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## IRS Finalizes Regulations Modifying Reporting for Partnership Interest Exchanges

### Overview

The Department of the Treasury and the Internal Revenue Service recently published final regulations amending the information reporting obligations applicable to sales or exchanges of certain interests in partnerships owning inventory or unrealized receivables.

### Background

Under section 741 of the Internal Revenue Code, gain or loss recognized by a transferor partner upon sale or exchange of a partnership interest is generally treated as gain or loss from the sale or exchange of a capital asset, with such gain or loss generally treated as capital gain or loss. However, under section 751(a), amounts received by a transferor partner in exchange for the portion of a partnership interest attributable to unrealized receivables or inventory items (“hot assets”) are treated as amounts realized from the sale or exchange of property other than a capital asset, potentially resulting in ordinary income to the transferor on the exchange.

Section 6050K(a) requires a partnership to file a statement (Form 8308, Report of a Sale or Exchange of Certain Partnership Interests) if there is an exchange of partnership interest in which the partnership held hot assets during a calendar year. Under the prior regulatory framework, Treas. Reg. § 1.6050K-1(c)(2) required a partnership to furnish to a transferor partner the information necessary for the transferor to make the required statement under Treas. Reg. § 1.751-1(a)(3), including the partnership’s gain or loss from a deemed sale under section 751 and the transferor partner’s share of such amount (reported in Part IV of Form 8308).

### Key Changes

**Removal of § 1.6050K-1(c)(2).** The final regulations remove the requirement in § 1.6050K-1(c)(2) that a partnership furnish a transferor partner with the information necessary for the transferor to make the transferor’s required statement under Treas. Reg. § 1.751-1(a)(3) by the January 31 deadline.

**Revision of § 1.6050K-1(c)(1).** The final regulations modify Treas. Reg. § 1.6050K-1(c)(1) by removing the prior reference to a “completed copy of Form 8308” and replacing it with a reference to “a copy of Form 8308 filled out in accordance with the instructions to the form.” As a result, a partnership is now only required to furnish the information reported in Parts I, II and III of Form 8308, or a statement that includes the same information, to the transferor and transferee by the later of January 31 of the year following the calendar year in which the partnership interest exchange occurred, or 30 days after the partnership receives notice of the exchange. This is a welcome change for many partnerships because, in many cases, partnerships do not have all the information required by Part IV of Form 8308 (which requires detailed information about the transferor partner’s share of section 751(a) gain or loss) by January 31 of the year following the calendar year in which the partnership interest exchange occurred.

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**Clarification regarding IRS notification.** The revised Treas. Reg. § 1.6050K-1(c)(1)(i) clarifies that the partnership will provide to the IRS the information included on any substitute statement furnished in lieu of a Form 8308.

### **What Remains Unchanged**

Partnerships still must file a completed Form 8308, including Part IV, as an attachment to the partnership's Form 1065 for the taxable year that includes the last day of the calendar year in which the partnership interest exchange took place. In addition, pursuant to Treas. Reg. § 1.6031(b)-1T(a)(3), the partnership continues to be required to report the information required of the transferor under Treas. Reg. § 1.751-1(a)(3), including the information required in Part IV of Form 8308, on the Schedule K-1 (Form 1065) issued to the transferor partner.

### **Effective and Applicability Dates**

The final regulations are effective as of May 20, 2026. These changes apply to returns filed for taxable years ending on or after May 20, 2026. Partnerships may rely on the proposed regulations with respect to section 751(a) exchanges occurring on or after January 1, 2025, and before the date the final regulations are published.

### **Practical Implications for Partnerships and Their Advisors**

These final regulations provide meaningful relief for partnerships that have historically struggled to compute and report the detailed section 751(a) gain or loss allocation by the January 31 deadline. The practical effect is a bifurcation of partnership reporting obligations: basic transactional information (the identities of the parties, the date of exchange, and related data in Parts I-III of Form 8308) still must be furnished to transferors and transferees by January 31, while the more detailed section 751(a) gain or loss information is deferred to the Schedule K-1 and the Form 8308 attached to the Form 1065.

Partnerships and their advisors should review their current compliance processes to ensure alignment with the updated Form 8308 instructions (revised November 5, 2025) and these final regulations.

If you have questions, please contact any member of Kutak Rock's [National Tax Practice Group](#). You may also visit us at [www.kutakrock.com](http://www.kutakrock.com).

*This alert is for informational purposes only and does not constitute legal or tax advice. Please consult your tax advisor regarding the application of these regulations to your specific circumstances.*

