

TAXATION OF
PARTNERSHIPS AND
LIMITED LIABILITY
COMPANIES TAXED AS
PARTNERSHIPS

TAXATION OF PARTNERSHIPS AND LIMITED LIABILITY COMPANIES TAXED AS PARTNERSHIPS

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Dedication

To Jackie and Jonathan — MKF

To my Mother and Father — JMB

Preface

Partnerships have long been a popular choice for taxpayers to carry on business and investment activities. But a 1988 ruling by the Internal Revenue Service that a limited liability company could be taxed as a partnership — which led to the enactment of limited liability statutes in every state — and the 1997 adoption by the Treasury of the so-called “Check-the-Box” regulations — which permitted most unincorporated entities with more than one member to elect to be taxed as a partnership — brought about a dramatic increase in the number of business entities taxed as partnerships. As a result, the study of Subchapter K of the Internal Revenue Code addressing the taxation of partners and partnerships has taken on increased importance. Law students who envision themselves in business, real estate or estate planning practices, as well as those who aspire to pursue careers focused specifically on tax planning, must have a firm understanding of not only the state laws related to partnerships and limited liability companies, but also the applicable federal laws governing their taxation.

We have designed this book to introduce law students to the fundamental principles, Internal Revenue Code and Regulations provisions, cases and administrative rulings governing taxation pursuant to Subchapter K. Following an introductory chapter, this casebook contains 20 chapters tracking, from formation to liquidation, the life of a partnership or a limited liability company taxed as a partnership. Each of these 20 chapters begins with a set of problems followed by an assignment to applicable materials, including Code and Regulation provisions, case law and administrative rulings. Each chapter also includes an Overview, which, while not an exhaustive analysis of the chapter topic, will provide a perspective and a foundation for your study of the Code and Regulation provisions as well as case law and administrative material pertinent to the chapter topic. We urge you to begin each chapter by reviewing the problems, reading the chapter Overview and studying the assigned materials. You should then return to the problem set and complete each problem.

Because every area of the tax law has its own vocabulary, each of these 20 chapters contains a vocabulary section of significant terms and phrases introduced in the chapter. In addition, each chapter provides a list of measurable learning objectives. Both the vocabulary section and the list of learning objectives are intended as self-assessment tools. After completing the assignment in each chapter, you should test your knowledge of the chapter by defining in your own words each term listed in the vocabulary section and by assessing your understanding of the materials through use of the learning objectives.

We welcome you now to the start of a challenging and most rewarding journey into the world of Subchapter K and the study of partnership taxation.

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