

## Reg. Section 1.704-2(e)

### Allocations attributable to nonrecourse liabilities

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(e) Requirements to be satisfied. Allocations of nonrecourse deductions are deemed to be in accordance with the partners' interests in the partnership only if-

(1) Throughout the full term of the partnership requirements (1) and (2) of §1.704-1(b)(2)(ii)(b) are satisfied (i.e., capital accounts are maintained in accordance with §1.704-1(b)(2)(iv) and liquidating distributions are required to be made in accordance with positive capital account balances), and requirement (3) of either §1.704-1(b)(2)(ii)(b) or §1.704-1(b)(2)(ii)(d) is satisfied (i.e., partners with deficit capital accounts have an unconditional deficit restoration obligation or agree to a qualified income offset);

(2) Beginning in the first taxable year of the partnership in which there are nonrecourse deductions and thereafter throughout the full term of the partnership, the partnership agreement provides for allocations of nonrecourse deductions in a manner that is reasonably consistent with allocations that have substantial economic effect of some other significant partnership item attributable to the property securing the nonrecourse liabilities;

(3) Beginning in the first taxable year of the partnership that it has nonrecourse deductions or makes a distribution of proceeds of a nonrecourse liability that are allocable to an increase in partnership minimum gain, and thereafter throughout the full term of the partnership, the partnership agreement contains a provision that complies with the minimum gain chargeback requirement of paragraph (f) of this section; and

(4) All other material allocations and capital account adjustments under the partnership agreement are recognized under §1.704-1(b) (without regard to whether allocations of adjusted tax basis and amount realized under section 613A(c)(7)(D) are recognized under §1.704-1(b)(4)(v)).

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