

(ii) Each partner shall add his distributive share of expenses described in section 615 or section 617 paid or accrued by the partnership to any such expenses paid or accrued by him and shall treat the total amount according to his method of treating such expenses, notwithstanding the treatment of the expenses by the partnership.

(iii) Each partner who is a nonresident alien individual or a foreign corporation shall add his distributive share of income derived by the partnership from real property located in the United States, as described in section 871(d)(1) or 882(d)(1), to any such income derived by him and may elect under § 1.871-10 to treat all such income as income which is effectively connected for the taxable year with the conduct of a trade or business in the United States. [Reg. § 1.703-1.]

□ [T.D. 6175, 5-23-56. Amended by T.D. 7192, 6-29-72, T.D. 7332, 12-20-74 and T.D. 8348, 5-10-91.]

§ 1.704-1. Partner's distributive share.—(a) *Effect of partnership agreement.*—A partner's distributive share of any item or class of items of income, gain, loss, deduction, or credit of the partnership shall be determined by the partnership agreement, unless otherwise provided by section 704 and paragraphs (b) through (e) of this section. For definition of partnership agreement see section 761(c).

(b) <i>Determination of partner's distributive share.</i> —(0) <i>Cross-references.</i> —	
<i>Heading</i>	<i>Section</i>
Cross-references	1.704-1(b)(0)
In general	1.704-1(b)(1)
Basic principles	1.704-1(b)(1)(i)
Effective dates	1.704-1(b)(1)(ii)
Generally	1.704-1(b)(1)(ii)(a)
Foreign tax expenditures	1.704-1(b)(1)(ii)(b)
[Reserved]	1.704-1(b)(1)(ii)(b)(3)
Effect of other sections	1.704-1(b)(1)(iii)
Other possible tax consequences	1.704-1(b)(1)(iv)
Purported allocations	1.704-1(b)(1)(v)
Section 704(c) determinations	1.704-1(b)(1)(vi)
Bottom line allocations	1.704-1(b)(1)(vii)
Substantial economic effect	1.704-1(b)(2)
Two-part analysis	1.704-1(b)(2)(i)
Economic effect	1.704-1(b)(2)(ii)
Fundamental principles	1.704-1(b)(2)(ii)(a)
Three requirements	1.704-1(b)(2)(ii)(b)
Obligation to restore deficit	1.704-1(b)(2)(ii)(c)
Alternate test for economic effect	1.704-1(b)(2)(ii)(d)
Partial economic effect	1.704-1(b)(2)(ii)(e)
Reduction of obligation to restore	1.704-1(b)(2)(ii)(f)
Liquidation defined	1.704-1(b)(2)(ii)(g)
Partnership agreement defined	1.704-1(b)(2)(ii)(h)
Economic effect equivalence	1.704-1(b)(2)(ii)(i)
Substantiality	1.704-1(b)(2)(iii)
General rules	1.704-1(b)(2)(iii)(a)
Shifting tax consequences	1.704-1(b)(2)(iii)(b)
Transitory allocations	1.704-1(b)(2)(iii)(c)
Maintenance of capital accounts	1.704-1(b)(2)(iv)
In general	1.704-1(b)(2)(iv)(a)
Basic rules	1.704-1(b)(2)(iv)(b)
Treatment of liabilities	1.704-1(b)(2)(iv)(c)
Contributed property	1.704-1(b)(2)(iv)(d)
In general	1.704-1(b)(2)(iv)(d)(1)
Contribution of promissory notes	1.704-1(b)(2)(iv)(d)(2)
Section 704(c) considerations	1.704-1(b)(2)(iv)(d)(3)
Exercise of noncompensatory options	1.704-1(b)(2)(iv)(d)(4)
Distributed property	1.704-1(b)(2)(iv)(e)
In general	1.704-1(b)(2)(iv)(e)(1)
Distribution of promissory notes	1.704-1(b)(2)(iv)(e)(2)
Revaluations of property	1.704-1(b)(2)(iv)(f)
Adjustments to reflect book value	1.704-1(b)(2)(iv)(g)
In general	1.704-1(b)(2)(iv)(g)(1)
Payables and receivables	1.704-1(b)(2)(iv)(g)(2)
Determining amount of book items	1.704-1(b)(2)(iv)(g)(3)
Determinations of fair market value	1.704-1(b)(2)(iv)(h)
In general	1.704-1(b)(2)(iv)(h)(1)
Adjustments for noncompensatory options	1.704-1(b)(2)(iv)(h)(2)

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Heading	Section
Section 705(a) (2) (B) expenditures	1.704-1(b) (2) (iv) (i)
In general	1.704-1(b) (2) (iv) (i) (1)
Expenses described in section 709	1.704-1(b) (2) (iv) (i) (2)
Disallowed losses	1.704-1(b) (2) (iv) (i) (3)
Basis adjustments to section 38 property	1.704-1(b) (2) (iv) (j)
Depletion of oil and gas properties	1.704-1(b) (2) (iv) (k)
In general	1.704-1(b) (2) (iv) (k) (1)
Simulated depletion	1.704-1(b) (2) (iv) (k) (2)
Actual depletion	1.704-1(b) (2) (iv) (k) (3)
Effect of book values	1.704-1(b) (2) (iv) (k) (4)
Transfers of partnership interests	1.704-1(b) (2) (iv) (l)
Section 754 elections	1.704-1(b) (2) (iv) (m)
In general	1.704-1(b) (2) (iv) (m) (1)
Section 743 adjustments	1.704-1(b) (2) (iv) (m) (2)
Section 732 adjustments	1.704-1(b) (2) (iv) (m) (3)
Section 734 adjustments	1.704-1(b) (2) (iv) (m) (4)
Limitations on adjustments	1.704-1(b) (2) (iv) (m) (5)
Partnership level characterization	1.704-1(b) (2) (iv) (n)
Guaranteed payments	1.704-1(b) (2) (iv) (o)
Minor discrepancies	1.704-1(b) (2) (iv) (p)
Adjustments where guidance is lacking	1.704-1(b) (2) (iv) (q)
Restatement of capital accounts	1.704-1(b) (2) (iv) (r)
Adjustments on the exercise of a noncompensatory option	1.704-1(b) (2) (iv) (s)
Partner's interest in the partnership	1.704-1(b) (3)
In general	1.704-1(b) (3) (i)
Factors considered	1.704-1(b) (3) (ii)
Certain determinations	1.704-1(b) (3) (iii)
Special rules	1.704-1(b) (4)
Allocations to reflect revaluations	1.704-1(b) (4) (i)
Credits	1.704-1(b) (4) (ii)
Excess percentage depletion	1.704-1(b) (4) (iii)
Allocations attributable to nonrecourse liabilities	1.704-1(b) (4) (iv)
Allocations under section 613A(c) (7) (D)	1.704-1(b) (4) (v)
Amendments to partnership agreement	1.704-1(b) (4) (vi)
Recapture	1.704-1(b) (4) (vii)
Allocation of creditable foreign taxes	1.704-1(b) (4) (viii)
In general	1.704-1(b) (4) (viii) (a)
Creditable foreign tax expenditures (CFTEs)	1.704-1(b) (4) (viii) (b)
Income to which CFTEs relate	1.704-1(b) (4) (viii) (c)
In general	1.704-1(b) (4) (viii) (c) (1)
CFTE category	1.704-1(b) (4) (viii) (c) (2)
Net income in a CFTE category	1.704-1(b) (4) (viii) (c) (3)
Distributive shares of income	1.704-1(b) (4) (viii) (c) (4)
No net income in a CFTE category	1.704-1(b) (4) (viii) (c) (5)
Allocation and apportionment of CFTEs to CFTE categories	1.704-1(b) (4) (viii) (d)
In general	1.704-1(b) (4) (viii) (d) (1)
Timing and base differences	1.704-1(b) (4) (viii) (d) (2)
[Reserved]	1.704-1(b) (4) (viii) (d) (3)
Allocations with respect to noncompensatory options	1.704-1(b) (4) (ix)
Corrective allocations	1.704-1(b) (4) (x)
Examples	1.704-1(b) (5)

(1) *In general.*—(i) *Basic principles.*—Under section 704(b) if a partnership agreement does not provide for the allocation of income, gain, loss, deduction, or credit (or item thereof) to a partner, or if the partnership agreement provides for the allocation of income, gain, loss, deduction, or credit (or item thereof) to a partner but such allocation does not have substantial economic effect, then the partner's distributive share of such income, gain, loss, deduction, or credit (or item thereof) shall be determined in accordance with such partner's interest in the partnership (taking into account all facts and circumstances). If the partnership agreement provides for the allocation of income, gain, loss, deduction, or credit (or item thereof) to a partner, there are three ways in which such allocation will be respected under section 704(b) and this paragraph. First, the allocation can have substantial economic effect in accordance with paragraph (b) (2) of this section. Second, taking into account all facts and circumstances, the allocation can be in accordance with the partner's interest in the partnership. See paragraph (b) (3) of this section. Third, the allocation can be deemed to be in accordance with the partner's interest in the partnership pursuant to one of the special rules contained in paragraph (b) (4) of this section and § 1.704-2. To the extent an allocation under the partnership agreement of income, gain, loss, deduction, or