



TaxNewsFlash

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Final regulations: Certain partnership “basis shifting” transactions identified as transactions of interest

The U.S. Treasury Department and IRS today released [final regulations](#) (T.D. 10028) identifying certain partnership related-party “basis shifting” transactions and substantially similar transactions as transactions of interest (TOI), a type of reportable transaction.

The final regulations adopt proposed regulations issued in June 2024, with certain revisions in response to comments received, that would have identified as TOIs transactions generally involving positive basis adjustments of \$5 million or more under section 732(b) or (d), 734(b), or 743(b), for which no corresponding tax is paid. The transactions include either a distribution of partnership property to a partner that is related to one or more other partners in the partnership, or the transfer of a partnership interest in which the transferor is related to the transferee, or the transferee is related to one or more of the partners in the partnership. In these transactions, the basis increase allows related parties an opportunity for decreasing their taxable income through increased cost recovery deductions or through decreasing their taxable gain (or increasing their taxable loss) on the subsequent transfer of the property in a transaction in which gain or loss is recognized in whole or in part. Read [TaxNewsFlash](#)

As explained in the related IRS release—[IR-2025-6](#) (January 10, 2025)—the Treasury Department and IRS received comments on the proposed regulations suggesting that the final regulations avoid unnecessary burdens for businesses, limit retroactive reporting, provide more time for reporting, and differentiate publicly traded partnerships (PTPs), among other things. The final regulations include the following changes reflecting the comments received:

- **Increased dollar threshold for basis increase in a TOI:** The threshold amount for a basis increase in a TOI was increased from \$5 million to \$25 million for tax years before 2025 and \$10 million for tax years thereafter.
- **Limited retroactive reporting for open tax years:** Reporting for open tax years was limited to covered transactions that fall within a six-year lookback window. The six-year lookback window is the seventy-two-month period before the first month of a taxpayer’s most recent tax year that began before the publication of the final regulations.
- **Additional time for reporting:** Taxpayers have 180 days from the final regulation’s publication date to file disclosure statements for TOIs in open tax years for which a tax return has already been filed and that

fall within the six-year lookback window. Material advisors have an additional 90 days beyond the regular reporting deadline to file their disclosure statements for tax statements made before the final regulations.

- **Publicly traded partnerships:** Because PTPs are typically owned by a large number of unrelated owners, the final regulations exclude many owners of PTPs from the disclosure rules.
- **Narrowed scope for covered transactions under section 743(b):** The final regulations only apply to nonrecognition transfers of partnership interest between related transferees and transferors, unlike the proposed regulations which also would have applied in the case of a nonrecognition transfer between an unrelated transferee and transferor, but in which the transferee is related to one or more other partners. In addition, the final regulations include an exception for “substituted basis” section 743(b) adjustments to the extent that the adjustment merely represents a recomputation of a prior existing section 743(b) adjustment that arose in an arms-length taxable transfer.

The final regulations apply as of the date of publication of final regulations in the Federal Register, which is scheduled to be January 14, 2025.

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