Partnership Taxation
An Application Approach

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Update
2017 Tax Cuts and Jobs Act

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Chapter 5
Receipt of a Partnership Interest for Services

Page 39.

Before **Section C. Cases and Materials**, add the following:

Carried interests. A taxpayer who is paid compensation reports that compensation as ordinary income, taxable at ordinary rates. A taxpayer who disposes of an appreciated capital asset held long term reports the gain, taxable at preferential rates. As will be explained more completely later, a taxpayer who is a partner in a partnership is allocated a share of the partnership's gain or loss, including capital gains and losses. The combination of a partner performing services for a partnership that largely generates long term capital gains creates a characterization mis-match. This perceived misuse of the partnership provisions was seen to be particularly prevalent in investment partnerships. Because the majority of assets held by the partnership would be capital assets, the partner performing services would be allocated his share of the partnership's income, gains, losses, etc., which would be mostly long-term capital gain. In essence, the partner, by being a partner, was able to convert what otherwise would have been compensation, taxed as ordinary income, to long-term capital gain, taxed at preferential rates.

To address this mis-match, the 2017 Tax Cuts and Jobs Act added a new provision addressing how a partner who performs services for a partnership is taxed. The provision achieves its goal by addressing the characterization problem—it converts what otherwise would be long-term capital gain to short-term capital gain (taxed at ordinary rates).

The provision applies to a partner who has an applicable partnership interest.[1] An applicable partnership interest is any interest that is transferred to or is held by the taxpayer in connection with the performance of substantial services by the taxpayer in any applicable business.[2] An applicable business is any activity conducted on a regular, continuous, and substantial basis that consists of:[3]

- Raising or returning capital; and
- Either investing or disposing of specified assets or developing specified assets.

Specified assets include:[4]

- Securities;
- Commodities;
- Real estate held for rental or investment;
- Cash or cash equivalents
- Options or derivative contracts with respect to the foregoing.

[1] Code Sec. 1061(a).
[2] Code Sec. 1061(c)(1).
[3] Code Sec. 1061(c)(2).
[4] Code Sec. 1061(c)(3).

If the taxpayer holds an applicable interest in a partnership, in essence, the capital gain is not given long term capital gain treatment until the asset is held three years.[5] In other words, the provision is converting gain taxed at preferential rates to gain that is taxed at regular rates, which would be consistent with receiving compensation.

[5] Code Sec. 1061(a).

Chapter 8
Partnership Taxable Year

Page 76-77.

Replace the three paragraphs under *partnership account method* with the following:

Partnership accounting method. The partnership's accounting method will dictate when items must be reported on the partnership tax return. In general, it may elect any method of accounting, as long as it clearly reflects the partnership's income, even if that method differs from its partners' method of accounting.[6] However, there are some limitations.

If the partnership is a "tax shelter," it may not use the cash method of accounting. A partnership is a "tax shelter" if—

- Interests in the partnership have been offered for sale in an offering required to be registered with any federal or state securities agency;
- More than 35 percent of the partnership's losses during the tax year are allocable to limited partners or limited entrepreneurs who do not actively participate in management of the partnership; or
- A significant purpose of the partnership is the avoidance or evasion of federal income tax.

If a C corporation is a partner in the partnership, the partnership may not use the cash method of accounting[7]. The prohibition on use of the cash method does not apply if average annual gross receipts do not exceed $25,000,000 for the three-year period preceding the taxable year.[8]

[6] Code Secs. 446(c); 703(b).
[7] Code Sec. 448(a).
[8] Code Sec. 448(b)(3), (c)(1).

Chapter 9
Computation of Taxable Income

Page 99.

In **Section B. Discussion of Rules**, just before **Section C. Application of Rules**, add the following new sections.

4. Carried Interests

A taxpayer who is paid compensation reports that compensation as ordinary income, taxable at ordinary rates. A taxpayer who disposes of an appreciated capital asset held long term reports the gain, taxable at preferential rates. As will be explained more completely later, a taxpayer who is a partner in a partnership is allocated a share of the partnership's gain or loss, including capital gains and losses. The combination of a partner performing services for a partnership that largely generates long term capital gains creates a characterization mis-match. This perceived misuse of the partnership provisions was seen to be particularly prevalent in investment partnerships. Because the majority of assets held by the partnership would be capital assets, the partner performing services would be allocated his share of the partnership's income, gains, losses, etc., which would be mostly long-term capital gain. In essence, the partner, by being a partner, was able to convert what otherwise would have been compensation, taxed as ordinary income, to long-term capital gain, taxed at preferential rates.

To address this mis-match, the 2017 Tax Cuts and Jobs Act added a new provision addressing how a partner who performs services for a partnership is taxed. The provision achieves its goal by addressing the characterization problem—it converts what otherwise would be long-term capital gain to short-term capital gain (taxed at ordinary rates).

The provision applies to a partner who has an applicable partnership interest.[9] An applicable partnership interest is any interest that is transferred to or is held by the taxpayer in connection with the performance of substantial services by the taxpayer in any applicable business.[10] An applicable business is any activity conducted on a regular, continuous, and substantial basis that consists of:[11]

- Raising or returning capital; and
- Either investing or disposing of specified assets or developing specified assets.

Specified assets include:[12]

- Securities;
- Commodities;
- Real estate held for rental or investment;

[9] Code Sec. 1061(a).
[10] Code Sec. 1061(c)(1).
[11] Code Sec. 1061(c)(2).
[12] Code Sec. 1061(c)(3).

- Cash or cash equivalents
- Options or derivative contracts with respect to the foregoing.

If the taxpayer holds an applicable interest in a partnership, in essence, the capital gain is not given long term capital gain treatment until the asset is held three years.[13] In other words, the provision is converting gain taxed at preferential rates to gain that is taxed at regular rates, which would be consistent with receiving compensation.

5. Domestic Qualified Business Income Deduction

A partner who has domestic qualified business income from the partnership is entitled to deduct the lesser of:[14]

- Combined domestic qualified business income; or
- 20 percent of taxable income, less net capital gain.

Qualified business income is all domestic business income other than investment income, investment interest income, short-term capital gains, and long-term capital gains.[15] However, no deduction is allowed if the partnership is in the field of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, or brokerage services.[16]

However, there is also a limitation on the amount of the deduction.[17] In general, the limitation is tied to the partner's wage income. The deduction is limited to the greater of:

- 50 percent of the wages paid with respect to the qualified business; or
- the sum of 25 percent of the wages with respect to the qualified business, plus 2.5 percent of the original tax basis of all qualified property.

Qualified property generally is tangible depreciable property held by a qualified business and used in the production of the qualified business income.[18]

As most partners are not employees of the partnership, the result is that that they will not be entitled to a deduction. However, to the extent allowed, the deduction is allowed regardless of whether the partner itemizes his deductions (*i.e.*, it is an above-the-line deduction).

Finally, neither the limitation on the amount of the deduction nor the prohibition on certain specified services applies to a taxpayer with individual taxable income not exceeding $157,500 ($315,000 for a joint return).[19]

[13] Code Sec. 1061(a).
[14] Code Sec. 199A(a).
[15] Code Sec. 199A(b)(1), (c).
[16] Code Sec. 199A(d).
[17] Code Sec. 199A(b)(2)(B).
[18] Code Sec. 199A(b)(6).
[19] Code Sec. 199A(b)(3).

Chapter 13
Limitation On Losses

Page 128.

In **Section B. Discussion of Rules**, just before **Section C. Application of Rules**, add the following new section.

3. Limitation on Excess Business Loss

A taxpayer-partner who is not a C corporation cannot deduct excess business losses.[20] An excess business loss is the excess of the aggregate deductions attributable to the taxpayer's businesses over the sum of the taxpayer's aggregate gross income or gain from those businesses, plus $250,000 ($500,000 for joint filers).[21] In effect, losses in excess of $250,000 ($500,000 for joint filers) are disallowed and carried forward. Any loss that is disallowed can be carried forward indefinitely as a net operating loss under Section 172.[22]

[20] Code Sec. 461(l)(1). The limit is applied after the passive loss rules are applied. Code Sec. 461(l)(6).
[21] Code Sec. 461(l)(3).
[22] Code Sec. 461(l)(2).

Chapter 21
Tax Consequences to Transferring Partner

Page 256.

b. Preferential Capital Gain Rates

Under the 2017 Tax Cuts and Jobs Act, the capital gain tax rates for single taxpayers is:

Rate	Applies to:
0%	Up to $38,600
15%	$38,600 - $425,800
20%	Over $425,800

Chapter 22
Tax Consequences to Buying Partner

Page 283.

Replace the paragraph under the example, which begins *Substantial built-in loss*, with the following:

Substantial built-in loss. If the partnership has a substantial built-in loss immediately after the purchase, the partnership is required to make the election.[23] A partnership has a substantial built-in loss if either:[24]

- The partnership's adjusted basis in the partnership property exceeds the fair market value of the property by more than $250,000; or
- In a hypothetical disposition by the partnership of all partnership assets in a fully taxable transaction for cash equal to the assets' fair market value immediately after the transfer, the transferee would be allocated (as a result of the hypothetical disposition) a net loss in excess of $250,000.

[23] Code Sec. 743(a).
[24] Code Sec. 743(d)(1).

Chapter 32
Termination of a Partnership

Pages 411-420.

The 2017 Tax Cuts and Jobs Act repealed the technical termination rule for partnerships with tax years beginning after December 31, 2017. Accordingly, replace the chapter with the following:

A. Background

1. Relevant State Law Provisions

Under the Uniform Partnership Act (UPA), in general, a partner's leaving the partnership may cause the partnership to dissolve and terminate.[25] Under the Revised Uniform Partnership Act (RUPA), a partner's leaving the partnership is referred to as dissociation.[26] A partner has the power to dissociate from a partnership at any time.

Under the RUPA, a partner's dissociation from a partnership may cause the partnership to dissolve and terminate.[27] For example, a partner's voluntarily leaving an at-will partnership will cause a dissolution of the partnership.[28]

> **Practice Tip:** A partnership may intend to be in existence for:
> - A term of years;
> - For the length of time necessary to complete a specific undertaking; or
> - Until the partners decide to discontinue operating as a partnership (at-will).

In general, a partnership continues after dissolution only for the purpose of winding up its business.[29] In winding up the business, the assets of the partnership are applied to discharge its obligations to creditors, including partners who are creditors. Any remaining amount is distributed to the partners in accordance with their rights to distributions.[30] When the winding up of the business is complete, the partnership is terminated.[31]

> **Practice Alert:** An event that causes dissolution of a partnership under state law may not be considered termination of a partnership for federal tax purposes and vice versa.

[25] UPA § 29-31.
[26] RUPA § 601.
[27] RUPA § 801.
[28] RUPA § 801(1).
[29] RUPA § 802(a).
[30] RUPA § 807.
[31] RUPA § 802(a).

2. Liquidating Distributions

Recall that, in general, a partner does not recognize gain or loss when he receives a distribution of cash from a partnership.[32] Rather, the partner's outside basis is reduced by the amount of cash distributed.[33] However, to the extent the cash distributed exceeds the partner's outside basis, the partner must recognize gain.[34]

Similarly, generally, a partner does not recognize gain or loss when he receives a distribution of property from a partnership. Rather, the partner's outside basis is reduced by the basis of the asset distributed.[35] To the extent the basis in the property is larger than the partner's outside basis, the basis in the property is reduced to reflect the partner's outside basis, then the asset is distributed.[36] The partner will then have a zero outside basis.

B. Discussion of Rules

1. Termination of a Partnership

A partnership is treated as continuing until it terminates.[37] The partnership terminates if no part of the partnership's business continues to be conducted in partnership form.[38] The partners may liquidate the partnership assets, pay off creditors, distribute any remaining amounts to the partners, and terminate the partnership.

> **Practice Tip:** If one partner in a two-partner partnership dies, the partnership is not considered as terminated if the estate or other successor in interest of the deceased partner continues to share in the profits or losses of the partnership.[39]

2. Effect of Termination of a Partnership

When a partnership's business is no longer conducted in partnership form, the partnership affairs are wound up and the partnership is liquidated. The rules that apply to non-liquidating distributions[40] from a partnership apply to distributions from a partnership that is terminating. In general, a partner does not recognize gain or loss when he receives a distribution of cash from a partnership.[41] Rather, the partner's outside basis is reduced by the amount of cash distributed.[42]

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[32] Code Sec. 731(a). The partnership does not recognize any gain or loss on the distribution. Code Sec. 731(b); Treas. Reg. § 1.731-1(b).
[33] Code Sec. 733(1).
[34] Code Sec. 731(a)(1).
[35] Code Secs. 731(a); 733(2). The partnership does not recognize any gain or loss on the distribution. Code Sec. 731(b); Treas. Reg. § 1.731-1(b).
[36] Code Sec. 732.
[37] Code Sec. 708(a).
[38] Code Sec. 708(b)(1).
[39] Treas. Reg. § 1.708-1(b)(1)(i).
[40] See, *e.g.*, Code Secs. 731; 732(a); 733; 735. Note that Section 736 generally is not applicable to a complete liquidation of the partnership.
[41] Code Sec. 731(a). The partnership does not recognize any gain or loss on the distribution. Code Sec. 731(b); Treas. Reg. § 1.731-1(b).
[42] Code Sec. 733(1).

However, to the extent the cash distributed exceeds the partner's outside basis, the partner must recognize gain.[43]

Similarly, in general, a partner does not recognize gain or loss when he receives a distribution of property from a partnership. Rather, the partner's outside basis is reduced by the basis of the asset distributed.[44] To the extent the basis in the property is larger than the partner's outside basis, the basis in the property is reduced to reflect the partner's outside basis, then the asset is distributed.[45] The partner will then have a zero outside basis.

If the amount of unrealized receivables and substantially appreciated inventory on one hand and capital and hotchpot (Section 1231) assets on the other hand is not proportionate, the rules of Section 751(b) will come into play and recharacterize the transaction so that the partner receives a proportionate amount of each type of asset.[46]

A partnership taxable year closes on the date on which the partnership terminates. If no part of the partnership's business continues to be conducted in partnership form, the partnership terminates on the date on which the winding up of the partnership affairs is completed.

C. Application of Rules

Example. Glory and Ossie are equal partners in the Equine Partnership. The partnership's balance sheet appears as follows:

Asset	Adj. Basis	FMV	Partner	Adj. Basis	Cap Acct.
Cash	$30,000	$30,000	Glory	$25,000	$40,000
Acct. Rec.	-0-	10,000	Ossie	25,000	40,000
Land	20,000	40,000		$50,000	$80,000
Total:	$50,000	$80,000			

None of the assets were contributed to the partnership by a partner. The partnership has not made a Section 754 election.

On March 1, 2006, the partners decide to no longer conduct business through the partnership. Accordingly, Equine Partnership terminates.

Equine Partnership is deemed to transfer its assets to a new partnership in exchange for an interest in the new partnership. The new partnership's basis in the assets will be the same as Equine Partnership's basis in the assets,[47] and Equine Partnership will take a basis in the partnership interest equal to the basis of the assets it contributed, or $50,000.[48]

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[43] Code Sec. 731(a)(1).
[44] Code Secs. 731(a); 733(2). The partnership does not recognize any gain or loss on the distribution. Code Sec. 731(b); Treas. Reg. § 1.731-1(b).
[45] Code Sec. 732.
[46] Rev. Rul. 77-412, 1977-2 C.B. 223. See discussion of Section 751(b) in Chapter 25.
[47] Code Sec. 722.
[48] Code Sec. 723.

Equine will then distribute one-half of the interest in the new partnership to Ossie and one-half to Saline. Ossie will take the new partnership interest with a basis of $25,000. Saline will take the new partnership interest with a basis of $40,000.[49] Saline will succeed to Glory's capital account. Equine Partnership then liquidates.

After the above transactions, the balance sheet of the new partnership will appear as follows:

Asset	Adj. Basis	FMV	Partner	Adj. Basis	Cap Acct.
Cash	$30,000	$30,000	Saline	$40,000	$40,000
Acct. Rec.	-0-	10,000	Ossie	25,000	40,000
Land	20,000	40,000		$65,000	$80,000
Total:	$50,000	$80,000			

D. Cases/Materials

Sirrine Building No. 1 v. Commissioner
T.C. Memo. 1995-185, aff'd **117 F.3d 1417 (5th Cir. 1997)**

This matter is before the Court on petitioner's motion to dismiss for lack of jurisdiction filed December 22, 1993, pursuant to Rule 40.

In her notice of final partnership administrative adjustments (hereinafter FPAA) dated January 25, 1993, respondent determined that Sirrine Building No. 1 (Partnership) failed to report long-term capital gain for tax year 1985, in the amount of $3,514,339.

The tax matters partner, M. Allen Winter (petitioner), does not deny that Partnership failed to report capital gain. He alleges instead that the gain should have been reported in 1982; that Partnership incorrectly reported the transaction as an installment sale in 1982, 1983, and 1984; that Partnership was terminated and dissolved prior to December 31, 1984, and thus had no obligation to file (and did not file) a return for 1985; and that Partnership is thus not subject to the audit and deficiency procedures of the Tax Equity and Fiscal Responsibility Act of 1982, Pub. L. 97-248, 96 Stat. 324 (TEFRA) for 1985 because it was no longer in existence. Therefore, petitioner contends, the Court lacks subject matter jurisdiction.

FINDINGS OF FACT

* * *

The following facts are not in dispute. Partnership was formed in 1979 for the purpose of acquiring land, constructing a building thereon, and then leasing or selling the building and land. It financed the construction through an insurance company with a $7 million note secured by a first lien on the property. In 1981, Partnership sold the building for $11,247,464: A $2,265,000 cash downpayment and an $8,982,464 wraparound mortgage. The buyer purchased the building

[49] Code Sec. 732(b).

subject to, but not assuming, the $7 million note. The gain on the sale was properly reported under the installment method of accounting.

In 1982, the buyer paid off $2 million of the wraparound mortgage and assumed the remaining balance of the $7 million note, thereby, in effect, paying off the entire purchase price. The wraparound deed of trust was released by Partnership in accordance with the terms of the wraparound note.

The parties agree that Partnership should have recognized gain on the unrecognized installments in 1982, because that was the year in which Partnership was relieved of indebtedness on the building, thereby "collapsing" the installment transaction.

Partnership did not, however, report the gain on the unrecognized installments in 1982. Instead, it continued to report the transaction as an installment sale for the taxable years 1982, 1983, and 1984. Partnership attached to the returns balance sheets and schedules of partnership accounts that reflected the $8,982,464 note, minus applicable payments, as a note receivable.

Partnership did not file a return for 1985 (when the period of limitations for 1982 had apparently expired).

The December 31, 1984, balance sheets filed with the 1984 partnership return reflect the following: [chart omitted]

Respondent contends that the 1982 events did not cause the termination of Partnership and that the financial statements attached to its 1984 return demonstrate that Partnership had not completed, or even embarked upon, the winding-up process.

* * *

Petitioner contends that Partnership was terminated before 1985, and it did not file a partnership return in 1985; thus, he argues that it is not subject to the unified partnership audit and litigation procedures and that the FPAA issued by respondent is invalid.

Respondent counters as follows: Partnership reported an installment sale in 1981 and continued to consistently report the installment sale as an ongoing transaction in 1982, 1983, and 1984. On its face Partnership's 1984 return was not a final return. The returns thus reflect continuing partnership activity. Therefore, Partnership was required to file a return in 1985. We agree with respondent that we have jurisdiction over this proceeding.

The test for determining whether an entity is a partnership is whether considering all the facts—the agreement, the conduct of the parties in execution of its provisions, their statements, the testimony of disinterested persons, the relationships of the parties, their respective abilities and capital contributions, the actual control of income and the purposes for which it is used, and any other facts throwing light on their true intent—the parties in good faith and acting with a business purpose intended to join together in the present conduct of the enterprise. *Commissioner v. Culbertson*, 337 U.S. 733, 742 (1949).

Here there is no question that at one time a partnership existed. The issue concerns whether it terminated before 1985. The intent of the partners is a question of fact. *Id*. at 741.

Section 708(a) provides that an existing partnership shall be considered as continuing if it is not terminated. Section 708(b), in pertinent part, provides that a partnership shall be considered terminated only if no part of any business, financial operation, or venture of the partnership continues to be carried on by any of its partners in a partnership. Sec. 708(b)(1)(A).

While State law generally determines when the partnership dissolves, the question of termination of a partnership for Federal tax purposes is determined by Federal law. A termination of a partnership is thus distinct from a mere dissolution of a partnership. *Fuchs v. Commissioner*, 80 T.C. 506, 509 (1983). A partnership's taxable year closes on the date on which the partnership terminates. Sec. 1.708-1(b)(1)(iii), Income Tax Regs. The date of termination is, for purposes of section 708(b)(1)(A), the date on which the winding up of the partnership affairs is completed. Sec. 1.708-1(b)(1)(iii)(a), Income Tax Regs.

The Partnership agreement provided:

> Upon dissolution a proper accounting shall be made of the Joint Venture's assets, liabilities and operations from the date of the last previous accounting to the date of dissolution. The profits or losses realized subsequent to the date of dissolution shall be allocated in accordance with Article VI and proper adjustments made to the Capital Accounts of each Venturer.

Although petitioner contends that the partnership was terminated "prior to January 1, 1985", he does not tell us what the termination date was. In his affidavit attached to the motion to dismiss, petitioner opines that "The 1982 events constituted, as a matter of law and pursuant to Article X of the Joint Venture Agreement, the complete dissolution, winding up, and termination of the partnership." However, in his "response to respondent's response" petitioner states:

> If, in fact, the Partnership return for 1983 reflects the activities asserted by Respondent, Respondent may be correct that the Partnership did not terminate in 1982 but continued for tax law purposes into 1983 * * * * However, the continued existence of the Partnership until 1983 is not evidence of its continuing existence in 1985. * * * *
>
> Clearly, by the end of 1983, all of the affairs of the Partnership had been wound up, and only the preparation and filing of tax returns, reflecting the error of S. E. Sirrine Company [a partner] and its accountants in continuing to report the sale on the installment method, continued. There was no continuing business or financial activity or joint venture being conducted by the partners and all affairs of the Partnership had been wound up, including distribution of all of its assets and satisfaction of all of its indebtedness. Whether the Partnership technically terminated in 1982 or 1983 is irrelevant for purposes of determining whether or not it continued in 1985.

Petitioner is mistaken in his view that the specific termination date is irrelevant, because "an existing partnership *shall* be considered as continuing if it is not terminated." Sec. 708(a) (emphasis added). Moreover, the 1983 and 1984 partnership returns do, in fact, show continuing financial activity.

The partnership return for 1983 reports a continuing business enterprise and continued financial operations. It shows accounts payable reduced from $1,400 to zero. It shows trade accounts of $2,969. Partnership was reimbursed by the general contractor for liabilities to subcontractors which had been accrued and capitalized. This required the recomputation of the gross profit ratio to determine the proper amount of the reported installment to be included in income. Partnership wrote off a bad debt in the amount of $1,624. It incurred deductible expenses for professional fees of $525. It continued to deduct interest on the wraparound note. As respondent says:

> The fact that the partnership was hiring professionals and paying them for services rendered, writing off uncollectible debts, deducting interest, receiving reimbursement for liabilities that had been capitalized and adjusting the tax books for recomputation of the proper gross profit ratio indicates that the partnership continued its business and financial operations during the taxable year 1983.

The return for 1984 continues to reflect financial activity, though at a reduced level. It reflects a continuing enterprise. In addition to continuing the installment treatment of the sale, Partnership reported $697,539 of interest income and $707,056 in losses. The return reflects unfinished business, in that the partnership had not settled accounts between partners with respect to their capital contributions and in accordance with the partnership agreement. According to the return, for tax accounting purposes the partners' capital accounts totaled $3,454,598 on January 1, 1984, and $3,442,337 on December 31, 1984. The financial statements attached to the return report partners' capital accounts individually and as a total. An entire schedule is devoted to reporting changes in the partners' capital accounts as a result of transactions of the partnership during the year.

Information contained in a tax return is an admission by the taxpayer and indicative of the partners' intention to continue the partnership. In *Fuchs v. Commissioner*, 80 T.C. 506 (1983), we concluded that a partnership was not terminated until at least 1975, even though the partnership dissolved in 1969 when the taxpayer withdrew and ceased to be associated with the carrying on of partnership business. Our conclusion was supported by the fact that the partnership continued to file tax returns after its dissolution, and the taxpayer continued to report receipts from the partnership. Here, Partnership filed returns through 1984, and petitioner reported partnership income (losses) on his individual Federal income tax returns through at least 1984.

The Partnership's return for 1984 reflects that as of the end of that year, no "proper accounting had been made of the assets, liabilities, and operations from the date of the last previous accounting to the date of dissolution", and the individual partners' capital accounts had not been brought to zero, as required by the partnership agreement upon dissolution. In short, the winding

up was not completed by December 31, 1984. There was no termination for Federal tax purposes. Sec. 1.708-1(b)(1)(i), Income Tax Regs.

Based on this record, we find that the partnership was not terminated before January 1, 1985, and was thus required to file a partnership return for 1985. The FPAA is therefore valid, and we have jurisdiction to decide this case.

* * *