TABLE OF CONTENTS

Chapter 1: Allocation of Partnership Income Among the Partners:	
The Substantial Economic Effect Requirement	1
¶ 101 Introduction	1
¶ 102 The Partnership Agreement Is a Legal Contract	2
¶ 103 General Requirements for Substantial Economic Effect	3
¶ 104 The First Requirement: "Economic Effect"	3
¶ 105 The Economic Effect of Partnership Allocations Must Be "Substantial"	12
¶ 106 Allocating Partnership "Nonrecourse Deductions"	16
¶ 107 Other Issues	24
¶ 108 Summary and Concluding Remarks	27
Chapter 1: Test Your Knowledge	29
Chapter 1: Solutions and Suggested Responses	31
Chapter 2: Allocation of Income and Deductions from Contributed Property:	
Code Sec. 704(c)	33
¶ 201 Introduction	33
¶ 202 Traditional Method	35
¶ 203 Traditional Method with Curative Allocations	39
¶ 204 Remedial Allocations Method	41
¶ 205 Special Rules	42
¶ 206 Contribution of Property with Built-in Loss: Code Sec. 704(c)(1)(C)	48
Chapter 2: Test Your Knowledge	53
Chapter 2: Solutions and Suggested Responses	55
Chapter 3: Other Limitations on Partnership Allocations	57
\P 301 Allocation of Partnership Income and Loss on Transfer or Change in a Partner's	
Interest in the Partnership	57
¶ 302 Allocations in Family Partnerships—Code Sec. 704(e)	63
¶ 303 Depreciation Recapture	75
¶ 304 Credits	75 70
¶ 305 Income Allocation Recharacterized as Payment for Capital Expenditure	76
Chapter 3: Test Your Knowledge	79
Chapter 3: Solutions and Suggested Responses	81
Chapter 4: Partner's Share of Partnership Debt	83
¶ 401 Introduction	83
¶ 402 Partner's Share of Debt Included in Tax Basis	83
¶ 403 What Constitutes a "Liability" for Purposes of Code Sec. 752?	89
¶ 404 Classification of Partnership Liabilities as Recourse vs. Nonrecourse	93
¶ 405 Partner's Share of Partnership Recourse Debt	93
¶ 407 Reg. § 1.752-7 Liabilities	109
Chapter 4: Test Your Knowledge	115
Chapter 4: Solutions and Suggested Responses	117

Chapter 5: Limitations on the Deductibility of Partnership Losses	119
¶ 501 Introduction	119
¶ 502 Disallowed Losses Are Carried Forward	120
¶ 503 The Basis Limitations of Code Sec. 704(d)	124
¶ 504 Code Sec. 465—Losses or Credits Cannot Exceed Taxpayer's "At-risk" Amount	127
¶ 505 Passive Loss Limitations—In General	132
¶ 506 Classification of Income under Code Sec. 469	135
\P 507 Classification of Expenses and Deductions under Code Sec. 469	138
¶ 508 Taxpayers to Whom Code Sec. 469 Applies	138
¶ 509 Passive Activities Defined	139
¶ 510 Activities That Are Not Passive Activities	147
¶ 511 Recharacterization of Certain Passive Activities as Nonpassive	147
¶ 512 Operating Rules	148
¶ 513 Grouping Activities	152
Chapter 5: Test Your Knowledge	157
Chapter 5: Solutions and Suggested Responses	159
Case Table	161
Glossary	166
Index	168
Final Exam Copy	169