



GoTaxGurus Partnership Tax Strategy Guide – 2025

This guide is designed to help you, the partnership or LLC owner, understand and use powerful tax strategies to lower your tax bill, stay compliant, and keep more of what you earn. It includes tax-saving tips, IRS code references, and California-specific notes.

1. Guaranteed Payments vs Distributive Share (IRC §707(c), §702)

- Guaranteed payments are deductible by the partnership and taxable as ordinary income to the recipient partner — IRC §707(c).
- Distributive shares of profit/loss flow through to partners via Schedule K-1 and retain character — IRC §702(b).
- Strategy: Use a mix of both to balance tax-ability and deductible compensation structure.

2. Basis Tracking for Loss Utilization (IRC §704(d), §705)

- Losses may only be deducted to the extent of a partner's outside basis — IRC §704(d).
- Partners must track capital contributions, allocations, and distributions to maintain accurate basis — IRC §705(a).
- Strategy: Avoid suspended losses by contributing capital or loaning funds to the partnership.

3. Partnership Distributions (IRC §731, §732)

- Non-liquidating distributions are generally non-taxable up to a partner's basis — IRC §731(a).
- Track property basis adjustments carefully upon distribution — IRC §732(b).
- Strategy: Monitor distributions to avoid triggering gain if basis is fully recovered.

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4. Section 754 Election (IRC §754, §743(b), §734(b))

- Electing §754 allows step-up (or down) to inside basis of partnership assets when a partner transfers interest or dies.
- Must be filed with a timely Form 1065 and statement — IRC §754.
- Strategy: Make election to align inside/outside basis and allow future depreciation or amortization benefits.

5. Allocating Income/Loss per Operating Agreement (IRC §704(b))

- Allocations must have substantial economic effect or follow partners' interest in the partnership — IRC §704(b).
- Ensure consistency between tax allocations and actual cash/equity flows.
- Strategy: Review or revise operating agreement for optimal allocations based on partner contributions and services.

6. Partner Loans and Debt Allocation (IRC §752)

- Partner's share of partnership debt increases their outside basis — IRC §752(a).
- Track loan guarantees and repayment responsibilities in agreement.
- Strategy: Consider using recourse or qualified nonrecourse debt to increase basis for loss deductions.

7. Start-Up and Organizational Costs (IRC §195, §709)

- Deduct up to \$5,000 of start-up costs and \$5,000 of organizational expenses, phaseout begins after \$50,000 — IRC §195 & §709(b).
- Applies to legal, accounting, and filing costs to form the partnership.
- Strategy: Amortize remaining costs over 15 years if thresholds are exceeded.

8. Qualified Business Income Deduction (IRC §199A)

- Partnership income passed through to individual partners may qualify for 20% QBI deduction — IRC §199A.
- Consider restructuring guaranteed payments or reclassifying services for QBI eligibility.
- Strategy: Monitor W-2 wages and unadjusted basis (UBIA) to comply with limitation thresholds.

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9. Retirement Plans for Partners (IRC §401(a), §404(a)(8))

- Partnerships may establish SEP IRAs or 401(k) plans for partners and employees — IRC §401(a).
- Deductible contributions made on behalf of partners reported on Schedule K-1 — IRC §404(a)(8).
- Strategy: Maximize retirement plan contributions to reduce overall taxable income.

10. Health Insurance for Partners (IRC §707(c), IRS Notice 2008-1)

- Partner health insurance premiums are deductible by the partnership if included in guaranteed payments — IRC §707(c).
- Reported on Schedule K-1 and deducted as self-employed health insurance on partner's Form 1040.
- Strategy: Include premiums in guaranteed payment agreement and ensure proper reporting.

11. Partnership Interest Sales and Exchanges (IRC §741, §751)

- Gain or loss from the sale of a partnership interest is generally capital — IRC §741.
- However, ordinary income applies to 'hot assets' like unrealized receivables or inventory — IRC §751(a).
- Strategy: Break down sale into §751 portion and capital gain to minimize re-characterization.

12. Special Allocations for Real Estate Partnerships (IRC §704(c))

- Pre-contribution gain or loss on property must be allocated back to contributing partner — IRC §704(c).
- Monitor book-tax difference reporting and capital account maintenance.
- Strategy: Elect traditional, remedial, or ceiling rule methods to maximize depreciation allocations to non-contributing partners.

13. Reimbursing Partners for Out-of-Pocket Expenses (Rev. Rul. 70-253)

- Reimbursement to a partner for partnership-related expenses is not income if paid under an accountable plan.
- Avoid triggering self-employment income unnecessarily.

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- Strategy: Use accountable plans for mileage, travel, or supply reimbursements to partners instead of increasing guaranteed payments.

14. Converting GP to LP or LLC for Liability & SE Tax Planning (IRC §1402(a)(13))

- Limited partners are not subject to SE tax on distributive share of income (unless receiving guaranteed payments) — IRC §1402(a)(13).
- LLCs with manager-managed status may replicate this for non-active members.
- Strategy: Restructure partnership to limit general partner exposure and reduce SE tax liabilities.

15. Capturing Start-Up Losses Through Strategic Capital Infusion (IRC §704(d))

- Injecting capital or assuming debt increases basis, enabling loss utilization — IRC §704(d), §752.
- Use loan guarantees or capital contributions to avoid suspended losses.
- Strategy: Plan timing of contributions or guaranteed payments to allow full loss deduction in early years.

16. Installment Sale of Partnership Interest (IRC §453)

- Partners may sell partnership interest on installment basis and defer gain — IRC §453.
- Exclude §751 hot asset portion from installment treatment.
- Strategy: Break payment into tax years to spread gain over time and reduce top bracket exposure.

Need help implementing any of the strategies above?

Whether you're navigating basis limitations, maximizing QBI deductions, restructuring your LLC, or preparing for a partner exit—**GoTaxGurus is here to help.** —we've got you covered. Schedule a consultation today!

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