

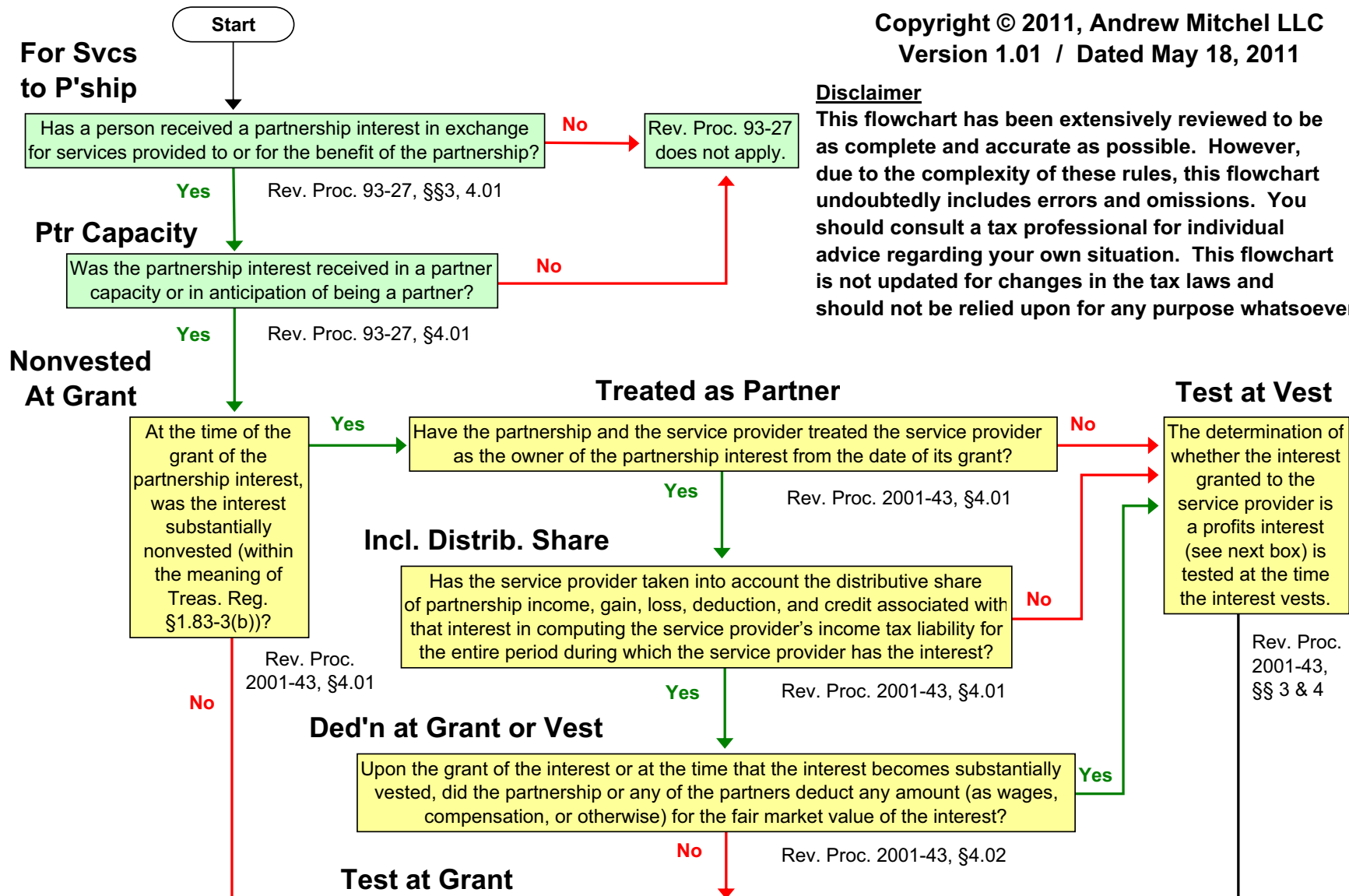
Rev. Proc. 93-27: Taxation of Profits Interests

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This flowchart has been extensively reviewed to be as complete and accurate as possible. However, due to the complexity of these rules, this flowchart undoubtedly includes errors and omissions. You should consult a tax professional for individual advice regarding your own situation. This flowchart is not updated for changes in the tax laws and should not be relied upon for any purpose whatsoever.



Test at Grant

Rev. Proc. 2001-43, §4.02

The determination of whether the interest granted to the service provider is a profits interest (see next box) is tested at the time the interest is granted, even if no section 83(b) election election has been made.

Rev. Proc. 2001-43, §§ 3 & 4

Share of Liquidation Proceeds

At the time of receipt of the partnership interest, if the partnership's assets were sold at fair market value and then the proceeds were distributed in a complete liquidation of the partnership, would the holder of the partnership interest (i.e., the service provider) receive a share of the proceeds?

Yes

Capital Interest

The partnership interest received is a capital interest.

Rev. Proc. 93-27, §2.01

Taxable

The receipt of a vested capital interest, or the vesting of a capital interest, is taxable as compensation.

Treas. Reg. §§1.83-3(b) and 1.721-1(b)(1)

Profits Interest

No

Rev. Proc. 93-27, §2.01

The partnership interest received is a profits interest.

Rev. Proc. 93-27, §2.01

Pred. Stream

Does the profits interest relate to a substantially certain and predictable stream of income from partnership assets, such as income from high-quality debt securities or a high-quality net lease?

Yes

No

Rev. Proc. 93-27, §4.02(1)

Disp. w/n 2 Yrs

Does the partner dispose of the profits interest within two years of receipt?

Yes

No

Rev. Proc. 93-27, § 4.02(2)

PTP

Is the profits interest a limited partnership interest in a "publicly traded partnership" within the meaning of Code §7704(b)?

Yes

No

Rev. Proc. 93-27, §4.02(3)

Not Taxable

The receipt and/or vesting of the profits interest will not be treated as a taxable event for the partner or the partnership.

Rev. Proc. 93-27, §4.01

Possibly Taxable

The receipt of the partnership profits interest may or may not be taxable upon receipt.

Campbell v. Commr., 943 F.2d 815 (8th Cir. 1991). *St. John v. U. S.*, No. 82-1134 (C.D. Ill. Nov. 16, 1983). *Diamond v. Commr.*, 56 T.C. 530 (1971), aff'd, 492 F.2d 286 (7th Cir. 1974).

See Notice 2005-43 for a proposed (but not yet effective) revenue procedure which would obsolete Rev. Rul. 93-27. Legislative proposals relating to the taxation of carried interests may also change these rules.