

[CLICK HERE](#) to return to the home page

## **Internal Revenue Code Section 751(d)**

### Unrealized receivables and inventory items

(a) Sale or exchange of interest in partnership.

The amount of any money, or the fair market value of any property, received by a transferor partner in exchange for all or a part of his interest in the partnership attributable to-

- (1) unrealized receivables of the partnership, or
- (2) inventory items of the partnership,

shall be considered as an amount realized from the sale or exchange of property other than a capital asset.

(b) Certain distributions treated as sales or exchanges.

(1) General rule.

To the extent a partner receives in a distribution-

(A) partnership property which is-

- (i) unrealized receivables, or
- (ii) inventory items which have appreciated substantially in value,

in exchange for all or a part of his interest in other partnership property (including money), or

(B) partnership property (including money) other than property described in subparagraph (A)(i) or (ii) in exchange for all or a part of his interest in partnership property described in subparagraph (A)(i) or (ii) ,

such transactions shall, under regulations prescribed by the Secretary, be considered as a sale or exchange of such property between the distributee and the partnership (as constituted after the distribution).

(2) Exceptions.

Paragraph (1) shall not apply to-

- (A) a distribution of property which the distributee contributed to the partnership, or
- (B) payments, described in section 736(a) , to a retiring partner or successor in interest of a deceased partner.

(3) Substantial appreciation.

For purposes of paragraph (1) -

(A) In general. Inventory items of the partnership shall be considered to have appreciated substantially in value if their fair market value exceeds 120 percent of the adjusted basis to the partnership of such property.

(B) Certain property excluded. For purposes of subparagraph (A) , there shall be excluded any inventory property if a principal purpose for acquiring such property was to avoid the provisions of this subsection relating to inventory items.

(c) Unrealized receivables.

For purposes of this subchapter, the term "unrealized receivables" includes, to the extent not previously includible in income under the method of accounting used by the partnership, any rights (contractual or otherwise) to payment for-

(1) goods delivered, or to be delivered, to the extent the proceeds therefrom would be treated as amounts received from the sale or exchange of property other than a capital asset, or

(2) services rendered, or to be rendered.

For purposes of this section and sections 731 , 732 , and 741 (but not for purposes of section 736 ) , such term also includes mining property (as defined in section 617(f)(2) ) , stock in a DISC (as described in section 992(a) ) , section 1245 property (as defined in section 1245(a)(3) ) , stock in certain foreign corporations (as described in section 1248 ) , section 1250 property (as defined in section 1250(c) ) , farm land (as defined in section 1252(a) ) , franchises, trademarks, or trade names (referred to in section 1253(a) ) , and an oil, gas, or geothermal property (described in section 1254 ) but only to the extent of the amount which would be treated as gain to which section 617(d)(1) , 995(c) , 1245(a) , 1248(a) , 1250(a) , 1252(a) , 1253(a) or 1254(a) would apply if (at the time of the transaction described in this section or section 731 , 732 , or 741 , as the case may be) such property had been sold by the partnership at its fair market value. For purposes of this section and sections 731 , 732 , and 741 (but not for purposes of section 736 ) , such term also includes any market discount bond (as defined in section 1278 ) and any short-term obligation (as defined in section 1283 ) but only to the extent of the amount which would be treated as ordinary income if (at the time of the transaction described in this section or section 731 , 732 , or 741 , as the case may be) such property had been sold by the partnership.

 (d) Inventory items.

For purposes of this subchapter, the term "inventory items" means-

(1) property of the partnership of the kind described in section 1221(a)(1) ,

(2) any other property of the partnership which, on sale or exchange by the partnership, would be considered property other than a capital asset and other than property described in section 1231 , and

(3) any other property held by the partnership which, if held by the selling or distributee partner, would be considered property of the type described in paragraph (1) or (2) .

(e) Limitation on tax attributable to deemed sales of section 1248 stock.

For purposes of applying this section and sections 731 and 741 to any amount resulting from the reference to section 1248(a) in the second sentence of subsection (c) , in the case of an

individual, the tax attributable to such amount shall be limited in the manner provided by subsection (b) of section 1248 (relating to gain from certain sales or exchanges of stock in certain foreign corporation).

(f) Special rules in the case of tiered partnerships, etc.  
In determining whether property of a partnership is-

- (1) an unrealized receivable, or
- (2) an inventory item,

such partnership shall be treated as owning its proportionate share of the property of any other partnership in which it is a partner. Under regulations, rules similar to the rules of the preceding sentence shall also apply in the case of interests in trusts.