

Partnership Options and Convertible Instruments

Notice 2000-29

PURPOSE

This notice invites public comment on the federal income tax treatment of the exercise of an option to acquire a partnership interest, the exchange of convertible debt for a partnership interest, and the exchange of a preferred interest in a partnership for a common interest in that partnership.

BACKGROUND

In a variety of situations, partnerships issue options or convertible debt that allow the holder to acquire by purchase or conversion an equity interest in an entity classified as a partnership for federal tax purposes. Partnerships also issue convertible preferred partnership interests that allow a partner to acquire a materially different interest in the partnership upon conversion. Often, these instruments are exercised or converted when the partnership interest to be received is more valuable than the sum of consideration previously transferred to the partnership plus any consideration transferred upon exercise or conversion. In addition, convertible preferred partnership interests often are converted at a time when the partnership interest to be received is more valuable than the interest being converted (disregarding the value of the conversion right). Taxpay-

ers have noted significant uncertainties as to the federal income tax consequences of using such instruments and have expressed a need for guidance.

REQUEST FOR PUBLIC COMMENT

The Internal Revenue Service and the Treasury Department request comments on the tax consequences to the recipient of the partnership interest as well as to the partnership upon the exercise of a partnership option or conversion of a debt or preferred equity interest in that partnership.

Taxpayers may submit comments in writing to:

Internal Revenue Service
Attn: CC:DOM:CORP:R (Notice
2000-29, Room 5226)
P.O. Box 7604
Ben Franklin Station
Washington, D.C. 20044

Alternatively, taxpayers may submit comments electronically at:

sharon.y.horn@M1.IRSCounsel.treas.gov

All comments should be received by September 15, 2000. The comments submitted will be available for public inspection and copying.

DRAFTING INFORMATION

The principal author of this notice is Audrey W. Ellis of the Office of Assistant Chief Counsel (Passthroughs and Special Industries). For further information regarding this notice contact Ms. Ellis at (202) 622-3060 (not a toll-free call).