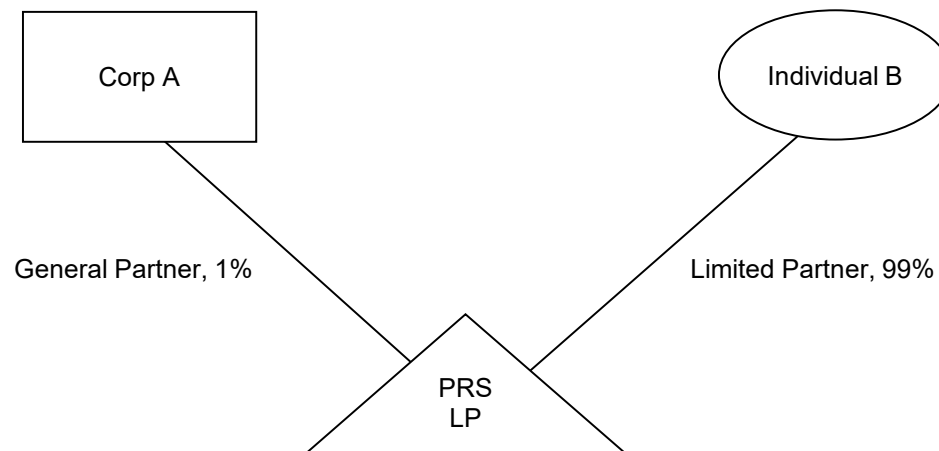


**Reg. 1.701-2(d),  
Example 1**

**Avoidance of Entity-Level Tax**

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A and B form limited partnership PRS to conduct a bona fide business. A, the corporate general partner, has a 1% partnership interest. B, the individual limited partner, has a 99% interest. PRS is properly classified as a partnership under Reg. 301.7701-2 and Reg. 301.7701-3. A and B chose limited partnership form as a means to provide B with limited liability without subjecting the income from the business operations to an entity-level tax.

Subchapter K is intended to permit taxpayers to conduct joint business activity through a flexible economic arrangement without incurring an entity-level tax. Although B has retained, indirectly, substantially all of the benefits and burdens of ownership of the money or property B contributed to PRS, the decision to organize and conduct business through PRS under these circumstances is consistent with this intent. In addition, on these facts, the requirements of Reg. 1.701-2(a)(1), (2), and (3) have been satisfied. The Commissioner therefore cannot invoke Reg. 1.701-2(b) to recast the transaction.

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