



## Partnership Deduction under IRC§ 754

**TAM - 2011- 8 – Issued February 9, 2011**  
**Tax: Gross Income Tax**

Pursuant to Internal Revenue Code section 754, a partnership may file an election to adjust the basis of the partnership property for federal tax purposes. This basis adjustment to partnership property could be either an increase or decrease in basis depending on the new partner's purchase price and the partnership's basis in its property.

In addition, the basis adjustment applies to all partnership property and not only depreciable property.

For New Jersey purposes, partnerships are taxed in accordance with N.J.A.C. 18:35-1.3 and N.J.S.A. 54A:5-1(k). All choices affecting the determination of income from the partnership are made by the partnership, not each partner.

Thus, federal adjustments such as an IRC §754 election are permitted for New Jersey income tax purposes. Supporting documentation for any adjustments should be retained and made available to the Division if requested.

The partnership should report each partner's IRC §754 adjustment as "Supplemental Information" to Form NJK-1.

The partners will then adjust their reported distributive share of partnership income (loss) by the IRC §754 adjustment and report the net amount on their NJ-1040.

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**Note:** A Technical Advisory Memorandum ("TAM") is an informational statement of the law, regulations, or Division policies. It is accurate on the date issued. Subsequent changes in the law or regulations, judicial decisions or changes in Division policies could affect the validity of the information presented in a TAM.