

116TH CONGRESS
1ST SESSION

S. 1639

To amend the Internal Revenue Code of 1986 to revise the treatment of partnership interests received in connection with the performance of services, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MAY 23 (legislative day, MAY 22), 2019

Mr. WYDEN (for himself and Mr. WHITEHOUSE) introduced the following bill;
which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to revise the treatment of partnership interests received in connection with the performance of services, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Ending the Carried
5 Interest Loophole Act”.

1 **SEC. 2. PARTNERSHIP INTERESTS TRANSFERRED IN CON-**
2 **NECTION WITH PERFORMANCE OF SERVICES.**

3 (a) MODIFICATION OF ELECTION TO INCLUDE PART-
4 NERSHIP INTEREST IN GROSS INCOME IN YEAR OF
5 TRANSFER.—Subsection (c) of section 83 is amended by
6 redesignating paragraph (4) as paragraph (5) and by in-
7 serting after paragraph (3) the following new paragraph:

8 “(4) PARTNERSHIP INTERESTS.—Except as
9 provided by the Secretary—

10 “(A) IN GENERAL.—In the case of any
11 transfer of an interest in a partnership in con-
12 nection with the performance of services for (or
13 for the benefit of) such partnership—

14 “(i) the fair market value of such in-
15 terest shall be treated for purposes of this
16 section as being equal to the amount of the
17 distribution which the partner would re-
18 ceive if the partnership sold (at the time of
19 the transfer) all of its assets at fair market
20 value and distributed the proceeds of such
21 sale (reduced by the liabilities of the part-
22 nership) to its partners in liquidation of
23 the partnership, and

24 “(ii) the person receiving such interest
25 shall be treated as having made the elec-
26 tion under subsection (b)(1) unless such

1 person makes an election under this para-
2 graph to have such subsection not apply.

3 “(B) COORDINATION WITH OTHER PART-
4 NERSHIP RULES.—Except as otherwise provided
5 by the Secretary, if, by reason of subparagraph
6 (A), subsection (b)(1) applies to a partnership
7 interest transferred to a person, then the
8 amount included in the gross income of such
9 person by reason of such subsection shall (at
10 the time of the transfer)—

11 “(i) be treated as an addition to the
12 capital account of such person with respect
13 to such partnership for purposes of sub-
14 chapter K, and

15 “(ii) if such interest is an applicable
16 partnership interest under section 1299 at
17 any time, be treated as invested capital of
18 such person with respect to such interest
19 for purposes of such section.

20 “(C) ELECTION.—The election under sub-
21 paragraph (A)(ii) shall be made under rules
22 similar to the rules of subsection (b)(2).

23 “(D) PARTNERSHIP INTEREST.—

24 “(i) IN GENERAL.—For purposes of
25 this paragraph, any applicable financial in-

1 strument or contract (as defined in section
2 1299(b)(2)(B)) or interest in an entity
3 other than a partnership which is treated
4 as an applicable partnership interest under
5 section 1299(b)(2) shall be treated as an
6 interest in a partnership.

7 “(ii) REGULATIONS.—The Secretary
8 shall by regulations provide rules for the
9 application of this paragraph to applicable
10 financial instruments or contracts (as so
11 defined) or interests in entities other than
12 partnerships which are treated as partner-
13 ship interests under clause (i).”.

14 (b) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to interests in partnerships trans-
16 ferred after the date of the enactment of this Act.

17 **SEC. 3. TREATMENT OF CERTAIN PARTNERSHIP INTER-**
18 **ESTS RECEIVED IN CONNECTION WITH PER-**
19 **FORMANCE OF SERVICES.**

20 (a) IN GENERAL.—Subchapter P of chapter 1 of the
21 Internal Revenue Code of 1986 is amended by adding at
22 the end the following new part:

1 **“PART VII—TREATMENT OF CERTAIN PARTNER-**
2 **SHIP INTERESTS RECEIVED IN CONNECTION**
3 **WITH PERFORMANCE OF SERVICES**

“Sec. 1299. Treatment of certain partnership interests received in connection with performance of services.

4 **“SEC. 1299. TREATMENT OF CERTAIN PARTNERSHIP INTER-**
5 **ESTS RECEIVED IN CONNECTION WITH PER-**
6 **FORMANCE OF SERVICES.**

7 “(a) IN GENERAL.—In the case of a taxpayer who
8 holds 1 or more applicable partnership interests in any
9 partnership at any time during any taxable year of the
10 partnership ending with or within the taxable year of the
11 taxpayer—

12 “(1) there shall be included in the gross income
13 of the taxpayer as ordinary income an amount equal
14 to the aggregate of the deemed compensation
15 amounts determined under subsection (c) with re-
16 spect to such interests in all partnerships, and

17 “(2) the taxpayer shall be treated as having for
18 such taxable year of the taxpayer a long-term capital
19 loss equal to the aggregate of such deemed com-
20 pensation amounts.

21 “(b) APPLICABLE PARTNERSHIP INTEREST.—For
22 purposes of this section—

1 “(1) IN GENERAL.—Except as provided in this
2 subsection, the term ‘applicable partnership interest’
3 means any interest in a partnership which—

4 “(A) is directly or indirectly transferred to
5 (or held by) the taxpayer in connection with the
6 performance of services by the taxpayer, or any
7 other person, in any applicable trade or busi-
8 ness, or

9 “(B) is held by a taxpayer who received an
10 applicable loan.

11 Such term shall not include any interest which is ac-
12 quired pursuant to a sale or disposition to which
13 subsection (c)(5) applies.

14 “(2) DETERMINATION OF INTEREST IN A PART-
15 NERSHIP.—

16 “(A) IN GENERAL.—For purposes of para-
17 graph (1), the term ‘interest in a partnership’
18 includes—

19 “(i) any applicable financial instru-
20 ment or contract, or

21 “(ii) to the extent provided by the
22 Secretary, any interest in an entity other
23 than a partnership if such interest would
24 be treated as an applicable partnership in-
25 terest if such entity were a partnership.

1 “(B) APPLICABLE FINANCIAL INSTRUMENT
2 OR CONTRACT.—For purposes of this para-
3 graph—

4 “(i) IN GENERAL.—The term ‘applica-
5 ble financial instrument or contract’ means
6 any financial instrument or contract the
7 value of which is determined in whole or in
8 part by reference to the partnership (in-
9 cluding the amount of partnership dis-
10 tributions, the value of partnership assets,
11 or the results of partnership operations).

12 “(ii) EXCEPTION FOR NON-CONVERT-
13 IBLE DEBT.—Such term shall not include
14 a financial instrument or contract if such
15 instrument or contract—

16 “(I) is treated as debt for Fed-
17 eral tax purposes, and

18 “(II) is not convertible into or
19 exchangeable for an interest in the
20 capital or profits of the partnership
21 and does not provide for a payment of
22 equivalent value.

23 “(3) APPLICABLE TRADE OR BUSINESS.—

24 “(A) IN GENERAL.—For purposes of para-
25 graph (1)(A), the term ‘applicable trade or

1 business' means any activity conducted on a
2 regular, continuous, and substantial basis
3 which, regardless of whether the activity is con-
4 ducted in one or more entities, consists, in
5 whole or in part, of—

6 “(i) raising or returning capital, and

7 “(ii) either—

8 “(I) investing in (including ac-
9 quiring or disposing of) specified as-
10 sets (or identifying specified assets for
11 such investing, acquisition, or disposi-
12 tion), or

13 “(II) developing specified assets.

14 “(B) SPECIFIED ASSETS.—

15 “(i) IN GENERAL.—The term ‘speci-
16 fied assets’ means securities, commodities,
17 real estate held for rental or investment,
18 cash or cash equivalents, options or deriva-
19 tive contracts with respect to any of the
20 foregoing, and an interest in a partnership
21 if such partnership has a direct or indirect
22 interest in any of the foregoing.

23 “(ii) SECURITIES.—For purposes of
24 clause (i), the term ‘securities’ has the

1 meaning given such term under section
2 475(e)(2), determined—

3 “(I) by applying subparagraph
4 (B) thereof without regard to whether
5 the interest is widely held or publicly
6 traded, and

7 “(II) without regard to the last
8 sentence thereof.

9 “(iii) COMMODITIES.—For purposes
10 of clause (i), the term ‘commodities’ has
11 the meaning given such term under section
12 475(e)(2), except that such term shall not
13 include commodities held in connection
14 with the active conduct of a commodities
15 business as a producer, processor, mer-
16 chant, or handler of commodities.

17 “(4) APPLICABLE LOAN.—

18 “(A) IN GENERAL.—The term ‘applicable
19 loan’ means, with respect to any partnership in-
20 terest, any loan issued directly or indirectly
21 from the partnership, any other partner of the
22 partnership, or any person related to such other
23 partner or such partnership.

24 “(B) SAFE HARBOR.—The term ‘applicable
25 loan’ does not include any loan which—

1 “(i) is fully recourse to the borrower
2 or fully secured by the borrower’s assets,
3 and

4 “(ii) requires payments of interest
5 with a stated rate not less than the speci-
6 fied rate determined under subsection
7 (c)(2).

8 “(c) DEEMED COMPENSATION AMOUNT.—For pur-
9 poses of this section—

10 “(1) DEEMED COMPENSATION AMOUNT.—

11 “(A) IN GENERAL.—The term ‘deemed
12 compensation amount’ means, with respect to
13 any applicable partnership interest for any
14 partnership taxable year, an amount equal to
15 the product of—

16 “(i) the specified rate determined
17 under paragraph (2) for the calendar year
18 in which such taxable year begins, multi-
19 plied by

20 “(ii) the excess (if any) of—

21 “(I) an amount equal to the ap-
22 plicable percentage of the weighted
23 average of the aggregate of invested
24 capital of all partners of the partner-

1 ship on each measurement date occur-
2 ring within such taxable year, over

3 “(II) the weighted average of in-
4 vested capital with respect to the ap-
5 plicable partnership interest on each
6 measurement date occurring within
7 such taxable year.

8 “(B) MEASUREMENT DATE.—For purposes
9 of subparagraph (A), the term ‘measurement
10 date’ means—

11 “(i) the last day of the partnership
12 taxable year,

13 “(ii) any date specified in the regula-
14 tions under subchapter K as a date on
15 which to revalue property of the partner-
16 ship for purposes of adjusting capital ac-
17 counts of the partner (without regard to
18 whether the partnership capital accounts
19 are adjusted on that date), and

20 “(iii) any other date specified by the
21 Secretary.

22 “(2) SPECIFIED RATE.—The term ‘specified
23 rate’ means, with respect to any calendar year, a
24 percentage equal to the sum of—

1 “(A) the first segment rate (as defined in
2 section 430(h)(2)(C)(i)) for the first month of
3 such calendar year, plus

4 “(B) 9 percentage points.

5 “(3) APPLICABLE PERCENTAGE.—

6 “(A) IN GENERAL.—The term ‘applicable
7 percentage’ means, with respect to any applica-
8 ble partnership interest, the highest percentage
9 of profits of the partnership which could be al-
10 located to such interest (consistent with the
11 partnership agreement and determined as if all
12 performance targets with respect to such inter-
13 est had been met).

14 “(B) SECRETARIAL AUTHORITY.—The Sec-
15 retary shall prescribe rules for the determina-
16 tion of the applicable percentage in cases in
17 which the percentage of profits of a partnership
18 which may be allocated to the applicable part-
19 nership interest under the partnership agree-
20 ment may temporarily exceed the highest per-
21 centage determined under subparagraph (A).

22 “(4) INVESTED CAPITAL.—

23 “(A) IN GENERAL.—The term ‘invested
24 capital’ means, with respect to any partner as
25 of any day, the excess of—

1 “(i) the sum of—

2 “(I) the total cumulative value,
3 determined at the time of contribu-
4 tion, of all money or other property
5 contributed by the partner to the
6 partnership on or before such day (net
7 of any liabilities the partnership is
8 considered to assume or take subject
9 to), plus

10 “(II) the aggregate amounts of
11 the partner’s distributive share of in-
12 come and gain (other than unrealized
13 gains resulting from revaluations of
14 partnership property) as of such day,
15 over

16 “(ii) the sum of—

17 “(I) the aggregate value, deter-
18 mined at the time of distribution, of
19 all money or other property distrib-
20 uted to the partner from the partner-
21 ship on or before such day (net of any
22 liabilities the partner is considered to
23 assume or take subject to), plus

24 “(II) the aggregate amount of
25 the partner’s distributive share of loss

1 and deductions of the partnership as
2 of such day (determined without re-
3 gard to unrealized losses resulting
4 from revaluations of partnership prop-
5 erty).

6 “(B) TREATMENT OF RELATED PARTY
7 BORROWINGS.—For purposes of paragraph
8 (1)(A), the amount of invested capital with re-
9 spect to any applicable partnership interest
10 shall be reduced by the amount of any applica-
11 ble loan to a partner who is described in sub-
12 section (b)(1)(B).

13 “(5) ACCELERATED INCLUSION IN CASE OF
14 DISPOSITION OF APPLICABLE PARTNERSHIP INTER-
15 EST.—

16 “(A) IN GENERAL.—If a taxpayer who
17 holds an applicable partnership interest sells or
18 disposes of any portion of such interest during
19 a taxable year in the applicable period, the
20 amount determined under this subsection for
21 such taxable year shall be the sum of—

22 “(i) the amount determined under
23 paragraph (1) for the taxable year (deter-
24 mined as if no such sale or disposition had
25 occurred), plus

1 “(ii) an amount equal to the product
2 of—

3 “(I) the excess of the amount de-
4 termined under clause (i) over the
5 amount determined under paragraph
6 (1) for the taxable year, and

7 “(II) the number of taxable years
8 beginning after the date of the sale or
9 disposition and before the last day of
10 the applicable period.

11 “(B) APPLICABLE PERIOD.—For purposes
12 of this paragraph, the applicable period is the
13 10-year period beginning on the later of—

14 “(i) the date the taxpayer acquired
15 the applicable partnership interest, or

16 “(ii) the last date described in para-
17 graph (1)(B)(ii) on which there was an in-
18 crease in the amount of the taxpayers ap-
19 plicable percentage of the aggregate in-
20 vested capital of all partners of the part-
21 nership.

22 “(6) MULTIPLE INTERESTS.—If at any time
23 during a taxable year a taxpayer holds directly or in-
24 directly more than 1 applicable partnership interest
25 in a single partnership, such interests shall be treat-

1 ed as 1 applicable partnership interest for purposes
2 of applying this subsection.

3 “(d) RELATED PERSON.—For purposes of this sec-
4 tion, a person shall be treated as related to another person
5 if the relationship between such persons would be de-
6 scribed in section 267(b) or 707(b).

7 “(e) REPORTING.—A partnership shall report to the
8 Secretary, and include with the information required to
9 be furnished under section 6031(b) to each partner, the
10 amount of the partner’s deemed compensation amount for
11 the taxable year, if any. A similar rule applies to any enti-
12 ty that receives a report of a deemed compensation
13 amount for the taxable year.

14 “(f) REGULATIONS.—The Secretary shall issue such
15 regulations or other guidance as necessary to carry out
16 this section, including regulations—

17 “(1) to prevent the abuse of the purposes of
18 this section, including through—

19 “(A) the allocation of income to tax indif-
20 ferent parties, or

21 “(B) a reduction or increase in the in-
22 vested capital of any partner (including at-
23 tempts to undervalue or overvalue property),

24 “(2) which provide for the application of the
25 rules of subsection (c) to applicable financial instru-

1 ments and contracts and to entities other than part-
2 nerships,

3 “(3) which provide that partnership interests
4 shall not fail to be treated as transferred or held in
5 connection with the performance of services merely
6 because the taxpayer also made contributions to the
7 partnership,

8 “(4) which provide in appropriate circumstances
9 for purposes of this section the aggregation of assets
10 held by related partnerships or for the
11 disaggregation of assets within 1 partnership,

12 “(5) which provide for the application of this
13 section in cases of tiered structures or entities,

14 “(6) which provide guidance with respect to for-
15 giveness of any loan described in subsection
16 (b)(4)(B), and

17 “(7) which provide rules for transfers or liq-
18 uidations of applicable partnership interests by gift,
19 inheritance, substituted basis transactions, and other
20 transactions in which income is not recognized at
21 the time of the transaction.”.

22 (b) CONFORMING AMENDMENTS.—

23 (1)(A) Part IV of subchapter O of chapter 1 of
24 the Internal Revenue Code of 1986 is amended by
25 striking section 1061.

1 (B) The table of sections for part IV of sub-
2 chapter O of chapter 1 of such Code is amended by
3 striking the item relating to section 1061.

4 (2) The table of parts for subchapter P of such
5 Code is amended by adding at the end the following
6 new item:

 “PART VII—TREATMENT OF CERTAIN PARTNERSHIP INTERESTS RECEIVED
 IN CONNECTION WITH PERFORMANCE OF SERVICES”.

7 (c) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to taxable years of a taxpayer be-
9 ginning after date of enactment of this Act, with or within
10 which ends the taxable year of a partnership which begins
11 after such date.

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