**Selected Internal Revenue Code Sections and Regulations Regarding Taxation of Business Entities**

**Treasury Regulation § 301.7701-1 Classification of organizations for federal tax purposes.**

**(a)** ***Organizations for federal tax purposes—***

**(1)** ***In general.***The Internal Revenue Code prescribes the classification of various organizations for federal tax purposes. Whether an organization is an entity separate from its owners for federal tax purposes is a matter of federal tax law and does not depend on whether the organization is recognized as an entity under local law.

**(2)** ***Certain joint undertakings give rise to entities for federal tax purposes.*** A joint venture or other contractual arrangement may create a separate entity for federal tax purposes if the participants carry on a trade, business, financial operation, or venture and divide the profits therefrom. For example, a separate entity exists for federal tax purposes if co- owners of an apartment building lease space and in addition provide services to the occupants either directly or through an agent. Nevertheless, a joint undertaking merely to share expenses does not create a separate entity for federal tax purposes. For example, if two or more persons jointly construct a ditch merely to drain surface water from their properties, they have not created a separate entity for federal tax purposes. Similarly, mere co-ownership of property that is maintained, kept in repair, and rented or leased does not constitute a separate entity for federal tax purposes. For example, if an individual owner, or tenants in common, of farm property lease it to a farmer for a cash rental or a share of the crops, they do not necessarily create a separate entity for federal tax purposes.

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**(4)** ***Single owner organizations.***Under §§ [301.7701-2](http://www.law.cornell.edu/cfr/text/26/301.7701-2) and [301.7701-3](http://www.law.cornell.edu/cfr/text/26/301.7701-3), certain organizations that have a single owner can choose to be recognized or disregarded as entities separate from their owners.

**Treasury Regulation § 301.7701-2  Business entities; definitions.**

**(a)** ***Business entities.***For purposes of this section and § [301.7701-3](http://www.law.cornell.edu/cfr/text/26/301.7701-3), a *business entity* is any entity recognized for federal tax purposes (including an entity with a single owner that may be disregarded as an entity separate from its owner under § [301.7701-3](http://www.law.cornell.edu/cfr/text/26/301.7701-3)) that is not properly classified as a trust under § [301.7701-4](http://www.law.cornell.edu/cfr/text/26/301.7701-4) or otherwise subject to special treatment under the Internal Revenue Code. A business entity with two or more members is classified for federal tax purposes as either a corporation or a partnership. A business entity with only one owner is classified as a corporation or is disregarded; if the entity is disregarded, its activities are treated in the same manner as a sole proprietorship, branch, or division of the owner. \*\*\*

**(b)** ***Corporations.***For federal tax purposes, the term *corporation* means—

**(1)** A business entity organized under a Federal or State statute, or under a statute of a federally recognized Indian tribe, if the statute describes or refers to the entity as incorporated or as a corporation, body corporate, or body politic;

**(2)** An association (as determined under § [301.7701-3](http://www.law.cornell.edu/cfr/text/26/301.7701-3));

**(3)** A business entity organized under a State statute, if the statute describes or refers to the entity as a joint-stock company or joint-stock association;

**(4)** An insurance company;

**(5)** A State-chartered business entity conducting banking activities, if any of its deposits are insured under the Federal Deposit Insurance Act, as amended, [12 U.S.C. 1811](http://www.law.cornell.edu/uscode/text/12/1811) *et seq.,* or a similar federal statute;

**\*\*\***

**(c)** ***Other business entities.***For federal tax purposes—

**(1)** The term *partnership* means a business entity that is not a corporation under paragraph (b) of this section and that has at least two members.

**(2)** ***Wholly owned entities—***

**(i)** ***In general.***Except as otherwise provided in this paragraph (c), a business entity that has a single owner and is not a corporation under paragraph (b) of this section is disregarded as an entity separate from its owner.

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**Treasury Reg. § 301.7701-3 Classification of certain business entities.**

1. ***In general.***A business entity that is not classified as a corporation under §[301.7701-2(b) (1), (3), (4), (5), (6), (7), or (8)](http://www.law.cornell.edu/cfr/text/26/301.7701-2#b) (an *eligible entity*) can elect its classification for federal tax purposes as provided in this section. An eligible entity with at least two members can elect to be classified as either an association (and thus a corporation under § [301.7701-2(b)(2)](http://www.law.cornell.edu/cfr/text/26/301.7701-2#b_2)) or a partnership, and an eligible entity with a single owner can elect to be classified as an association or to be disregarded as an entity separate from its owner. Paragraph (b) of this section provides a default classification for an eligible entity that does not make an election. Thus, elections are necessary only when an eligible entity chooses to be classified initially as other than the default classification or when an eligible entity chooses to change its classification.

**26 U.S.C. § 7704 (I.R.C. § 7704) Certain Publicly Traded Partnerships Treated as Corporations**

**(a)** **General rule**

For purposes of this title, except as provided in subsection (c), a publicly traded partnership shall be treated as a corporation.

**(b)** **Publicly traded partnership**

For purposes of this section, the term “publicly traded partnership” means any partnership if—

**(1)** interests in such partnership are traded on an established securities market, or

**(2)** interests in such partnership are readily tradable on a secondary market (or the substantial equivalent thereof).

**(c)** **Exception for partnerships with passive-type income**

**(1)** **In general**

Subsection (a) shall not apply to any publicly traded partnership for any taxable year if such partnership met the gross income requirements of paragraph (2) for such taxable year and each preceding taxable year beginning after December 31, 1987, during which the partnership (or any predecessor) was in existence.

**(2)** **Gross income requirements**

A partnership meets the gross income requirements of this paragraph for any taxable year if 90 percent or more of the gross income of such partnership for such taxable year consists of qualifying income.

**(3)** **Exception not to apply to certain partnerships which could qualify as regulated investment companies**

This subsection shall not apply to any partnership which would be described in section [851](http://www.law.cornell.edu/uscode/text/26/usc_sec_26_00000851----000-) [(a)](http://www.law.cornell.edu/uscode/text/26/usc_sec_26_00000851----000-#a) if such partnership were a domestic corporation. To the extent provided in regulations, the preceding sentence shall not apply to any partnership a principal activity of which is the buying and selling of commodities (not described in section [1221](http://www.law.cornell.edu/uscode/text/26/1221) [(a)(1)](http://www.law.cornell.edu/uscode/text/26/usc_sec_26_00001221----000-#a_1)), or options, futures, or forwards with respect to commodities.

**(d)** **Qualifying income**

For purposes of this section—

**(1)** **In general**

Except as otherwise provided in this subsection, the term “qualifying income” means—

**(A)** interest,

**(B)** dividends,

**(C)** real property rents,

**(D)** gain from the sale or other disposition of real property (including property described in section [1221](http://www.law.cornell.edu/uscode/text/26/1221) [(a)(1)](http://www.law.cornell.edu/uscode/text/26/usc_sec_26_00001221----000-#a_1)),

**(E)** income and gains derived from the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil, or products thereof), or the marketing of any mineral or natural resource (including fertilizer, geothermal energy, and timber), industrial source carbon dioxide, or the transportation or storage of any fuel described in subsection (b), (c), (d), or (e) ofsection [6426](http://www.law.cornell.edu/uscode/text/26/6426), or any alcohol fuel defined in section [6426](http://www.law.cornell.edu/uscode/text/26/6426) [(b)(4)(A)](http://www.law.cornell.edu/uscode/text/26/usc_sec_26_00006426----000-#b_4_A) or any biodiesel fuel as defined in section [40A](http://www.law.cornell.edu/uscode/text/26/40A) [(d)(1)](http://www.law.cornell.edu/uscode/text/26/usc_sec_26_00000040---A000-#d_1),

**(F)** any gain from the sale or disposition of a capital asset (or property described in section [1231](http://www.law.cornell.edu/uscode/text/26/1231) [(b)](http://www.law.cornell.edu/uscode/text/26/usc_sec_26_00001231----000-#b)) held for the production of income described in any of the foregoing subparagraphs of this paragraph, and

**(G)** in the case of a partnership described in the second sentence of subsection (c)(3), income and gains from commodities (not described in section [1221](http://www.law.cornell.edu/uscode/text/26/1221) [(a)(1)](http://www.law.cornell.edu/uscode/text/26/usc_sec_26_00001221----000-#a_1)) or futures, forwards, and options with respect to commodities.

For purposes of subparagraph (E), the term “mineral or natural resource” means any product of a character with respect to which a deduction for depletion is allowable under section [611](http://www.law.cornell.edu/uscode/text/26/611); except that such term shall not include any product described in subparagraph (A) or (B) of section [613](http://www.law.cornell.edu/uscode/text/26/613) [(b)(7)](http://www.law.cornell.edu/uscode/text/26/usc_sec_26_00000613----000-#b_7).

**(2)** **Certain interest not qualified**

Interest shall not be treated as qualifying income if—

**(A)** such interest is derived in the conduct of a financial or insurance business, or

**(B)** such interest would be excluded from the term “interest” under section [856](http://www.law.cornell.edu/uscode/text/26/usc_sec_26_00000856----000-)[(f)](http://www.law.cornell.edu/uscode/text/26/usc_sec_26_00000856----000-#f).

**\*\*\*\*\*\***

**(j)*Lack of actual trading*** -

**(1)*General rule.*** For [purposes](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=a79748f585452c9cf3a98317b29ec6c8&term_occur=20&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) of section 7704(b) and this section, [interests](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=8e83046407fe273f9396d8e57f9d27a9&term_occur=53&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) in a [partnership](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=085835d6cda49ef51ecda9348fc5893e&term_occur=66&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) are not [readily tradable](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=fd5d4b4a7eb1298e9972899938e2c823&term_occur=11&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) on a secondary market or the substantial equivalent thereof if the sum of the percentage [interests](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=8e83046407fe273f9396d8e57f9d27a9&term_occur=54&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) in [partnership](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=085835d6cda49ef51ecda9348fc5893e&term_occur=67&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) capital or profits [transferred](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=4cba463023ee77fb70acd1cd1848efd9&term_occur=28&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) during the [taxable year](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=8a2837bd45f19a50d5183d6f43bb65dc&term_occur=5&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) of the [partnership](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=085835d6cda49ef51ecda9348fc5893e&term_occur=68&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) (other than in [transfers](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=4cba463023ee77fb70acd1cd1848efd9&term_occur=29&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) described in paragraph [(e)](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=d60b76a7b77d2b74eb7258662eba9fa2&term_occur=2&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1), [(f)](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=61d8903e7a8b0f9eae4510fecb7eb155&term_occur=2&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1), or [(g)](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=25302f42315815ddf27a930ab6743b6f&term_occur=2&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) of this section) does not exceed 2 percent of the total [interests](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=8e83046407fe273f9396d8e57f9d27a9&term_occur=55&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) in [partnership](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=085835d6cda49ef51ecda9348fc5893e&term_occur=69&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) capital or profits.

**(2)*Examples.*** The following [examples](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=d5a9c3642e246b82f79873865d396275&term_occur=1&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) illustrate the [rules](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=b04f1e5df4e380d5066b18d28d577040&term_occur=1&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) of this paragraph (j):

**Example 1. Calculation of percentage interest transferred.**

**(i)** ABC, a calendar year limited partnership formed in 1996, has 9,000 units of limited partnership interests outstanding at all times during 1997, representing in the aggregate 95 percent of the total interests in capital and profits of ABC. The remaining 5 percent is held by the general partner.

**(ii)** During 1997, the following transactions occur with respect to the units of ABC's limited [partnership interests](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=3d5f4742c291be62c5d1b4dffbdc38f0&term_occur=10&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) -

**(A)** 800 units are sold through the use of a qualified matching service that meets the [requirements](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=3aef79d3d4a2922fbfd0ce279d3ed2db&term_occur=3&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) of [paragraph (g)](https://www.law.cornell.edu/cfr/text/26/1.7704-1#g) of this section;

**(B)** 50 units are sold through the use of a matching service that does not meet the [requirements](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=3aef79d3d4a2922fbfd0ce279d3ed2db&term_occur=4&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) of [paragraph (g)](https://www.law.cornell.edu/cfr/text/26/1.7704-1#g) of this section; and

**(C)** 500 units are [transferred](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=4cba463023ee77fb70acd1cd1848efd9&term_occur=30&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) as a [result](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=8fc1e1636dc887fa2eb5285e292a8cd2&term_occur=2&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) of private [transfers](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=4cba463023ee77fb70acd1cd1848efd9&term_occur=31&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) described in [paragraph (e)](https://www.law.cornell.edu/cfr/text/26/1.7704-1#e) of this section.

**(iii)** The private [transfers](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=4cba463023ee77fb70acd1cd1848efd9&term_occur=32&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) of 500 units and the sale of 800 units through a qualified matching service are disregarded under [paragraph (j)(1)](https://www.law.cornell.edu/cfr/text/26/1.7704-1#j_1) of this section for [purposes](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=a79748f585452c9cf3a98317b29ec6c8&term_occur=21&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) of applying the 2 percent [rule](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=b04f1e5df4e380d5066b18d28d577040&term_occur=3&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1). As a [result](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=8fc1e1636dc887fa2eb5285e292a8cd2&term_occur=3&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1), the total percentage [interests](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=8e83046407fe273f9396d8e57f9d27a9&term_occur=56&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) in [partnership](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=085835d6cda49ef51ecda9348fc5893e&term_occur=70&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) capital and profits [transferred](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=4cba463023ee77fb70acd1cd1848efd9&term_occur=33&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) for [purposes](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=a79748f585452c9cf3a98317b29ec6c8&term_occur=22&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) of the 2 percent [rule](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=b04f1e5df4e380d5066b18d28d577040&term_occur=2&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) is .528 percent, determined by -

**(A)** Dividing the number of units sold through a matching service that did not meet the [requirements](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=3aef79d3d4a2922fbfd0ce279d3ed2db&term_occur=5&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) of [paragraph (g)](https://www.law.cornell.edu/cfr/text/26/1.7704-1#g) of this section (50) by the total number of outstanding limited [partnership](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=085835d6cda49ef51ecda9348fc5893e&term_occur=71&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) units (9,000); and

**(B)** Multiplying the [result](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=8fc1e1636dc887fa2eb5285e292a8cd2&term_occur=4&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) by the percentage of total [interests](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=8e83046407fe273f9396d8e57f9d27a9&term_occur=57&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) represented by limited [partnership](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=085835d6cda49ef51ecda9348fc5893e&term_occur=72&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) units (95 percent)

([50 / 9,000] × .95 = .528 percent).

**Example 2. Application of the 2 percent rule.**

**(i)** ABC operates a service consisting of computerized video display screens on which subscribers view and publish nonfirm price quotes that do not commit any person to buy or sell a partnership interest and unpriced indications of interest in a partnership interest without an accompanying price. The ABC service does not provide firm quotes at which any person (including the operator of the service) is committed to buy or sell a partnership interest. The service may provide prior pricing information, including information regarding resales of interests and actual prices paid for interests; transactional volume information; and information on special or capital distributions by a partnership. The operator's fee may consist of a flat fee for use of the service; a fee based on completed transactions, including, for example, the number of nonfirm quotes or unpriced indications of interest entered by users of the service; or any combination thereof.

**(ii)** The ABC service is not an [established securities market](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=13de9c63e66e3fe92482f8decc1f14f8&term_occur=6&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) for [purposes](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=a79748f585452c9cf3a98317b29ec6c8&term_occur=23&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) of section 7704(b) and this section. The service is not an interdealer quotation system as [defined](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=9bc15e20ef3eaa4f45fd661aa756d465&term_occur=9&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) in[paragraph (b)(5)](https://www.law.cornell.edu/cfr/text/26/1.7704-1#b_5) of this section because it does not disseminate firm buy or sell quotations. Therefore, [partnerships](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=2e1f8084b495b96de236e5e65bbb5732&term_occur=1&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) whose [interests](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=8e83046407fe273f9396d8e57f9d27a9&term_occur=58&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) are listed and [transferred](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=4cba463023ee77fb70acd1cd1848efd9&term_occur=34&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) on the ABC service are not [publicly traded](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=a2aafe3451d91399ee7118eeb03755d7&term_occur=2&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) for [purposes](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=a79748f585452c9cf3a98317b29ec6c8&term_occur=24&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) of section 7704(b) and this section as a [result](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=8fc1e1636dc887fa2eb5285e292a8cd2&term_occur=5&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) of such listing or [transfers](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=4cba463023ee77fb70acd1cd1848efd9&term_occur=35&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) if the sum of the percentage [interests](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=8e83046407fe273f9396d8e57f9d27a9&term_occur=59&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) in [partnership](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=085835d6cda49ef51ecda9348fc5893e&term_occur=73&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1)capital or profits [transferred](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=4cba463023ee77fb70acd1cd1848efd9&term_occur=36&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) during the [taxable year](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=8a2837bd45f19a50d5183d6f43bb65dc&term_occur=6&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) of the [partnership](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=085835d6cda49ef51ecda9348fc5893e&term_occur=74&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) (other than in [transfers](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=4cba463023ee77fb70acd1cd1848efd9&term_occur=37&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) described in paragraph [(e)](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=d60b76a7b77d2b74eb7258662eba9fa2&term_occur=3&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1), [(f)](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=61d8903e7a8b0f9eae4510fecb7eb155&term_occur=3&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1), or [(g)](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=25302f42315815ddf27a930ab6743b6f&term_occur=3&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) of this section) does not exceed 2 percent of the total [interests](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=8e83046407fe273f9396d8e57f9d27a9&term_occur=60&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) in [partnership](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=085835d6cda49ef51ecda9348fc5893e&term_occur=75&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) capital or profits. In addition, assuming the ABC service complies with the necessary [requirements](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=d69671bafbf1e63d01e0dfe4f849481a&term_occur=1&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1), the service may qualify as a matching service described in [paragraph (g)](https://www.law.cornell.edu/cfr/text/26/1.7704-1#g) of this section.

**(k)*Percentage interests in partnership capital or profits*** -

**(1)*Interests considered*** -

**(i)*General rule.*** Except as otherwise provided in this paragraph [(k)](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=ff986a909c89e832a22e8f12852f5b38&term_occur=1&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1), for [purposes](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=a79748f585452c9cf3a98317b29ec6c8&term_occur=25&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) of this section, the total [interests](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=8e83046407fe273f9396d8e57f9d27a9&term_occur=61&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) in [partnership](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=085835d6cda49ef51ecda9348fc5893e&term_occur=76&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) capital or profits are determined by reference to all outstanding [interests](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=8e83046407fe273f9396d8e57f9d27a9&term_occur=62&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1) in the [partnership](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=085835d6cda49ef51ecda9348fc5893e&term_occur=77&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:20:1.7704-1).

**(ii)*Exceptions*** -

**Treas. Regulation § 1.7704-1 Publicly traded partnerships.**

**(a)** ***In general—***

**(1)** ***Publicly traded partnership.***A domestic or foreign partnership is a publicly traded partnership for purposes of section 7704(b) and this section if—

**(i)** Interests in the partnership are traded on an established securities market; or

**(ii)** Interests in the partnership are readily tradable on a secondary market or the substantial equivalent thereof.

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