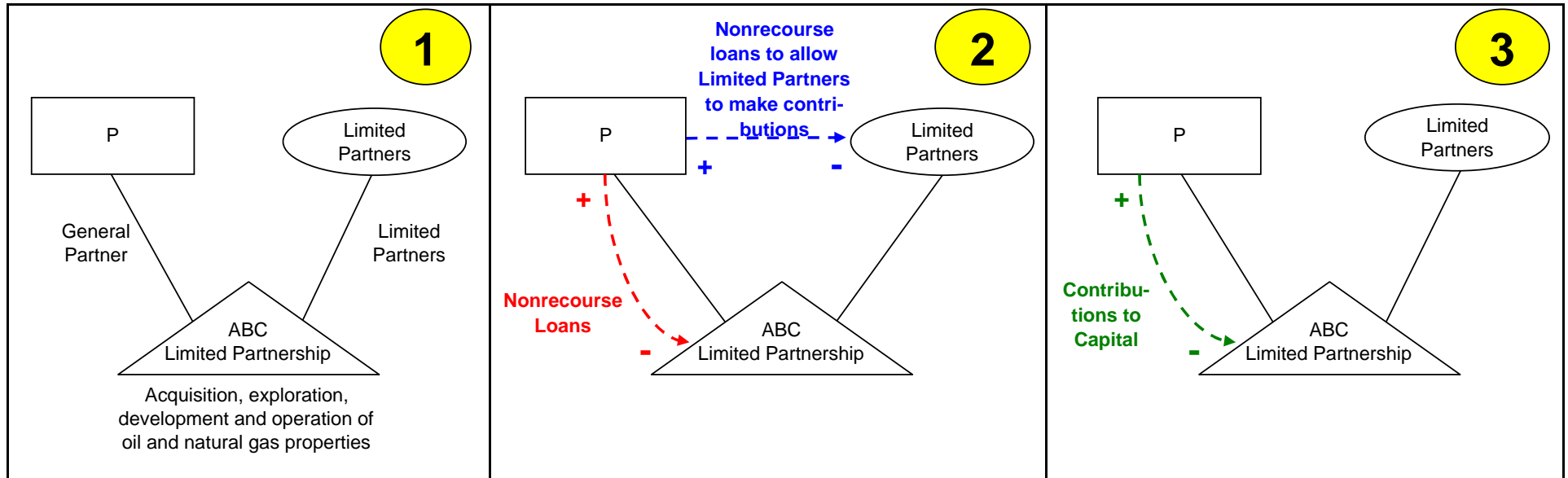


Nonrecourse Loans Recharacterized as Contributions to Capital

Initial Structure

Nonrecourse Loans

Recharacterization



ABC, Ltd., is a limited partnership engaged in the acquisition, exploration, development and operation of oil and natural gas properties in which P is the general partner. The limited partners are those investors who have subscribed to a public offering of limited partnership interests in ABC. The limited partnership agreement provides that P may loan, on a nonrecourse basis, to limited partners, a portion of their subscription in ABC. The agreement further provides that P may make loans, on a nonrecourse basis, to the partnership.

The ruling held that a nonrecourse "loan" from the general partner to a limited partner or to the partnership is a contribution to the capital of the partnership by the general partner, rather than a loan, and accordingly, the amount thereof shall be added to the basis of the partnership interest of the general partner and not to the basis of the partnership interest of the limited partner.