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**From:**

**Sent:** Thursday, September 06, 2012 1:26:58 PM

**To:**

**Cc:**

**Subject:** RE: Bankruptcy of a partner which is a DE.

Where Z owns Y LLC (a disregarded entity) which a partner in TEFRA partnership and Y LLC files for bankruptcy, this does not cause Z's partnership items to convert to nonpartnership items. See Third Dividend Dardanos v. Commissioner, 96-2 USTC 50,066 (9th Cir). This is because Z's tax liability is not at issue in the DE's bankruptcy proceeding and the bankruptcy conversion regulation under Treas. Reg. 301.6231(a)(7)-1 only converts items that are subject to an income tax claim in the bankruptcy proceeding.