

110TH CONGRESS  
1ST SESSION

# H. R. 2785

To amend the Internal Revenue Code of 1986 to provide that the exception from the treatment of publicly traded partnerships as corporations for partnerships with passive-type income shall not apply to partnerships directly or indirectly deriving income from providing investment adviser and related asset management services.

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## IN THE HOUSE OF REPRESENTATIVES

JUNE 20, 2007

Mr. WELCH of Vermont introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to provide that the exception from the treatment of publicly traded partnerships as corporations for partnerships with passive-type income shall not apply to partnerships directly or indirectly deriving income from providing investment adviser and related asset management services.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

1 **SECTION 1. EXCEPTION FROM TREATMENT OF PUBLICLY**  
2 **TRADED PARTNERSHIPS AS CORPORATIONS**  
3 **NOT TO APPLY TO PARTNERSHIPS DIRECTLY**  
4 **OR INDIRECTLY DERIVING INCOME FROM**  
5 **PROVIDING INVESTMENT ADVISER AND RE-**  
6 **LATED ASSET MANAGEMENT SERVICES.**

7 (a) IN GENERAL.—Section 7704(c) of the Internal  
8 Revenue Code of 1986 (relating to exception for partner-  
9 ships with passive-type income) is amended by adding at  
10 the end the following new paragraph:

11 “(4) EXCEPTION NOT TO APPLY TO PARTNER-  
12 SHIPS PROVIDING CERTAIN INVESTMENT ADVISER  
13 AND RELATED ASSET MANAGEMENT SERVICES.—  
14 This subsection shall not apply to any partnership  
15 which directly or indirectly has any item of income  
16 or gain (including capital gains or dividends), the  
17 rights to which are derived from—

18 “(A) services provided by any person as an  
19 investment adviser (as defined in section  
20 202(a)(11) of the Investment Advisers Act of  
21 1940, 15 U.S.C. 80b–2(a)(11)) or as a person  
22 associated with an investment adviser (as de-  
23 fined in section 202(a)(17) of the Investment  
24 Advisers Act of 1940, 15 U.S.C. 80b–2(a)(17)),  
25 or

1           “(B) asset management services provided  
2           by any person described in subparagraph (A)  
3           (or any related person) in connection with the  
4           management of assets with respect to which  
5           services described in subparagraph (A) were  
6           provided.

7           For purposes of subparagraph (A), the determina-  
8           tion as to whether services provided by any person  
9           were provided as an investment adviser shall be  
10          made without regard to whether the person is re-  
11          quired to register as an investment adviser under  
12          the Investment Advisers Act of 1940.”.

13          (b) EFFECTIVE DATE.—

14               (1) IN GENERAL.—Except as provided in para-  
15               graph (2), the amendment made by this section shall  
16               apply to taxable years of a partnership beginning on  
17               or after June 20, 2007.

18               (2) TRANSITION RULE FOR CERTAIN PARTNER-  
19               SHIPS.—In the case of a partnership the interests in  
20               which on June 20, 2007, were—

21                       (A) traded on an established securities  
22                       market, or

23                       (B) readily tradeable on a secondary mar-  
24                       ket (or the substantial equivalent thereof),

1 the amendment made by this section shall apply to  
2 taxable years of the partnership beginning on or  
3 after June 20, 2007.

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