

# Problems and Solutions in Partnership Tax

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# Introduction

Partnership taxation is often considered one of the most difficult areas of tax. However, given the growing number of limited liabilities companies (which generally are taxed as partnerships for tax purposes), it is extremely beneficial to have a working knowledge of this area. In addition, partnership tax provides a flexibility found nowhere else in the Code, affording the attorney or accountant an unparalleled opportunity to engage in tax planning on behalf of his client.

In approaching partnership tax, it is helpful to understand a few basic concepts. First, a partnership is a “flow-through” entity. It does not pay any tax. Rather, the taxable items flow through the partnership and are reported by the partners. Second, in designing the flow-through system, Congress was not always consistent in its treatment of the status of the partnership. Sometimes it is respected as an entity, separate and distinct from its partners. At other times, the entity is ignored and instead the arrangement is treated as an aggregation of the partners. And, finally, at other times, a hybrid approach is used.

The chapters that follow organize the partnership tax concepts and provisions into cohesive groups. However, one of the things that makes partnership tax so difficult is that the provisions are often interrelated and intertwined. In some respects, it is only after the entire area has been studied that the overall system will make sense. As a result, trying to fit the pieces together along the way can feel a bit like putting together a puzzle without having seen the picture. But, once the pieces are in place, the overall picture does make sense. And then, planning can begin.