

**Internal Revenue Service, Treasury**

**§ 7.704-1**

for this paragraph) would be less than zero, the amount at risk on the effective date shall be zero.

[T.D. 7504, 42 FR 42197, Aug. 22, 1977]

**§ 7.465-3 Allocation of loss for different taxable years.**

If the taxable year of the entity conducting the activity differs from that of the taxpayer, the loss attributable to the activity for the first taxable year of the entity ending after the beginning of the first taxable year of the taxpayer beginning after December 31, 1975, shall be allocated in the following manner. That portion of the loss from the activity for such taxable year of the entity which bears the same ratio as the number of days in such taxable year before January 1, 1976, divided by the total number of days in the taxable year, shall be attributable to taxable years of the taxpayer beginning before January 1, 1976. Consequently, that portion shall be treated in accordance with § 7.465-2.

[T.D. 7504, 42 FR 42198, Aug. 22, 1977]

**§ 7.465-4 Insufficient records.**

If sufficient records do not exist to accurately determine under § 7.465-2 the amount which a taxpayer is at risk on the effective date, the amount at risk shall be the taxpayer's basis in the activity reduced (but not below zero) by the taxpayer's share of amounts described in section 465(b) (3) or (4) with respect to the activity on the day before the effective date.

[T.D. 7504, 42 FR 42198, Aug. 22, 1977]

**§ 7.465-5 Examples.**

The provisions of § 7.465-1 and § 7.465-2 may be illustrated by the following examples:

*Example (1).* J and K, as equal partners, form partnership JK on January 1, 1975. Partnership JK is engaged solely in an activity described in section 465(c)(1). On January 1, 1975, each partner contributes \$10,000 in cash from personal assets to JK. On July 1, 1975, JK borrows \$40,000 (of which J's share is \$20,000) from a bank under a nonrecourse financing arrangement secured only by the new equipment (for use in the activity) purchased with the \$40,000. On September 1, 1975, JK reduces the amount due on the loan to \$36,000 (of which J's share is \$18,000). On October 1, 1975, JK distributes \$3,000 to each

partner. For taxable year 1975, JK has no income or loss. Although J's basis in the activity is \$25,000 (\$10,000+\$18,000-\$3,000) J's amount at risk on the effective date is \$7,000 determined as follows:

Initial amount at risk .....	\$10,000
Plus: Items which increased basis other than amounts described in sec. 465(b) (3) or (4) .....	0
<b>Total .....</b>	<b>10,000</b>
Less: Distribution .....	3,000
<b>J's amount at risk on effective date .....</b>	<b>7,000</b>

*Example (2).* Assume the same facts as in Example (1) except that JK has a loss (as described in section 465(d) for 1975 of which J's share is \$12,000. Although J's basis in the activity is \$13,000 (\$10,000+\$18,000-\$3,000+\$12,000) J's amount at risk on the effective date is \$7,000 determined as follows:

Initial amount at risk .....	\$10,000
Plus: Items which increased basis other than amounts described in sec. 465(b) (3) or (4) .....	0
<b>Total .....</b>	<b>10,000</b>
Less: Distribution .....	3,000
Portion of loss (\$12,000) in excess of portion of basis not at risk (\$18,000) .....	0
<b>Total .....</b>	<b>3,000</b>
<b>J's amount at risk on effective date .....</b>	<b>7,000</b>

*Example (3).* Assume the same facts as in Example (1) except that JK has a loss (as described in section 465(d) for 1975, and J's share is \$23,000. J's basis in the activity is \$2,000 (\$10,000+\$18,000-\$3,000+\$23,000)). The amount at risk on the effective date is determined as follows:

Initial amount at risk .....	\$10,000
Plus: Items which increased basis other than amounts described in sec. 465(b) (3) or (4) .....	0
<b>Total .....</b>	<b>10,000</b>
Less: Distribution .....	3,000
Portion of loss (\$23,000) in excess of portion of basis not at risk (\$18,000) .....	5,000
<b>Total .....</b>	<b>8,000</b>
<b>J's amount at risk on the effective date .....</b>	<b>2,000</b>

[T.D. 7504, 42 FR 42198, Aug. 22, 1977]

**§ 7.704-1 Partner's distributive share.**

- (a)-(c) [Reserved]
- (d) *Limitation on allowance of losses.*
- (1)-(2) [Reserved]
- (3)(i) Section 213(e) of the Tax Reform Act of 1976 amended section 704(d) of the Internal Revenue Code relating to the deductions by partners of losses incurred by a partnership. A partner is entitled to deduct the share of partnership loss to the extent of the adjusted basis of the partner's interest in the

partnership. As amended, section 704(d) provides, in general, that the adjusted basis of a partner's interest in the partnership for the purpose of deducting partnership losses shall not include any portion of a partnership liability for which the partner has no personal liability. This restriction, however, does not apply to any activity to the extent that section 465 of the Code applies nor to any partnership whose principal activity is investing in real property, other than mineral property. Section 465 does not apply to corporations other than a subchapter S corporation or a personal holding company.

(ii) The restrictions in the amendment to section 704(d) will not apply to any corporate partner with respect to liabilities incurred in an activity described in section 465(c)(1). In all other respects the restrictions in the amendment will apply to all corporate partners unless the partnership's principal activity is investment in real property, other than mineral property.

[T.D. 7445, 41 FR 55344, Dec. 20, 1976]

**§7.936-1 Qualified possession source investment income.**

For purposes of this section, interest earned after September 30, 1976 (less applicable deductions), by a domestic corporation, engaged in the active conduct of a trade or business in Puerto Rico, which elects the application of section 936 with respect to deposits with certain Puerto Rican financial institutions will be treated as qualified possession source investment income within the meaning of section 936(d)(2) if (1) the interest qualifies for exemption from Puerto Rican income tax under regulations issued by the Secretary of the Treasury of Puerto Rico, as in effect on September 28, 1976, under the authority of section 2(j) of the Puerto Rico Industrial Incentive Act of 1963, as amended, (2) the interest is from sources within Puerto Rico (within the meaning of section 936(d)(2)(A)), and (3) the funds with respect to which the interest is earned are derived from the active conduct of a trade or business in Puerto Rico or from investment of funds so derived.

[T.D. 7452, 41 FR 56794, Dec. 30, 1976]

**§7.999-1 Computation of the international boycott factor.**

(a) *In general.* Sections 908(a), 952(a)(3), and 995(b)(1)(F) provide that certain benefits of the foreign tax credit, deferral of earnings of foreign corporations, and DISC are denied if a person or a member of a controlled group (within the meaning of section 993(a)(3)) that includes that person participates in or cooperates with an international boycott (within the meaning of section 999(b)(3)). The loss of tax benefits may be determined by multiplying the otherwise allowable tax benefits by the "international boycott factor." Section 999(c)(1) provides that the international boycott factor is to be determined under regulations prescribed by the Secretary. The method of computing the international boycott factor is set forth in paragraph (c) of this section. A special rule for computing the international boycott factor of a person that is a member of two or more controlled groups is set forth in paragraph (d). Transitional rules for making adjustments to the international boycott factor for years affected by the effective dates are set forth in paragraph (e). The definitions of the terms used in this section are set forth in paragraph (b).

(b) *Definitions.* For purposes of this section:

(1) *Boycotting country.* In respect of a particular international boycott, the term "boycotting country" means any country described in section 999(a)(1)(A) or (B) that requires participation in or cooperation with that particular international boycott.

(2) *Participation in or cooperation with an international boycott.* For the definition of the term "participation in or cooperation with an international boycott", see section 999(b)(3) and Parts H through M of the Treasury Department's International Boycott Guidelines.

(3) *Operations in or related to a boycotting country.* For the definitions of the terms "operations", "operations in a boycotting country", "operations related to a boycotting country", and "operations with the government, a company, or a national of a boycotting country", see Part B of the Treasury