**8767. How is the tax treatment of a partner’s distributive share determined? When does a partner report income and loss?**

The character of any item of income, gain, loss, deduction, or credit in the hands of a partner is determined as if such item were realized directly from the source from which it was realized by the partnership, or incurred in the same manner as incurred by the partnership. For example, a partner’s distributive share of gain that stems from the sale of depreciable property used in the trade or business of the partnership is treated as though it was gain from the sale of the depreciable property in the hands of the partner. Similarly, a partner’s distributive share of partnership “hobby losses”[[1]](#footnote-1) or his distributive share of the partnership’s charitable contributions retains such character in the hands of the partner.[[2]](#footnote-2)

Where it is necessary to determine the amount or character of a partner’s gross income, the partner’s gross income includes the partner’s distributive share of the gross income of the partnership. This means the amount of partnership gross income from which the partner’s distributive share of partnership taxable income or loss was derived (including the various items listed above). For example, a partner is required to include his distributive share of partnership gross income in measuring his gross income for purposes of determining whether a partner is required to file a return.[[3]](#footnote-3)

A partner’s distributive share of partnership loss (including capital loss) is deductible only to the extent of the adjusted basis of such partner’s interest in the partnership (see Q 8768). Any excess of such loss over such basis may be deducted only if and when the excess is actually repaid to the partnership.[[4]](#footnote-4)

The partner must include the distributive share of partnership items of income, gain, loss, deductions, and credits on his return for the partnership year that ends in or at the same time as the partner’s own individual tax year. Since most individuals report on a calendar year basis, an individual partner generally includes partnership income for the same calendar year as a partnership that reports on the calendar year basis. If the partnership uses a non-calendar fiscal year, the calendar year partner includes partnership income, gains, losses, deductions, and credits for the partnership year that *ends* in the partner’s calendar year.[[5]](#footnote-5)

1. . IRC Sec. 702. [↑](#footnote-ref-1)
2. . Treas. Reg. **§**1.702-1(b). [↑](#footnote-ref-2)
3. . IRC Sec. 6012(a). [↑](#footnote-ref-3)
4. . IRC Sec. 704(d). [↑](#footnote-ref-4)
5. . IRC Sec. 706(a); Treas. Reg. §1.706-1(a). [↑](#footnote-ref-5)