended by in-
16 serting after the fourth sentence the following new
17 sentence: “In the case of any revaluation event (as
18 defined in section 704(f)), section 704(f) shall apply
19 in determining such share.”.

20 (4) Section 743(b) is amended by inserting
21 after the third sentence the following new sentence:
22 “‘In the case of any revaluation event (as defined in
23 section 704(f)) which occurs before such transfer,
24 section 704(f) shall apply in determining such
25 share.’”.

1 (5) Section 897(k)(4)(C) is amended by striking
 2 “section 704(c)” each place it appears and inserting
 3 “subsections (c) and (f) of section 704”.

4 (c) EFFECTIVE DATE.—The amendment made by
 5 this section shall apply to revaluation events (as defined
 6 in section 704(f)(2) of the Internal Revenue Code of 1986,
 7 as added by this section) occurring after the date of the
 8 enactment of this Act.

9 **SEC. 5. REPEAL OF TIME LIMITATION ON TAXING**
 10 **PRECONTRIBUTION GAIN.**

11 (a) IN GENERAL.—Subparagraph (B) of section
 12 704(c)(1) is amended by striking “within 7 years of being
 13 contributed”.

14 (b) CONFORMING AMENDMENT.—Paragraph (1) of
 15 section 737(b) is amended by striking “within 7 years of
 16 the distribution”.

17 (c) EFFECTIVE DATE.—The amendments made by
 18 this section shall apply to property contributed to a part-
 19 nership after the date of the enactment of this Act.

20 **SEC. 6. REPEAL OF RULES RELATING TO CERTAIN LIQUIDATING DISTRIBUTIONS.**

22 (a) IN GENERAL.—Subpart B of part II of sub-
 23 chapter K of chapter 1 is amended by striking section 736
 24 (and by striking the item relating to such section in the
 25 table of sections for such subpart).

1 (b) RETIRED PARTNERS AND SUCCESSORS IN INTER-
 2 EST OF DECEASED PARTNERS TREATED AS PARTNERS
 3 UNTIL LIQUIDATION.—Section 761(d) is amended by add-
 4 ing at the end the following: “For purposes of this sub-
 5 chapter, any retired partner or any deceased partner’s
 6 successor in interest shall be treated as a partner until
 7 the complete liquidation of such retired partner’s or suc-
 8 cessor’s interest in the partnership.”.

9 (c) CONFORMING AMENDMENTS.—

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

15 (2) Section 731(d) is amended—

16 (A) by striking “section 736 (relating to
 17 payments to a retiring partner or a deceased
 18 partner’s successor in interest),”, and

19 (B) by striking “items), and” and insert-
 20 ing “items) and”.

21 (3) Section 751(b)(2) is amended to read as fol-
 22 lows:

23 “(2) EXCEPTION.—Paragraph (1) shall not
 24 apply to a distribution of property which the dis-
 25 tributee contributed to the partnership.”.

1 (4)(A) Section 753 is amended by striking
 2 “The amount includible” and all that follows and in-
 3 serting “For treatment of income in respect of a de-
 4 cedent, see section 691.”

5 (B) Section 691 is amended by striking
 6 subsection (e).

7 (d) EFFECTIVE DATE.—The amendments made by
 8 this section shall apply to partners retiring or dying after
 9 the date of the enactment of this Act.

10 **SEC. 7. CLARIFICATION OF RULES RELATING TO PAY-**
 11 **MENTS TO PARTNERS FOR PROPERTY OR**
 12 **SERVICES.**

13 (a) IN GENERAL.—Section 707(a)(2) is amended by
 14 striking “Under regulations prescribed by the Secretary—
 15 ” and inserting “Except as provided by the Secretary—
 16 ”.

17 (b) EFFECTIVE DATE.—The amendment made by
 18 this section shall apply to services performed or property
 19 transferred after the date of the enactment of this Act.

20 (c) NO INFERENCE.—Nothing in this section or the
 21 amendments made by this section shall be construed to
 22 create any inference with respect to the proper treatment
 23 under section 707(a) of the Internal Revenue Code of
 24 1986 with respect to payments from a partnership to a

1 partner for property transferred or services performed on
 2 or before the date of the enactment of this Act.

3 **SEC. 8. ELIMINATION OF PREFORMATION EXPENDITURE**
 4 **EXCEPTION TO PARTNERSHIP TRANSACTION**
 5 **RULES.**

6 (a) IN GENERAL.—Section 707(a)(2)(B) is amended
 7 by adding at the end the following new sentence: “For
 8 purposes of the preceding sentence, a transfer of money
 9 or other property by a partnership to a partner or by a
 10 partner to a partnership will not fail to be characterized
 11 as part of a sale or exchange of property because such
 12 transfer is made to reimburse the partner or partnership
 13 for an expenditure chargeable to capital account (deter-
 14 mined without regard to any election under this chap-
 15 ter).”.

16 (b) EFFECTIVE DATE.—

17 (1) IN GENERAL.—The amendment made by
 18 this section shall apply to property transferred after
 19 the date of the enactment of this Act.

20 (2) BINDING CONTRACT EXCEPTION.—The
 21 amendment made by subsection (a) shall not apply
 22 to a transfer of property described in section
 23 707(a)(2)(B)(i) of the Internal Revenue Code of
 24 1986 if such transfer is pursuant to a written bind-
 25 ing contract in effect on the date of the enactment

1 of this Act, and at all times thereafter before the
2 transfer.

3 **SEC. 9. PARTNERSHIP TERMINATIONS.**

4 (a) IN GENERAL.—Section 708(b)(1) is amended—

5 (1) by striking “by any of its partners” and in-
6 serting “by any of its historic partners (or any re-
7 lated person to any of its partners)”, and

8 (2) by adding at the end the following sentence:

9 “For purposes of the preceding sentence, a person is
10 a related person to another person if the relationship
11 between such persons would result in a disallowance
12 of losses under section 267 or 707(b).”.

13 (b) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to taxable years beginning after
15 the date of the enactment of this Act.

16 (c) NO INFERENCE.—Nothing in this section or the
17 amendments made by this section shall be construed to
18 create any inference with respect to the proper treatment
19 under section 708(b) of the Internal Revenue Code of
20 1986 with respect to the activities of persons related (as
21 determined under the last sentence of section 708(b)(1)
22 of such Code, as added by subsection (a)) to partners for
23 taxable years beginning on or before the date of the enact-
24 ment of this Act.

1 **SEC. 10. REPEAL OF REQUIREMENT THAT INVENTORY BE**
 2 **SUBSTANTIALLY APPRECIATED IN CERTAIN**
 3 **PARTNERSHIP DISTRIBUTIONS TREATED AS**
 4 **SALE OR EXCHANGE.**

5 (a) IN GENERAL.—Clause (ii) of section
 6 751(b)(1)(A) is amended by striking “which have appre-
 7 ciated substantially in value”.

8 (b) CONFORMING AMENDMENT.—Section 751(b) is
 9 amended by striking paragraph (3).

10 (c) EFFECTIVE DATE.—The amendments made by
 11 this section shall apply to distributions after the date of
 12 the enactment of this Act.

13 **SEC. 11. TREATMENT OF PARTNERSHIP DEBT.**

14 (a) IN GENERAL.—Section 752 is amended by adding
 15 at the end the following new subsection:

16 “(e) TREATMENT AND ALLOCATION OF PARTNER-
 17 SHIP LIABILITIES.—

18 “(1) IN GENERAL.—Except as provided in para-
 19 graph (2) or by the Secretary, all liabilities of a
 20 partnership shall be allocated among partners in ac-
 21 cordance with each partner’s share of partnership
 22 profits.

23 “(2) EXCEPTION.—

24 “(A) IN GENERAL.—Paragraph (1) shall
 25 not apply to bona fide indebtedness of the part-
 26 nership to a partner or to any related person to

1 a partner. For purposes of the preceding sen-
 2 tence, a person is a related person to another
 3 person if the relationship between such persons
 4 would result in a disallowance of losses under
 5 section 267 or 707(b).

6 “(B) NONAPPLICATION TO GUARAN-
 7 TEES.—Subparagraph (A) shall not apply to
 8 any guarantee or similar arrangement.

9 “(3) REGULATIONS AND OTHER GUIDANCE.—
 10 The Secretary shall prescribe such regulations and
 11 other guidance as necessary to carry out the pur-
 12 poses of this subsection, including regulations or
 13 other guidance with respect to arrangements that
 14 are similar to guarantees for purposes of paragraph
 15 (2)(B).”.

16 (b) EFFECTIVE DATE.—The amendment made by
 17 subsection (a) shall apply to taxable years beginning after
 18 December 31, 2025.

19 (c) TREATMENT OF GAIN.—

20 (1) IN GENERAL.—In the case of a taxpayer
 21 which recognizes gain by reason of the application of
 22 the amendments made by subsection (a) with respect
 23 to its first taxable year beginning after December
 24 31, 2025, such taxpayer may elect to pay the net tax
 25 liability under this subsection in 6 equal annual in-

1 stallments over the 6-taxable year period beginning
2 with the first taxable year beginning after December
3 31, 2025.

4 (2) DATE FOR PAYMENT OF INSTALLMENTS.—

5 If an election is made under paragraph (1), the first
6 installment shall be paid on the due date (deter-
7 mined without regard to any extension of time for
8 filing the return for the return of tax for the taxable
9 year described in paragraph (1)) and each suc-
10 ceeding installment shall be paid on the due date (as
11 so determined) for the return of tax for the taxable
12 year following the taxable year with respect to which
13 the preceding installment was made.

14 (3) ACCELERATION OF PAYMENT.—If there is
15 an addition to tax for failure to timely pay any in-
16 stallment required under this subsection, a liquida-
17 tion or sale of substantially all the assets of the tax-
18 payer (including in a title 11 or similar case), a ces-
19 sation of business by the taxpayer, or any similar
20 circumstance, then the unpaid portion of all remain-
21 ing installments shall be due on the date of such
22 event (or in the case of a title 11 or similar case,
23 the day before the petition is filed). The preceding
24 sentence shall not apply to the sale of substantially
25 all the assets of a taxpayer to a buyer if such buyer

1 enters into an agreement with the Secretary under
2 which such buyer is liable for the remaining install-
3 ments due under this subsection in the same manner
4 as if such buyer were the taxpayer.

5 (4) PRORATION OF DEFICIENCY TO INSTALL-
6 MENTS.—If an election is made under paragraph (1)
7 to pay the net tax liability under this subsection in
8 installments and a deficiency has been assessed with
9 respect to such net tax liability, the deficiency shall
10 be prorated to the installments payable under para-
11 graph (1). The part of the deficiency so prorated to
12 any installment the date for payment of which has
13 not arrived shall be collected at the same time as,
14 and as a part of, such installment. The part of the
15 deficiency so prorated to any installment the date
16 for payment of which has arrived shall be paid upon
17 notice and demand from the Secretary. This sub-
18 section shall not apply if the deficiency is due to
19 negligence, to intentional disregard of rules and reg-
20 ulations, or to fraud with intent to evade tax.

21 (5) ELECTION.—Any election under paragraph
22 (1) shall be made not later than the due date for the
23 return of tax for the first taxable year beginning
24 after December 31, 2025 and shall be made in such
25 manner as the Secretary shall provide.

1 (6) NET TAX LIABILITY UNDER THIS SUB-
2 SECTION.—For purposes of this subsection—

3 (A) IN GENERAL.—The net tax liability
4 under this subsection with respect to any tax-
5 payer is the excess (if any) of—

6 (i) such taxpayer’s net income tax for
7 the taxable year beginning after December
8 31, 2025, over

9 (ii) such taxpayer’s net income tax for
10 such taxable year determined without re-
11 gard to any amount included in gross in-
12 come by reason of the amendments made
13 by subsection (a).

14 (B) NET INCOME TAX.—The term “net in-
15 come tax” means the regular tax liability (as
16 defined in section 26 of the Internal Revenue
17 Code of 1986) reduced by the credits allowed
18 under subparts A, B, and D of part IV of sub-
19 chapter A of chapter 1 of such Code.

20 (7) INSTALLMENTS NOT TO PREVENT CREDIT
21 OR REFUND OF OVERPAYMENTS OR INCREASE ESTI-
22 MATED TAXES.—If an election is made under para-
23 graph (1) to pay the net tax liability under this sub-
24 section in installments—

1 (A) no installment of such net tax liability
 2 shall—

3 (i) in the case of a request for credit
 4 or refund, be taken into account as a li-
 5 ability for purposes of determining whether
 6 an overpayment exists for purposes of sec-
 7 tion 6402 of the Internal Revenue Code of
 8 1986 before the date on which such install-
 9 ment is due, or

10 (ii) for purposes of sections 6425,
 11 6654, and 6655 of such Code, be treated
 12 as a tax imposed by section 1 of such
 13 Code, section 11 of such Code, or sub-
 14 chapter L of chapter 1 of such Code, and

15 (B) the first sentence of section 6403 of
 16 such Code shall not apply with respect to any
 17 such installment.

18 **SEC. 12. ADJUSTMENTS TO BASIS OF PARTNERSHIP PROP-**
 19 **ERTY.**

20 (a) **SECTION 754 ELECTIONS LIMITED TO QUALI-**
 21 **FIED SMALL BUSINESS PARTNERSHIPS.**—Section 754 is
 22 amended—

23 (1) by striking “If a partnership files an elec-
 24 tion” and inserting the following:

1 “(a) IN GENERAL.—If a partnership which is a quali-
2 fied small business partnership files an election”,

3 (2) by inserting “with respect to which such
4 partnership is a qualified small business partner-
5 ship” after “all subsequent taxable years”, and

6 (3) by adding at the end the following new sub-
7 section:

8 “(b) QUALIFIED SMALL BUSINESS PARTNERSHIP.—
9 For purposes of this section—

10 “(1) IN GENERAL.—The term ‘qualified small
11 business partnership’ means, with respect to any
12 taxable year, any partnership which meets the gross
13 receipts test under section 448(c) (determined with
14 the modification described in paragraph (3)) for
15 such taxable year.

16 “(2) EXCEPTION NOT TO APPLY TO PARTNER-
17 SHIPS PREVIOUSLY FAILING TEST OR TAX SHEL-
18 TERS.—

19 “(A) PARTNERSHIPS FAILING TEST DIS-
20 QUALIFIED PROSPECTIVELY.—If a partnership
21 fails to meet the gross receipts test described in
22 paragraph (1) for any taxable year which be-
23 gins after the date of the enactment of this sub-
24 section, paragraph (1) shall not apply to such

1 partnership (or any successor) for such taxable
 2 year or any succeeding taxable year.

3 “(B) TAX SHELTERS.—Paragraph (1)
 4 shall not apply to a tax shelter prohibited from
 5 using the cash receipts and disbursements
 6 method of accounting under section 448(a)(3),
 7 except that, for purposes of applying this sub-
 8 paragraph, a syndicate (as defined in section
 9 1256(e)(3)(B)) shall not be treated as a tax
 10 shelter.

11 “(3) MODIFICATION.—In applying section 52(b)
 12 to section 448(c)(2) for purposes of this subsection,
 13 the term ‘trade or business’ shall include any activ-
 14 ity treated as a trade or business under paragraph
 15 (5) or (6) of section 469(c) (determined without re-
 16 gard to the phrase ‘To the extent provided in regula-
 17 tions’ in such paragraph (6)).”.

18 (b) ADJUSTMENTS IN THE CASE OF TRANSFER OF
 19 PARTNERSHIP INTERESTS.—

20 (1) IN GENERAL.—Section 743 is amended—

21 (A) by striking subsection (a) and insert-
 22 ing the following:

23 “(a) GENERAL RULE.—

24 “(1) ADJUSTMENTS REQUIRED.—Except as
 25 provided in paragraph (2), in the case of a transfer

of an interest in a partnership by sale or exchange or upon the death of a partner, the basis of partnership property shall be adjusted as provided in subsection (b).

“(2) EXCEPTION FOR QUALIFIED SMALL BUSINESS PARTNERSHIPS.—Paragraph (1) shall not apply to a qualified small business partnership (as defined in section 754(b)) if—

“(A) the election provided by section 754 (relating to optional adjustment to basis of partnership property) is not in effect with respect to such partnership, and

“(B) in the case of a transfer, the partnership does not have a substantial built-in loss immediately after such transfer.”, and

(B) in subsection (b), by striking “with respect to which the election provided in section 754 is in effect or which has a substantial built-in loss immediately after such transfer” and inserting “a partnership which is required to adjust the basis of partnership property under subsection (a)”.

(2) REPORTING.—

(A) IN GENERAL.—Section 6050K is amended—

1 (i) in subsection (a), by striking “de-
2 scribed in section 751(a)”,

3 (ii) in subsection (c)(1), by striking
4 the period at the end and inserting “, the
5 amount received, and such other informa-
6 tion as the Secretary may require. Such
7 notification shall be furnished at such time
8 and in such manner as the Secretary may
9 require.”, and

10 (iii) in the heading, by striking “**CER-**
11 **TAIN**”.

12 (B) CONFORMING AMENDMENT.—The item
13 relating to section 6050K in the table of sec-
14 tions for subpart B of part III of subchapter A
15 of chapter 61 is amended by striking “certain”.

16 (3) CONFORMING AMENDMENTS.—

17 (A) Section 732(d) is amended by striking
18 “his interest” and inserting “an interest in a
19 qualified small business partnership (as defined
20 in section 743(f))”.

21 (B)(i) The heading for section 743 is
22 amended to read as follows: “**ADJUSTMENT**
23 **TO BASIS OF PARTNERSHIP PROPERTY**”.

24 (ii) Section 761(e)(2) is amended by strik-
25 ing “optional”.

1 (iii) The item relating to section 743 in the
 2 table of sections for subpart C of part II of sub-
 3 chapter K of chapter 1 is amended to read as
 4 follows:

“Sec. 743. Adjustment to basis of partnership property.”.

5 (c) ADJUSTMENTS TO BASIS OF UNDISTRIBUTED
 6 PARTNERSHIP PROPERTY.—

7 (1) IN GENERAL.—Section 734 is amended—

8 (A) by redesignating subsections (b)
 9 through (e) as subsections (c) through (f), re-
 10 spectively, and

11 (B) by striking subsection (a) and insert-
 12 ing the following:

13 “(a) GENERAL RULE.—

14 “(1) MANDATORY ADJUSTMENT.—Except as
 15 provided in paragraph (2), in the case of a distribu-
 16 tion to a partner, the partnership shall adjust the
 17 basis of partnership property in accordance with
 18 subsection (b).

19 “(2) SPECIAL RULE FOR QUALIFIED SMALL
 20 BUSINESS PARTNERSHIPS.—In the case of a dis-
 21 tribution to a partner by a qualified small business
 22 partnership (as defined in section 754(b))—

23 “(A) if there is an election provided in sec-
 24 tion 754 in effect with respect to such partner-
 25 ship or if there is a substantial basis reduction

1 with respect to such distribution, the partner-
 2 ship shall adjust the basis of partnership prop-
 3 erty in accordance with subsection (c), and

4 “(B) if subparagraph (A) does not apply,
 5 no adjustment shall be made to the basis of
 6 partnership property as the result of such dis-
 7 tribution.

8 “(b) GENERAL METHOD OF ADJUSTMENT.—

9 “(1) IN GENERAL.—In the case of any distribu-
 10 tion to a partner to which subsection (a)(1) applies,
 11 the partnership shall adjust the basis of partnership
 12 property such that each remaining partner’s net liq-
 13 uidation amount immediately after such distribution
 14 is equal to such partner’s net liquidation amount im-
 15 mediately before such distribution. For purposes of
 16 the preceding sentence, a partner’s net liquidation
 17 amount immediately before a distribution shall be
 18 calculated after taking into account any adjustment
 19 to the basis of property required by section
 20 704(c)(1)(B) or 737 with respect to such distribu-
 21 tion.

22 “(2) DISTRIBUTIONS OTHER THAN IN LIQUIDA-
 23 TION OF A PARTNER’S INTEREST.—

24 “(A) IN GENERAL.—In the case of any dis-
 25 tribution to a partner other than in liquidation

of such partner's interest, proper adjustment shall be made under paragraph (1) with respect to such partner to take into account—

“(i) the amount of any gain recognized by such partner with respect to such distribution under section 731(a), and

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

“(B) REPORTING.—The Secretary may require such reporting as necessary to carry out this subsection.

“(3) NET LIQUIDATION AMOUNT.—For purposes of this subsection, the term ‘net liquidation amount’ means, with respect to any partner, the net amount of gain or loss (if any) which would be taken into account (including gain or loss that would be taken into account by reason of subsections (c)(1)(A), (c)(1)(C), or (f)(1) of section 704) by the partner if the partnership sold all of its assets at fair market value (and no other amounts were taken into account under such section).”.

(2) CONFORMING AMENDMENTS.—

1 (A) Section 734(c), as redesignated by
2 paragraph (1), is amended by striking “by a
3 partnership with respect to which the election
4 provided in section 754 is in effect or with re-
5 spect to which there is a substantial basis re-
6 duction” and inserting “by a partnership to
7 which subsection (a)(2)(A) applies”.

8 (B) Section 734(d), as redesignated by
9 paragraph (1), is amended by striking “sub-
10 section (b)” and inserting “subsection (b) or
11 (c)”.

12 (C) Section 755 is amended—

13 (i) in subsection (a), by striking “sec-
14 tion 734(b) (relating to optional adjust-
15 ment to the basis of undistributed partner-
16 ship property)” and inserting “subsection
17 (b) or (c) of section 734 (relating to ad-
18 justment to basis of undistributed partner-
19 ship property)”, and

20 (ii) in subsection (c), by striking “sec-
21 tion 734(b)” and inserting “subsection (b)
22 or (c) of section 734”.

23 (D)(i) The heading for section 734 is
24 amended by striking “**WHERE SECTION 754**

**ELECTION OR SUBSTANTIAL BASIS REDUC-
TION”.**

(ii) The item relating to section 734 in the table of sections for subpart B of part II of subchapter K of chapter 1 is amended by striking “where section 754 election or substantial basis reduction”.

(d) **EFFECTIVE DATE.**—The amendments made by this section shall apply to distributions after the date of the enactment of this Act.

**SEC. 13. APPLICATION OF NET INVESTMENT INCOME TAX
TO TRADE OR BUSINESS INCOME OF CER-
TAIN HIGH INCOME INDIVIDUALS.**

(a) **IN GENERAL.**—Section 1411 is amended by adding at the end the following new subsection:

“(f) **APPLICATION TO CERTAIN HIGH INCOME INDIVIDUALS.**—

“(1) **IN GENERAL.**—In the case of any individual whose modified adjusted gross income for the taxable year exceeds the high income threshold amount, subsection (a)(1) shall be applied by substituting ‘the greater of specified net income or net investment income’ for ‘net investment income’ in subparagraph (A) thereof.

1 “(2) PHASE-IN OF INCREASE.—The increase in
 2 the tax imposed under subsection (a)(1) by reason of
 3 the application of paragraph (1) of this subsection
 4 shall not exceed the amount which bears the same
 5 ratio to the amount of such increase (determined
 6 without regard to this paragraph) as—

7 “(A) the excess described in paragraph (1),
 8 bears to

9 “(B) \$100,000 ($\frac{1}{2}$ such amount in the
 10 case of a married taxpayer (as defined in sec-
 11 tion 7703) filing a separate return).

12 “(3) HIGH INCOME THRESHOLD AMOUNT.—For
 13 purposes of this subsection, the term ‘high income
 14 threshold amount’ means—

15 “(A) except as provided in subparagraph
 16 (B) or (C), \$400,000,

17 “(B) in the case of a taxpayer making a
 18 joint return under section 6013 or a surviving
 19 spouse (as defined in section 2(a)), \$500,000,
 20 and

21 “(C) in the case of a married taxpayer (as
 22 defined in section 7703) filing a separate re-
 23 turn, $\frac{1}{2}$ of the dollar amount determined under
 24 subparagraph (B).

1 “(4) SPECIFIED NET INCOME.—For purposes of
2 this section, the term ‘specified net income’ means
3 net investment income determined—

4 “(A) without regard to the phrase ‘other
5 than such income which is derived in the ordi-
6 nary course of a trade or business not described
7 in paragraph (2),’ in subsection (c)(1)(A)(i),

8 “(B) without regard to the phrase ‘de-
9 scribed in paragraph (2)’ in subsection
10 (c)(1)(A)(ii),

11 “(C) without regard to the phrase ‘other
12 than property held in a trade or business not
13 described in paragraph (2)’ in subsection
14 (c)(1)(A)(iii),

15 “(D) without regard to paragraphs (2),
16 (3), and (4) of subsection (c), and

17 “(E) by treating paragraphs (5) and (6) of
18 section 469(c) (determined without regard to
19 the phrase ‘To the extent provided in regula-
20 tions,’ in such paragraph (6)) as applying for
21 purposes of subsection (c) of this section.”.

22 (b) APPLICATION TO TRUSTS AND ESTATES.—Sec-
23 tion 1411(a)(2)(A) is amended by striking “undistributed
24 net investment income” and inserting “the greater of un-

1 distributed specified net income or undistributed net in-
 2 vestment income”.

3 (c) CLARIFICATIONS WITH RESPECT TO DETER-
 4 MINATION OF NET INVESTMENT INCOME.—

5 (1) CERTAIN EXCEPTIONS.—Section 1411(c)(6)
 6 is amended to read as follows:

7 “(6) SPECIAL RULES.—Net investment income
 8 shall not include—

9 “(A) any item taken into account in deter-
 10 mining self-employment income for such taxable
 11 year on which a tax is imposed by section
 12 1401(b),

13 “(B) wages received with respect to em-
 14 ployment on which a tax is imposed under sec-
 15 tion 3101(b) (determined without regard to sec-
 16 tion 3101(c)) or 3201(a) (including amounts
 17 taken into account under section 3121(v)(2)),
 18 and

19 “(C) wages received from the performance
 20 of services earned outside the United States for
 21 a foreign employer.”.

22 (2) NET OPERATING LOSSES NOT TAKEN INTO
 23 ACCOUNT.—Section 1411(c)(1)(B) is amended by in-
 24 serting “(other than section 172)” after “this sub-
 25 title”.

1 (3) INCLUSION OF CERTAIN FOREIGN IN-
2 COME.—

3 (A) IN GENERAL.—Section 1411(c)(1)(A)
4 is amended by striking “and” at the end of
5 clause (ii), by striking “over” at the end of
6 clause (iii) and inserting “and”, and by adding
7 at the end the following new clause:

8 “(iv) any amount includible in gross
9 income under section 951, 951A, 1293, or
10 1296, over”.

11 (B) PROPER TREATMENT OF CERTAIN
12 PREVIOUSLY TAXED INCOME.—Section 1411(c)
13 is amended by adding at the end the following
14 new paragraph:

15 “(7) CERTAIN PREVIOUSLY TAXED INCOME.—
16 The Secretary shall issue regulations or other guid-
17 ance providing for the treatment of—

18 “(A) distributions of amounts previously
19 included in gross income for purposes of chap-
20 ter 1 but not previously subject to tax under
21 this section, and

22 “(B) distributions described in section
23 962(d).”.

1 (d) EFFECTIVE DATE.—The amendments made by
 2 this section shall apply to taxable years beginning after
 3 the date of the enactment of this Act.

4 (e) TRANSITION RULE.—The regulations or other
 5 guidance issued by the Secretary under section 1411(c)(7)
 6 of the Internal Revenue Code of 1986 (as added by this
 7 section) shall include provisions which provide for the
 8 proper coordination and application of clauses (i) and (iv)
 9 of section 1411(c)(1)(A) with respect to—

10 (1) taxable years beginning on or before the
 11 date of the enactment of this Act, and

12 (2) taxable years beginning after such date.

13 **SEC. 14. RECOGNITION OF GAIN ON TRANSFERS TO SWAP**
 14 **FUNDS.**

15 (a) INTERESTS SIMILAR TO PREFERRED STOCK
 16 TREATED AS STOCK.—Clause (vi) of section 351(e)(1)(B)
 17 is amended to read as follows:

18 “(vi) except as otherwise provided in
 19 regulations prescribed by the Secretary—

20 “(I) any interest in an entity if
 21 the return on such interest is limited
 22 and preferred, and

23 “(II) interests (not described in
 24 subclause (I)) in any entity if substan-
 25 tially all of the assets of such entity

1 consist (directly or indirectly) of any
 2 assets described in subclause (I), any
 3 preceding clause, or clause (viii).”.

4 (b) CERTAIN TRANSFERS DEEMED TO BE TO IN-
 5 VESTMENT COMPANIES.—Subsection (e) of section 351 is
 6 amended by adding at the end the following new para-
 7 graph:

8 “(3) TRANSFERS OF MARKETABLE SECURITIES
 9 TO CERTAIN CORPORATIONS.—A transfer of property
 10 to a corporation if—

11 “(A) such property is marketable securities
 12 (as defined in section 731(c)(2)), and

13 “(B) such corporation—

14 “(i) is registered under the Invest-
 15 ment Company Act of 1940 as an invest-
 16 ment company, or is exempt from registra-
 17 tion as a investment company under sec-
 18 tion 3(c)(7) of such Act because interests
 19 in such corporation are offered to qualified
 20 purchasers within the meaning of section
 21 2(a)(51) of such Act, or

22 “(ii) allows persons who have blocks
 23 of marketable securities with significant
 24 unrealized appreciation to diversify those
 25 holdings.”.

1 (c) TRANSFERS TO PARTNERSHIPS.—Subsection (b)
 2 of section 721 is amended to read as follows:

3 “(b) SPECIAL RULE.—Subsection (a) shall not apply
 4 to gain realized on a transfer of property to a partnership
 5 if, were the partnership incorporated—

6 “(1) such partnership would be treated as an
 7 investment company (within the meaning of section
 8 351), or

9 “(2) section 351 would not apply to such trans-
 10 fer by reason of section 351(e)(3).”.

11 (d) EFFECTIVE DATE.—The amendments made by
 12 this section shall apply to transfers after the date of the
 13 enactment of this Act.

14 **SEC. 15. MODIFICATIONS TO TREATMENT OF CERTAIN**
 15 **LOSSES.**

16 (a) LOSSES FROM CERTAIN CAPITAL ASSETS WHICH
 17 BECOME WORTHLESS.—

18 (1) WHEN TREATED AS LOSS.—Section
 19 165(g)(1) is amended by striking “on the last day
 20 of the taxable year” and inserting “at the time of
 21 the identifiable event establishing worthlessness”.

22 (2) TREATMENT OF PARTNERSHIP INDEBTED-
 23 NESS.—Section 165(g)(2)(C) is amended by insert-
 24 ing “, by a partnership,” after “by a corporation”.

1 (3) TREATMENT OF ABANDONMENT.—Section
 2 165(g) is amended by adding at the end the fol-
 3 lowing new paragraph:

4 “(4) TREATMENT OF ABANDONMENT.—For
 5 purposes of this subsection and subsection (m),
 6 abandonment shall be treated as an identifiable
 7 event establishing worthlessness.”.

8 (4) TREATMENT OF PARTNERSHIP INTEREST.—
 9 Section 165 is amended by redesignating subsection
 10 (m) as subsection (n) and by inserting after sub-
 11 section (l) the following new subsection:

12 “(m) WORTHLESS PARTNERSHIP INTEREST.—If any
 13 interest in a partnership becomes worthless during the
 14 taxable year, the loss resulting therefrom shall, for pur-
 15 poses of this subtitle, be treated as a loss from the sale
 16 or exchange of the interest in the partnership at the time
 17 of the identifiable event establishing worthlessness.”.

18 (b) EFFECTIVE DATE.—The amendments made by
 19 this section shall apply to losses arising in taxable years
 20 beginning after the date of the enactment of this Act.

21 **SEC. 16. CODIFICATION OF ANTI-ABUSE RULE.**

22 (a) IN GENERAL.—Section 701 is amended—

23 (1) by striking “A partnership” and inserting
 24 the following:

25 “(a) IN GENERAL.—A partnership”, and

1 (2) by adding at the end the following new sub-
2 section:

3 “(b) REGULATIONS.—Under regulations established
4 by the Secretary, in the case of a transaction involving
5 a partnership, the Secretary may recast, disregard, or oth-
6 erwise modify such transaction for purposes of the Inter-
7 nal Revenue Code of 1986 unless—

8 “(1) the tax consequences to each partner and
9 the partnership reflect the partners’ economic agree-
10 ment and clearly reflect the partners’ income,

11 “(2) the form of such transaction is consistent
12 with it substance, and

13 “(3) there is a substantial purpose (apart from
14 Federal income tax effects) for entering into such
15 transaction.”.

16 (b) NO INFERENCE.—Nothing in this section or the
17 amendments made by this section shall be construed to
18 create any inference with respect to the authority of the
19 Secretary of the Treasury (or the Secretary’s delegate) to
20 regulate transactions described in section 701(b) of the
21 Internal Revenue Code (as added by subsection (a)) with-
22 out regard to the provisions of such section.

○