

The addition reads as follows:

§ 1.704-1 Partner's distributive share.

* * * * *

(b) * * *

(2) * * *

(iv) * * *

(b) * * * For liabilities assumed before June 24, 2003, references to liabilities in this paragraph (b)(2)(iv)(b) shall include only liabilities secured by the contributed or distributed property that are taken into account under section 752(a) and (b).

* * * * *

§ 1.704-2 [Amended]

4. In § 1.704-2, paragraph (b)(3) is amended by adding the language "or a § 1.752-7 liability (as defined in § 1.752-7(b)(2)(i)) assumed by the partnership from a partner on or after June 24, 2003" at the end of the sentence.

5. Section 1.705-1 is amended by adding paragraph (a)(8) to read as follows:

§ 1.705-1 Determination of basis of partner's interest.

(a) * * *

(8) For basis adjustments necessary to coordinate sections 705 and 358(h), *see* § 1.358-7(b). For certain basis adjustments with respect to a § 1.752-7 liability assumed by a partnership from a partner, *see* § 1.752-7.

* * * * *

§ 1.752-0 [Amended]

6. Section 1.752-0 is amended as follows:

1. The section heading and introductory text of § 1.752-0 are revised.

2. The entries for § 1.752-1(a)(1) through (a)(3) are redesignated as § 1.752-1(a)(2) through (a)(4).

3. A new entry for § 1.752-1(a)(1) is added.

4. The entries for § 1.752-1(a)(1)(i), (ii), (iii), and (iv) are added.

5. The entries for §§ 1.752-6 and 1.752-7 are added.

The revision and additions read as follows:

§ 1.752-0 Table of contents.

This section lists the major captions that appear in §§ 1.752-1 through 1.752-7.

§ 1.752-1 Treatment of partnership liabilities.

(a) Definitions.

(1) Liability defined.

(i) In general.

(ii) Obligation.

(iii) Other liabilities.

(iv) Effective date.

* * * * *

1.752-6 Partnership assumption of partner's § 358(h)(3) liability after October 18, 1999, and before June 24, 2003.

(a) In general.

(b) Exceptions.

(1) In general.

(2) Transactions described in Notice 2000-44.

(c) Example.

(d) Effective date.

(1) In general.

(2) Election to apply § 1.752-7.

§ 1.752-7 Partnership assumption of partner's § 1.752-7 liability on or after June 24, 2003.

(a) General rules.

(1) Purpose and structure.

(2) Exception from disguised sale rules.

(b) Definitions.

(1) Assumption.

(2) § 1.752-7 liability.

(i) In general.

(ii) Amount and share of § 1.752-7 liability.

(3) § 1.752-7 liability partner.

(4) Remaining built-in loss associated with a § 1.752-7 liability.

(5) § 1.752-7 liability reduction.

(i) In general.

(ii) Partial dispositions and assumptions.

(6) § 1.752-7 liability transfer.

(7) Testing date.

(8) Trade or business.

(i) In general.

(ii) Trading and investment partnerships.

(A) In general.

(B) Financial instruments.

(iii) Examples.

(9) Adjusted value.

(c) Application of section 704(c) to assumed § 1.752-7 liabilities.

(1) In general.

(2) Example.

(d) Special rules for sales of partnership interests, distributions of partnership assets, and assumptions of the § 1.752-7 liability after a § 1.752-7 liability transfer.

(1) In general.

(2) Exceptions.

(i) In general.

(ii) Examples.

(e) Transfer of § 1.752-7 liability partner's partnership interest.

(1) In general.

(2) Examples.

(3) Exception for nonrecognition transactions.

(i) In general.

(ii) Examples.

(f) Distribution in liquidation of § 1.752-7 liability partner's partnership interest.

(1) In general.

(2) Example.

(g) Assumption of § 1.752-7 liability by a partner other than § 1.752-7 liability partner.

(1) In general.

(2) Consequences to § 1.752-7 liability partner.

(3) Consequences to partnership.

(4) Consequences to assuming partner.

(5) Example.

(h) Notification by the partnership (or successor) of the economic performance of the § 1.752-7 liability.

(i) Tiered partnerships.

(1) Look-through treatment.

(2) Trade or business exception.

(3) Partnership as a § 1.752-7 liability partner.

(4) Transfer of § 1.752-7 liability by partnership to another partnership or corporation after a transaction described in paragraphs (e), (f), or (g).

(i) In general.

(ii) Subsequent transfers.

(5) Example.

(j) Effective date.

(1) In general.

(2) Election to apply this section to assumptions of liabilities occurring after October 18, 1999 and before June 24, 2003.

(i) In general.

(ii) Manner of making election.

(iii) Filing of amended returns.

(iv) Time for making election.

7. In § 1.752-1, paragraphs (a)(1) through (a)(3) are redesignated as paragraphs (a)(2) through (a)(4) and a new paragraph (a)(1) is added to read as follows:

§ 1.752-1 Treatment of partnership liabilities.

(a) *Definitions*—(1) *Liability defined*—(i) *In general*. An obligation is a liability for purposes of section 752 and the regulations thereunder, only if and to the extent that incurring the obligation—

(A) Creates or increases the basis of any of the obligor's assets (including cash);

(B) Gives rise to an immediate deduction to the obligor; or

(C) Gives rise to an expense that is not deductible in computing the obligor's taxable income and is not properly chargeable to capital.

(ii) *Obligation*. For purposes of this paragraph and § 1.752-7, an obligation is any fixed or contingent obligation to make payment without regard to whether the obligation is otherwise taken into account for purposes of the Internal Revenue Code. Obligations include, but are not limited to, debt obligations, environmental obligations, tort obligations, contract obligations, pension obligations, obligations under a short sale, and obligations under derivative financial instruments such as options, forward contracts, and futures contracts.

(iii) *Other liabilities*. For obligations that are not liabilities as defined in paragraph (a)(1)(i) of this section, *see* §§ 1.752-6 and 1.752-7.

(iv) *Effective date*. This paragraph (a)(1) applies to liabilities that are incurred or assumed by a partnership on or after June 24, 2003.

* * * * *