**26 U.S. Code § 707.**

**Transactions between**

**partner and partnership**

(a) Partner not acting in capacity as partner

(1) In general

If a [partner](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-792929080-1194636058&term_occur=300&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) engages in a [transaction](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-2141246174-568959546&term_occur=603&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) with a [partnership](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=669&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) other than in his capacity as a member of such [partnership](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=670&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707), the [transaction](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-2141246174-568959546&term_occur=604&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) shall, except as otherwise provided in this section, be considered as occurring between the [partnership](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=671&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) [and](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-96727-576326479&term_occur=19545&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) one who is not a [partner.](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-792929080-1194636058&term_occur=301&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707)

(2) Treatment of payments to partners for property or services Under regulations prescribed by the [Secretary](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-1264422296-1199109730&term_occur=2175&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707)—

(A) Treatment of certain services and transfers of property If—

(i)

a [partner](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-792929080-1194636058&term_occur=302&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) performs services for a [partnership](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=672&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) or transfers [property](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-993141291-2033417876&term_occur=4098&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) to a [partnership](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=673&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707),

(ii)

there is a related direct or indirect allocation [and](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-96727-576326479&term_occur=19546&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) distribution to such [partner](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-792929080-1194636058&term_occur=303&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707), and

(iii)

the performance of such services (or such transfer) [and](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-96727-576326479&term_occur=19547&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) the allocation [and](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-96727-576326479&term_occur=19548&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) distribution, when viewed together, are properly characterized as a [transaction](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-2141246174-568959546&term_occur=605&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) occurring between the [partnership](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=674&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) [and](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-96727-576326479&term_occur=19549&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) a [partner](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-792929080-1194636058&term_occur=304&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) acting other than in his capacity as a member of the [partnership](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=675&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707),

such allocation [and](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-96727-576326479&term_occur=19550&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) distribution shall be treated as a [transaction](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-2141246174-568959546&term_occur=606&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) described in paragraph (1).

(B) Treatment of certain property transfers If—

(i)

there is a direct or indirect transfer of [money](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-104079552-1374868351&term_occur=168&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) or other [property](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-993141291-2033417876&term_occur=4099&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) by a [partner](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-792929080-1194636058&term_occur=305&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) to a [partnership](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=676&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707),

(ii)

there is a related direct or indirect transfer of [money](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-104079552-1374868351&term_occur=169&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) or other [property](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-993141291-2033417876&term_occur=4100&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) by the [partnership](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=677&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) to such [partner](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-792929080-1194636058&term_occur=306&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) (or another [partner)](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-792929080-1194636058&term_occur=307&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707), and

(iii)

the transfers described in clauses (i) [and](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-96727-576326479&term_occur=19551&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) (ii), when viewed together, are properly characterized as a sale or exchange of [property](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-993141291-2033417876&term_occur=4101&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707),

such transfers shall be treated either as a [transaction](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-2141246174-568959546&term_occur=607&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) described in paragraph (1) or as a [transaction](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-2141246174-568959546&term_occur=608&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) between 2 or more [partners](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-792929080-1194636058&term_occur=308&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) acting other than in their capacity as members of the [partnership](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=678&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707).

(b) Certain sales or exchanges of property with respect to controlled partnerships

(1) Losses disallowed No deduction shall be allowed in respect of losses from sales or exchanges of [property](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-993141291-2033417876&term_occur=4102&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) (other than an [interest](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-570402602-1427839841&term_occur=1645&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) in the [partnership](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=679&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707)), directly or indirectly, between—

(A)

a [partnership](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=680&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) [and](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-96727-576326479&term_occur=19552&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) a [person](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-991716523-553965143&term_occur=1435&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) owning, directly or indirectly, more than 50 percent of the capital [interest,](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-570402602-1427839841&term_occur=1646&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) or the profits [interest,](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-570402602-1427839841&term_occur=1647&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) in such [partnership](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=681&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707), or

(B)

two [partnerships](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=682&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) in which the same [persons](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-991716523-553965143&term_occur=1436&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) own, directly or indirectly, more than 50 percent of the capital [interests](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-570402602-1427839841&term_occur=1648&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) or profits [interests.](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-570402602-1427839841&term_occur=1649&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707)

In the case of a subsequent sale or exchange by a [transferee](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-1727367733-1978202820&term_occur=89&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) described in this paragraph, [section 267(d)](https://www.law.cornell.edu/uscode/text/26/267#d) shall be applicable as if the loss were disallowed under section 267(a)(1). For purposes of section 267(a)(2), [partnerships](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=683&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) described in subparagraph (B) of this paragraph shall be treated as [persons](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-991716523-553965143&term_occur=1437&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) specified in section 267(b).

(2) Gains treated as ordinary income In the case of a sale or exchange, directly or indirectly, of [property](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-993141291-2033417876&term_occur=4103&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707), which in the hands of the [transferee](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-1727367733-1978202820&term_occur=90&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707), is [property](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-993141291-2033417876&term_occur=4104&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) other than a [capital asset](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-1782181320-1445538875&term_occur=68&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) as defined in [section 1221](https://www.law.cornell.edu/uscode/text/26/1221)—

(A)

between a [partnership](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=684&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) [and](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-96727-576326479&term_occur=19553&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) a [person](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-991716523-553965143&term_occur=1438&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) owning, directly or indirectly, more than 50 percent of the capital [interest,](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-570402602-1427839841&term_occur=1650&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) or profits [interest,](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-570402602-1427839841&term_occur=1651&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) in such [partnership](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=685&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707), or

(B)

between two [partnerships](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=686&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) in which the same [persons](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-991716523-553965143&term_occur=1439&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) own, directly or indirectly, more than 50 percent of the capital [interests](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-570402602-1427839841&term_occur=1652&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) or profits [interests,](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-570402602-1427839841&term_occur=1653&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707)

any gain recognized shall be considered as [ordinary income](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-568094041-1678386546&term_occur=57&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707).

(3) Ownership of a capital or profits interest

For purposes of paragraphs (1) [and](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-96727-576326479&term_occur=19554&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) (2) of this subsection, the ownership of a capital or profits [interest](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-570402602-1427839841&term_occur=1654&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) in a [partnership](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=687&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) shall be determined in accordance with the rules for constructive ownership of [stock](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-109770518-454322951&term_occur=1432&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) provided in [section 267(c)](https://www.law.cornell.edu/uscode/text/26/267#c) other than paragraph (3) of such section.

(c) Guaranteed payments

To the extent determined without regard to the [income](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-1184259671-1195617239&term_occur=1570&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) of the [partnership](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=688&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707), [payments](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-786681338-2066564343&term_occur=1287&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) to a [partner](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-792929080-1194636058&term_occur=309&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) for services or the use of capital shall be considered as made to one who is not a member of the [partnership](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-975639300-1194636059&term_occur=689&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707), but only for the purposes of section 61(a) (relating to [gross income](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-314622203-322830486&term_occur=1034&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707)) [and,](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-96727-576326479&term_occur=19555&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) subject to section 263, for purposes of section 162(a) (relating to [trade or business](https://www.law.cornell.edu/definitions/uscode.php?width=840&height=800&iframe=true&def_id=26-USC-223729503-1199109694&term_occur=503&term_src=title:26:subtitle:A:chapter:1:subchapter:K:part:I:section:707) expenses).