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## *IRS Issues Proposed Regulations Regarding Energy Master Limited Partnerships*

BY GREG NELSON

On May 5, 2015, the Treasury Department released its proposed regulations interpreting the 1987 statute under Section 7704 of the Internal Revenue Code applicable to publicly traded partnerships engaged in the energy industry.

With respect to traditional energy businesses owned by Master Limited Partnerships (“MLPs”), the proposed regulations are generally consistent with statements in the 1987 and 1988 legislative history on which the industry has relied for the past 28 years.

With respect to the less traditional energy MLP businesses, the regulations are more conservative than recent private letter rulings issued by the Internal Revenue Service. Specifically, the proposed regulations are particularly restrictive in declaring that the chemical conversion of the components of natural gas is not a qualifying activity. The proposed regulations also state that income from the processing of timber into the pulp and paper products does not qualify.

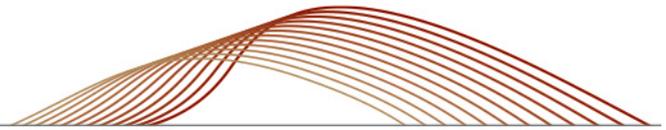
Fracking services providers were among the winners. The proposed regulations generally confirm that specialized services related to the provision of fracking services, including delivering water for fracking and handling and disposing of the flowback, can generate qualifying income.

The regulations are issued in proposed form and will not be effective until they are published as final regulations. Taxpayers who received private rulings may continue to rely on those rulings through the 10-year period beginning when the regulations are issued as final regulations. For that same 10-year period, MLPs that do not have their own private letter ruling may continue to take the position that their income is qualifying income under the statute if that interpretation was reasonable under the statute and legislative history (determined without regard to these proposed regulations).

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*If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings lawyers in the Master Limited Partnership practice group:*

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