INTERNAL REVENUE SERVICE

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IRS Extends Transition Relief to Partnerships and Pass-Thru Entities Under New Code Section

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WASHINGTON - The Internal Revenue Service and the Treasury Department today extended for a year limited transition relief for certain property held by partnerships and other pass-thru entities that are subject to Section 470 of the Internal Revenue Code, which was added by the American Jobs Creation Act of 2004.

This provision of the 2004 law generally addresses leases of property in sale-in, lease-out transactions involving tax-exempt entities by suspending the deduction for "tax-exempt use losses" on "tax-exempt use property." This new provision also applies to certain property held by partnerships with tax-exempt owners and therefore described in Section 168(h)(6).

Notice 2005-29, released in March 2005, announces that the IRS will not apply Section 470 to partnerships or other pass-thru entities for taxable years beginning before Jan. 1, 2005, for property that is treated as tax-exempt use property solely as a result of the application of Section 168(h)(6).

Notice 2006-2, released today, extends this transition relief to taxable years beginning before Jan. 1, 2006.

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