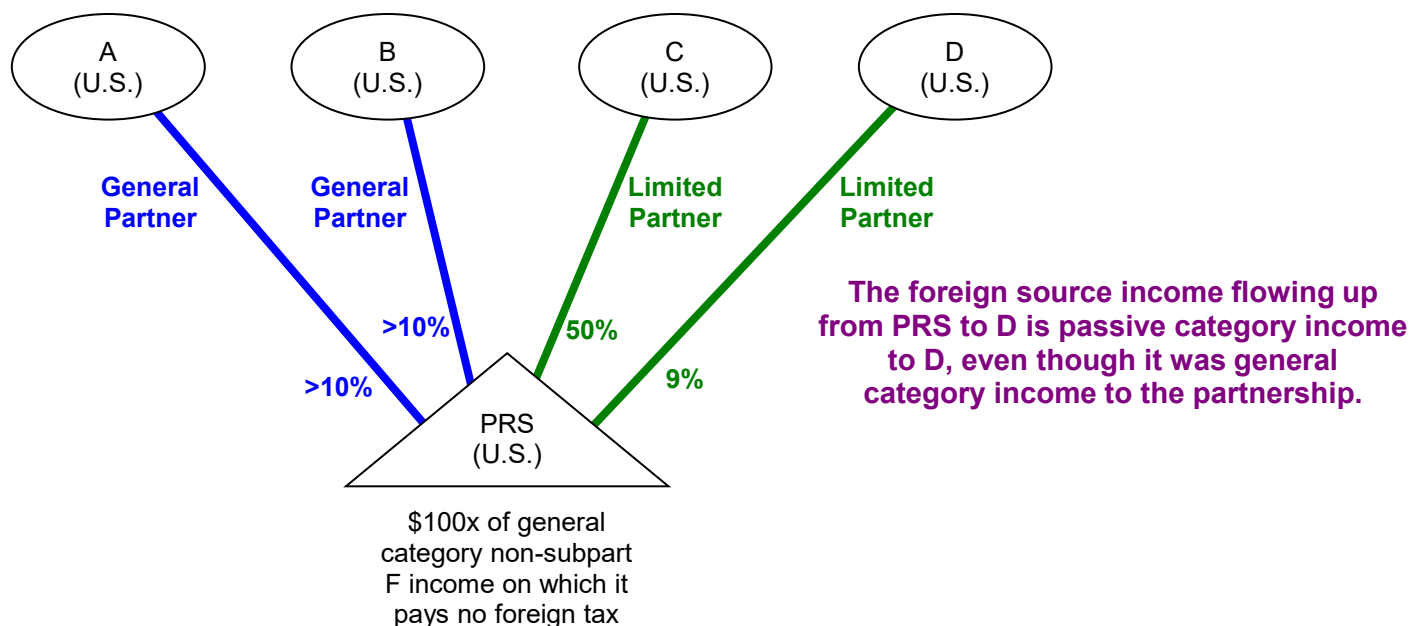


Reg. 1.904-4(n)(4), Example

Passive Income For Less Than 10% Limited Partner

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PRS is a domestic partnership. PRS has two general partners, A and B. A and B each have a greater than 10% interest in PRS. PRS also has two limited partners, C and D. C has a 50% interest in the partnership and D has a 9% interest. D's partnership interest is not held in the ordinary course of business. A, B, C and D are all United States persons. In Year 1, PRS has \$100x of general category non-subpart F income on which it pays no foreign tax.

Under Reg. 1.904-4(n)(1)(i), A's, B's, and C's distributive shares of PRS's income are not passive category income. Under Reg. 1.904-4(n)(1)(ii)(A), because D is a limited partner with a less than 10% interest in PRS, D's distributive share of PRS's income is passive category income.

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