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From: [REDACTED]

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To: [REDACTED]

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Subject: RE: Partnership Item Clarification

Gaughf Properties, L.P. v. Comm’r, 139 T.C. 219, 235 (2012)(Partnership items also include contributions to and distributions from the partnership to the extent that a determination of such items can be made from determinations that the partnership is required to make with respect to an amount, the character of an amount, or the percentage interest of a partner in the partnership, for purposes of the partnership books and records or for purposes of furnishing information to a partner. *Id.* para. (a)(4). Given these definitions for the term “partnership item”, we find that the contributions of the currency options and the 7,500 shares of Quanta stock to Gaughf Properties, as well as the distribution of the 7,500 Quanta shares to Bodacious upon Gaughf Properties' liquidation, were partnership items. The contribution and distribution of the Quanta shares were determinations that Gaughf Properties was required to make for purposes of furnishing information to its partners. The currency options contributed likewise affected amounts required to be reported to the partners on their Schedules K-1. The currency options also affected the income reported by Gaughf Properties, which reported an ordinary loss of \$45,000 when the options terminated according to their terms.)

Outside basis, which is a partner’s basis in the partner’s partnership interest, is relevant when: a partnership distributes to a partner that partner’s share of the partnership’s loss; the partnership distributes cash or property to a partner; or a partner sells that partner’s partnership interest. I.R.C. §§ 704(d), 731, 732, 741 and 1001.

Most, but not all, of the component items of outside basis are partnership items, including: the basis of contributions to the partnership; distributions from the partnership; the partner’s share of nontaxable income, taxable income, losses and

deductions; and the partner's share of partnership liabilities. I.R.C. § 705; Treas. Reg. § 301.6231(a)(3)-1; Nussdorf v. Commissioner, 129 T.C. 30, 42-44 (2007).

Partner-level determinations include, in the absence of a section 754 election by the partnership, the cost to purchase the partnership interest or the transferor's basis in the partnership at the time of acquisition by gift, bequest, transfer or exchange. Dial USA, Ltd. v. Commissioner, 95 T.C. 1, 4 (1990). See Petaluma FX Partners, LLC, 131 T.C. No. 9, 2008 WL 4682543, *10; IRM 8.19.1.6.9.4(f), *Issues With Both Partnership and Partner Level Elements*.

The reason **outside basis** is a **partnership item** when a partnership makes a section **754** election is that such a partnership itself needs to determine its partners' **outside bases** to redetermine the partnership's own inside basis for the "partnership's taxable year."