

# Federal Tax Update: Hot Topics in Partnership Tax

*UT Law CLE - LLCs, LPs and Partnerships*

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## Presenters



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# Final Carried Interest Regulations

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## Overview

- Section 1061
  - 2017 Tax Cuts and Jobs Act added Section 1061 which increased long-term capital gain holding period for certain carried interests in a partnership from one to three years
  - A “carried interest” is an interest in private equity or hedge fund profits held by fund managers in exchange for services

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# Overview

- Proposed Regulations issued July 2020
- Final Regulations issued January 2021 adopted the proposed regulations with modifications in four main areas:
  - (i) capital interest exception,
  - (ii) treatment of capital interests acquired with loan proceeds,
  - (iii) the look-through rule for certain dispositions of partnership interests, and
  - (iv) transfers of partnership interests to related persons.

## Partnership Interests Subject to Section 1061

- Gain allocated to an applicable partnership interests ("API") held in connection with the performance of certain services will be recharacterized as short-term capital gain unless held for three years
- API
  1. Partnership interest held (directly or indirectly) by, or transferred to, a taxpayer
  2. In connection with the performance of substantial services by the taxpayer or a related person
  3. In an applicable trade or business ("ATB")

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