


## **Internal Revenue Code Section 734(b)**

Adjustment to basis of undistributed partnership property where section 754 election or substantial basis reduction

(a) General rule.

The basis of partnership property shall not be adjusted as the result of a distribution of property to a partner unless the election, provided in section 754 (relating to optional adjustment to basis of partnership property), is in effect with respect to such partnership or unless there is a substantial basis reduction with respect to such distribution.



(b) Method of adjustment.

In the case of a distribution of property to a partner by a partnership with respect to which the election provided in section 754 is in effect or with respect to which there is a substantial basis reduction, the partnership shall-

(1) increase the adjusted basis of partnership property by-

(A) the amount of any gain recognized to the distributee partner with respect to such distribution under section 731(a)(1) , and

(B) in the case of distributed property to which section 732(a)(2) or (b) applies, the excess of the adjusted basis of the distributed property to the partnership immediately before the distribution (as adjusted by section 732(d) ) over the basis of the distributed property to the distributee, as determined under section 732 , or

(2) decrease the adjusted basis of partnership property by-

(A) the amount of any loss recognized to the distributee partner with respect to such distribution under section 731(a)(2) , and

(B) in the case of distributed property to which section 732(b) applies, the excess of the basis of the distributed property to the distributee, as determined under section 732 , over the adjusted basis of the distributed property to the partnership immediately before such distribution (as adjusted by section 732(d) ).

Paragraph (1)(B) shall not apply to any distributed property which is an interest in another partnership with respect to which the election provided in section 754 is not in effect.

(c) Allocation of basis.

The allocation of basis among partnership properties where subsection (b) is applicable shall be made in accordance with the rules provided in section 755 .

(d) Substantial basis reduction.

(1) In general.

For purposes of this section , there is a substantial basis reduction with respect to a distribution if the sum of the amounts described in subparagraphs (A) and (B) of subsection (b)(2) exceeds \$250,000.

(2) Regulations.

For regulations to carry out this subsection , see section 743(d)(2) .

(e) Exception for securitization partnerships.

For purposes of this section , a securitization partnership (as defined in section 743(f) ) shall not be treated as having a substantial basis reduction with respect to any distribution of property to a partner.