



# TaxNewsFlash

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## U.S. Tax Court: Basis in promissory note issued to disregarded entity and contributed to partnership was zero

The U.S. Tax Court yesterday held that the basis of a promissory note issued to a disregarded entity and then contributed to a partnership was zero, resulting in the issuer having a zero basis in its partnership interest and the partnership taking a zero basis in the note.

The case is: *Continental Grand Limited Partnership v. Commissioner*, 166 T.C. No. 3 (March 2, 2026). Read the Tax Court's [opinion](#)

### Summary

In March 2001, a German holding company (FC) issued a \$610 million promissory note to its wholly owned German subsidiary (FS). A U.S. company, FC's ultimate parent, guaranteed the note. FS then contributed the note to a partnership (PS). In April 2002, FS elected to be disregarded as an entity separate from FC, effective March 2001, a few days before the date FC issued its note to FS. In March 2009, FC paid more than \$1 billion to PS in satisfaction of its note and deferred interest. FS subsequently withdrew from PS and received a distribution of more than \$1 billion.

The IRS examined PS's 2009 return and issued a Notice of Final Partnership Administrative Adjustment, determining (among other things) that FC's basis in its interest in PS was initially zero and that PS's basis in the contributed promissory note was initially zero. PS's tax matters partner petitioned the Tax Court to challenge the IRS's determinations.

The IRS filed a motion for partial summary judgment with the Tax Court, asking the court to find that (1) FC's adjusted basis in the note at the time of the contribution was zero, (2) FC's basis in its interest in PS following the contribution was zero, and (3) PS's basis in the note following the contribution was zero.

The Tax Court—relying on the text of the entity classification regulations, the statutory and regulatory provisions governing contributions to partnerships, and its prior decisions regarding contributions of promissory notes—granted the IRS' motion, holding that (1) FS's election to be disregarded as an entity separate from FC caused FC's issuance of the note to FS to be disregarded and FS's contribution of the note to PS to be treated as FC's contribution of its own note to PS, (2) FC's adjusted basis in its own note when it contributed the note to PS was zero, (3) FC's basis in its interest in PS immediately following the contribution was zero, and (4) PS's basis in the note immediately following the contribution was zero.

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