

702/731	707(a)	707(c)
Could be capital gain, even to service partners	Rent, fee, interest always ordinary income	Always ordinary income
Income “passes through” when reported by partnership	Cash-method partner not taxed until receipt	Income “passes through” when deducted by partnership
Basis shifts per IRC § 705	Partnership deducts <i>unless</i> cap. expenditure	Partnership deducts <i>unless</i> cap. expenditure
One tax maximum	Possibility of double tax/basis	Possibility of double tax/basis

**Section 707(a) factors:**

- Not “basic duties” of partnership
- Little or no risk
- Short-lived allocation
- Payment close in time to services
- Tax-avoidance motive
- Special allocation large compared to regular allocation