



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
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May 30, 2000

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This letter is in response to your correspondence dated April 10, 2000, in which you ask for suggestions in dealing with your present tax situation. You have written that your investment in a partnership generated large amounts of deductions, which were suspended under § 469. Now, if you were to sell your interest in the partnership (even for a nominal sum), you would experience a substantial capital gain which would largely offset the benefit of the suspended deductions.

We do not know the exact details surrounding your investment, but as we indicated in our earlier letter to Representative McNulty, dated January 21, 2000, your situation is not uncommon for tax shelter investors. These circumstances are generally the result of debt incurred by the partnership. The partnership is able to use the debt proceeds to purchase an asset that will generate substantial amounts of depreciation deductions. Investors in the shelter are allocated a share of the debt so that they will have enough basis in their interests to allow those deductions to flow through. When an investor subsequently sells, or even abandons, his interest in the partnership, that investor will realize gain due to his share of the liabilities.

We believe that such gain recognition is the necessary consequence of allowing the debt to be included in the basis of the investment. In essence, gain recognition upon disposition of the partnership interest is what an investor must incur in exchange for the ability to generate deductions in excess of an actual contribution. Unfortunately, we are unable to offer any suggestions as to how you may avoid gain recognition. Furthermore, we regret that the promoters of your investment may not have adequately

explained this to you. If you wish to discuss this further, please contact Daniel Carmody at (202) 622-3080.

Sincerely,

/ S/ Paul F. Kugler
Paul F. Kugler
Assistant Chief Counsel
Passthroughs and Special Industries