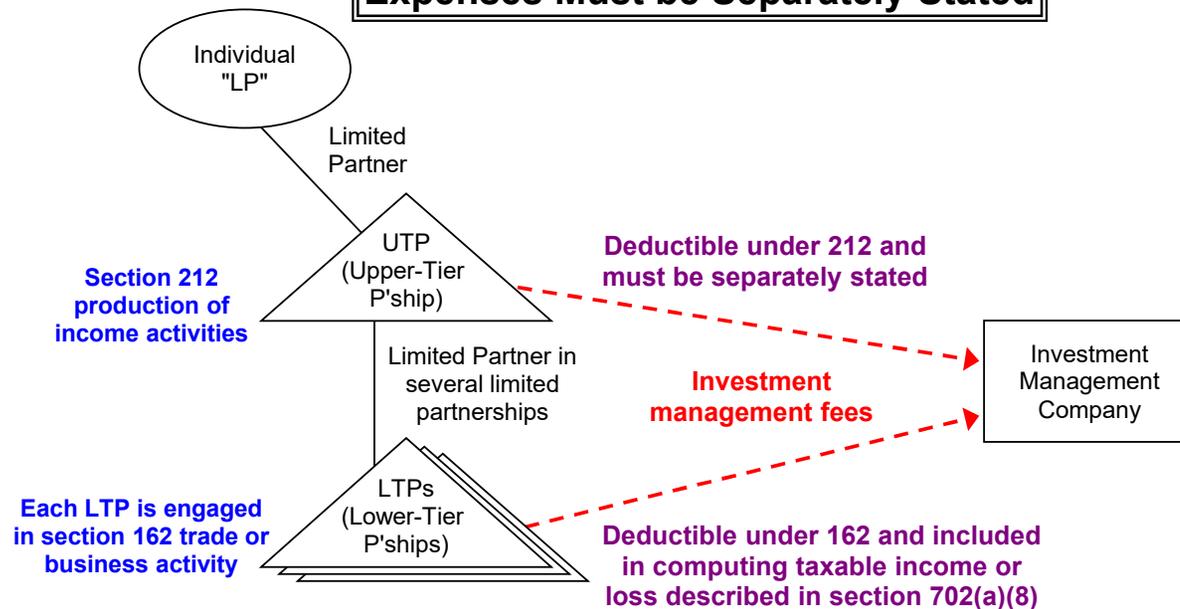


**Upper-Tier Partnership Sec. 212 Expenses Must be Separately Stated**



LP, an individual, owns a limited partnership interest in upper-tier partnership (UTP). UTP owns limited partnership interests in several lower-tier partnerships (LTPs). Each LTP is engaged in the business of trading in securities and such business constitutes a trade or business within the meaning of section 162. UTP's activities consist solely of acquiring, holding, and disposing of interests in LTPs, and such activities, without regard to the activities of LTPs, do not constitute a trade or business within the meaning of section 162. Instead, UTP's activities (without regard to the activities of LTPs) consist of holding limited partnership interests in LTPs for the production of income within the meaning of section 212. UTP and each LTP pay an annual management fee to their respective managers in consideration for management services performed for their benefit. Each management fee is computed as a specified percentage of the value of the net assets owned by UTP and each LTP, as the case may be.

The management fee paid or incurred by each LTP is an ordinary and necessary business expense within the meaning of section 162 in carrying on its trade or business. The management fee paid or incurred by UTP, without regard to the activities of LTP, is an ordinary and necessary expense in carrying on its investment activities. UTP's management fee is not paid or incurred by UTP on behalf of any LTP in connection with an LTP's trade or business. None of the management fees are properly capitalized under section 263.

The management fee paid or incurred by UTP constitutes an expense described in section 212. This expense is not taken into account in computing UTP's taxable income or loss described in section 702(a)(8). Instead, the management fee must be separately stated by UTP and separately taken into account by LP in computing LP's tax liability. The management fee paid or incurred by an LTP constitutes an expense described in section 162 and is taken into account in computing the LTP's taxable income or loss described in section 702(a)(8).