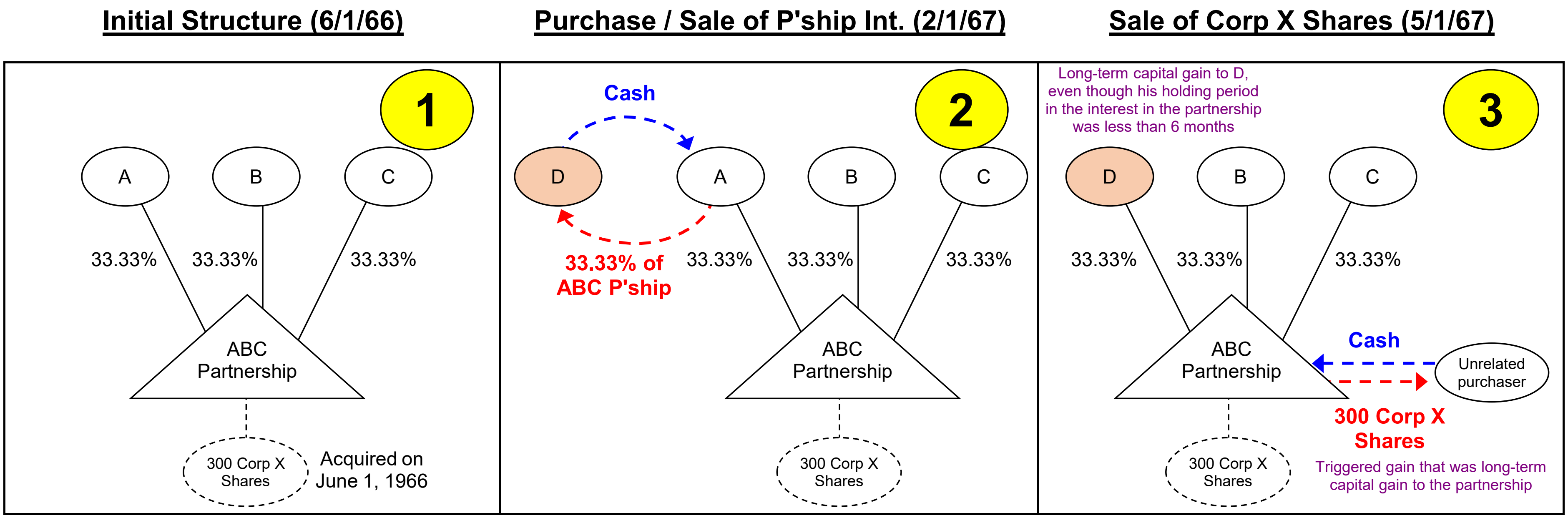
Revenue Ruling 68-79

Gain Flowing to Partner Was Long-Term, Even Though Holding Period For Partnership Interest Was Less Than 6 Months



A, B and C were equal partners in ABC partnership. On June 1, 1966, the partnership acquired 300 shares of X corporation stock as an investment. On February 1, 1967, A sold his partnership interest to new partner D. On May 1, 1967, the partnership sold at a gain the 300 shares of X stock (at which time D's holding period for his partnership interest was not more than six months). Section 1222(3) defines the term "long-term capital gain" as gain from the sale or exchange of a capital asset held for more than six months, if and to the extent that such gain is taken into account in computing gross income. Section 702(a) provides that in determining his income tax, each partner shall take into account separately his distributive share of the partnership's gains and losses from sales or exchanges of capital assets held for more than six months. Section 702(b) provides that the character of any item of income, gain, loss, deduction, or credit included in a partner's distributive share under paragraphs (1) through (8) of subsection (a) shall be determined as if such item were realized directly from the source from which realized by the partnership, or incurred in the same manner as incurred by the partnership. Since the ABC partnership held the X stock for more than six months, the gain realized by the partnership is long-term capital gain. Accordingly, in computing his gross income, D should take into account separately in his return, as long-term capital gain, his distributive share of the partnership's long-term capital gain arising from the sale by the partnership of X corporation stock held by it as an investment for more than six months, notwithstanding that D has a holding period for his partnership interest of not more than six months.