**Home work-Chapter 10.**

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| --- |
| **Determine the amount and character of gain or loss a partner recognizes in a nonliquidating partnership distribution.**  |

[Sec. 731] The adjusted basis of Jody's partnership interest was $50,000 immediately
before Jody received a current distribution of $20,000 cash and land.

The land had an adjusted basis to the partnership of $40,000 and a FMV of $35,000.
What amount of taxable gain must Jody report as a result of this distribution?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $5,000  | **c.** | $10,000 | **d.** | $20,000 |   | **A** |

 [Sec. 731] Rebecca’s adjusted basis in a partnership interest was $10,000 before
receiving these distributions: (1) Cash of $8,000 and (2) Land with an adjusted
basis of $7,000 to the partnership and a FMV of $9,000.
Assume this is a **non-liquidating** distribution for Rebecca.

What Rebecca’s gain to be recognized as a result of these distributions?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $7,000.  | **b.** | $-0-.  | **c.** | $2,000.  | **d.** | $8,000. |  | **B** |

[Sec. 731] The adjusted basis of Mr. X's partnership interest in ABC partnership is $8,000.

X received a non-liquidating distribution of $2,500 cash and land.
The land had an adjusted basis to the partnership of $6,200 (fair market value - $7,000).
X's recognized gain on this liquidation is:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $1,500 | **c.** | $2,500  | **d.** | $8,000  | **e.** | $9,500 |  | **A** |

 [Sec. 731] Stone's basis in Ace Partnership was $70,000 at the time he received a
nonliquidating distribution of partnership capital assets.
These capital assets had an adjusted basis of $65,000 to Ace, and a FMV of $83,000.
Ace had no unrealized receivables, appreciated inventory, or properties which
had been contributed by its partners.
What was Stone's recognized gain or loss on the distribution?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | $18,000 ordinary income. | **b.** | $13,000 capital gain. | **D** |
| **c.** | $ 5,000 capital loss. | **d.** | $0 |

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| **Determine the partner’s basis of assets received in a nonliquidating partnership distribution.**  |

[Sec. 732] The adjusted basis of Jody's partnership interest was $50,000 immediately
before Jody received a current distribution of $20,000 cash and land.
The land had an adjusted basis to the partnership of $40,000 and a FMV of $35,000.
What is Jody's basis in the distributed prop­erty (other than cash)?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0  | **b.** | $30,000 | **c.** | $35,000  | **d.** | $40,000 | CPA | **B** |

 [Sec. 732] Ann’s basis in a partnership interest was $10,000 before receiving these distributions:

 (1) Cash of $8,000 and

 (2) Land with an adjusted basis of $7,000 to the partnership and a FMV of $9,000.

Assume this is a **non-liquidating** distribution for Rebecca. What is her basis in the land?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $10,000.  | **b.** | $9,000.  | **c.** | $2,000.  | **d.** | $7,000. |  | **C** |

[Sec. 732] The adjusted basis of Mr. X's partnership interest in ABC partnership is $8,000.

X received a non-liquidating distribution of $2,500 cash and property that had an adjusted
basis to the partnership of $6,200 (fair market value $7,000).

 X's basis for the distributed property (other than cash) is:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $5,500  | **b.** | $6,200 | **c.** | $7,000 | **d.** | $8,000 | **e.** $8,700  |  |  | **A** |

[Sec. 732] Hart's adjusted basis in Best Partnership was $16,000 at the time he
received the following **non**-**liquidating** distributions of partnership property:

|  |  |
| --- | --- |
| Cash  | $ 5,000 |
| Land |  |
|  Adjusted basis | 7,000 |
|  Fair market value | 10,000 |

What was the amount of Hart's basis in the land?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $11,000  | **b.** | $ 7,000 | **c.** | $ 4,000 | **d.** | $0  |  | **B** |

|  |
| --- |
| **Identify the partnership's Sec. 751 assets.**  |

|  |
| --- |
| **Determine the tax implications of a sale or a cash distribution when the partnership has Sec. 751 assets.**  |

 [Sec. 751] [Disproportionate Distribution]
The ABC partnership had this balance sheet before A withdrew from the partnership.

|  |  |  |  |
| --- | --- | --- | --- |
| **Assets** |  |  | **Liabilities and Capital** |
|  | **Adj. Basis** | **Market** | **Debt and** | **Per** | **Fair Market** |
| **Assets** | **per Books** | **Value** | **Capital** | **Books** | **Value** |
| Cash | $27,000  | $27,000 | Liabilities | $6,000 | $6,000 |
| Land | 3,000 | 15,000 | A, Capital | 8,000 | 18,000 |
| Unrealized Receivables | 0 | 18,000 | B, Capital | 8,000 | 18,000 |
|  | 0 | 0 | C, Capital | 8,000 | 18,000 |
|  **Totals** | **$30,000** | **$60,000** |  | **$30,000** | **$60,000** |

A's basis in his partnership interest was $8,000 plus his share of debt.
A with­drew the unrealized receivables in complete liquidation of his interest.
The remaining partners will pay the entire debts shown above.
What is the total tax impact on B and C?

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Amount** | **Type** |  |  **Amount** | **Type** | **C** |
| **a.**  | $10,000 | Capital Gain | **b.**  |  $10,000 | Ordinary |
| **c.**  | $ 12,000 | Ordinary | **d.** |  $8,000 | Ordinary |

 [Sec. 751] The ABC partnership had this balance sheet before A withdrew from the partnership.

|  |  |  |  |
| --- | --- | --- | --- |
| **Assets** |  |  | **Liabilities and Capital** |
|  | Adj. Basis | Market |  | Per | Fair |
|  | per Books | Value |  | Books | Value |
| Cash | $5,000 | $5,000 | Liabilities | $3,000 | $3,000 |
| Loans Receivable | 4,000 | 4,000 | Capital |  |  |
| Land | 12,000 | 15,000 | A | 9,000 | 15,000 |
| Unrealized Receivables | 0 | 15,000 | B | 9,000 | 15,000 |
| Other Assets | 9,000 | 9,000 | C | 9,000 | 15,000 |
|  | $30,000 | $48,000 |  | $30,000 | $48,000 |

A's basis in his partnership interest was $9,000 plus his share of debt.
A with­drew the land in complete liquidation of his interest.
The remaining partners will pay the entire debts shown above.
What is the total tax impact on B and C?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | no gain or loss | **d.** | $1,800 capital gain | **C** |
| **b.**  | $5,000 ordinary income | **e.**  | other |
| **c.**  | $2,000 capital gain |  |  |

 [Pg. 15, Sec. 751] The partnership of Hager, Mazer, & Slagle had the
following cash basis balance sheet at December 31, 2014:

|  |  |  |
| --- | --- | --- |
| **-- Assets --** | **Basis** | **FMV** |
| Cash | $81,000 | $ 81,000 |
| Accounts Receivable | -- | 210,000 |
| **Totals** | **$81,000** | **$291,000** |
| **-- Liabilities & Capital --** |  |  |
| Note Payable | $60,000 | $ 60,000 |
| Capital Accounts: |  |  |
| Hager | 7,000 | 77,000 |
| Mazer | 7,000 | 77,000 |
| Slagle | 7,000 | 77,000 |
| **Totals** | **$81,000** | **$291,000** |

Slagle, an equal partner, sold his partnership interest to Burns, an outsider, for $77,000 cash
on January 1, 2015. In addition, Burns assumed Slagle's share of partnership liabilities.
How much capital gain should Slagle report in his 2015 income tax return
from the sale of his partnership interest?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $10,000 | **c.** | $70,000 | **d.** | $77,000 | **e.** | Other |  | **A** |

|  |  |
| --- | --- |
| How much ordinary income is recognized by Slagle from the distribution? | $ 70,000 |

|  |
| --- |
| **Determine the amount and character of gain or loss a partner recognizes in a liquidating partnership distribution. No hot assets.** |

 [Sec. 731] Rebecca’s adjusted basis in a partnership interest was $10,000 before receiving
these distributions: (1) Cash of $8,000 and (2) Land with an adjusted basis of $7,000 to the
partnership and a FMV of $9,000. Assume this is a **liquidating** distribution for Rebecca.

What Rebecca’s gain or loss to be recognized as a result of these distributions?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $7,000.  | **b.** | $-0-.  | **c.** | $2,000.  | **d.** | $8,000. |  | **B** |

[Sec. 731] Ted King's adjusted basis for his partnership interest in Troy Company was $24,000.
In **complete liquidation** of his interest in Troy, King received: (1) cash of $4,000 and
(2) realty having a fair market value of $40,000.
Troy's adjusted basis for this realty was $15,000. King's gain on the distribution is:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 0 | **b.** | $15,000 | **c.** | $16,000 | **d.** | $20,000 | **e.** | $40,000 | CPA | **A** |

 [Sec. 731] In 2010, Lisa Bara acquired a one-third interest in Dee Associates,
a partnership. In 2016, when Lisa's entire interest in the partnership was liquidated,
Dee's assets consisted of the following:

|  |  |
| --- | --- |
| Cash | $20,000  |
| Land with a basis of  | 46,000 |
|  Land had Fair market value of  | 40,000  |

Dee had no liabilities. Lisa's adjusted basis for her one-third interest was $22,000.

Lisa received cash of $20,000 in liquidation of her entire interest.
What was Lisa's recognized loss in 2016 on the liquidation of her interest in Dee?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $2,000 short-term capital loss. | **C** |
| **c.** | $2,000 long-term capital loss. | **d.** | $2,000 ordinary loss. |

[Sec. 731] On December 31, 2014, after receipt of his share of partnership income,
Clark sold his inter­est in a limited partnership for $30,000 cash and relief of all liabilities.
On that date, the adjusted basis of Clark's partnership interest was $40,000, consisting of
his capital account of $15,000 and his share of the partnership liabilities of $25,000.
The partnership has no unrealized receivables or substantially appreciated inventory.
What is Clark's gain or loss on the sale of his partnership interest?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **a.** | Ordinary loss of $10,000. | **b.** | Capital gain of $15,000. |  | **B** |
| **c.** | Capital loss of $10,000. | **d.** | Ordinary gain of $15,000 | CPA  |

|  |
| --- |
| **Determine the partner’s basis of assets received in a liquidating distribution.**  |

[Sec. 732] Ted King's adjusted basis for his partnership interest in Troy Company was $24,000.
In complete liquidation of his interest in Troy, King received cash of $4,000 and realty having
a FMV of $40,000. Troy's adjusted basis for this realty was $15,000. King's basis for the realty is:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 9,000 | **b.** | $15,000 | **c.** | $16,000 | **d.** | $20,000 |  | CPA  | **D** |

 [Sec. 732] The adjusted basis of Vance's partnership interest in Lex Associates was $180,000
immedi­ately before receiving the following distribution in complete liquidation of Lex:

|  |  |  |
| --- | --- | --- |
|  | **Fair market value** | **Basis to Lex** |
| Cash | $100,000 | $100,000 |
| Real estate | 70,000 | 96,000 |

What is Vance's basis in the real estate?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 96,000 | **b.** | $83,000 | **c.** | $80,000 | **d.** | $70,000 |  | CPA  | **C** |

[Sec. 732] Hart's adjusted basis in Best Partnership was $16,000 at the time
he received the following **liquidating** distributions of partnership property:

|  |  |
| --- | --- |
| Cash  | $ 5,000 |
| Land |  |
|  Adjusted basis | 7,000 |
|  Fair market value | 10,000 |

What was the amount of Hart's basis in the land?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $11,000  | **b.** | $ 7,000 | **c.** | $ 4,000 | **d.** | $0 |  | CPA  | **A** |

[Sec. 741] Ms. B and Ms. H are each 50% partners in the partnership B & H.
On December 31, 2015, Ms. B sold her entire interest for $40,000 cash.
The buyer also assumed B's share of partnership liabilities.
The balance sheet below reflects the pertinent data at the time of sale:

|  |  |  |
| --- | --- | --- |
|  | Adjusted Basis | Fair M. Value |
| Unrealized receivables | $30,000 | $ 50,000 |
| Land |  10,000 |  50,000 |
|  Total Assets | **$40,000** | **$100,000** |
| Liabilities | $20,000 | $ 20,000 |
| Capital - Ms. A | 10,000 | 40,000 |
| Capital - Ms. B |  10,000 |  40,000 |
|  Total debt and capital | **$40,000** | **$100,000** |

Assume each capital account balance above, without regard to liabilities, equals each partner's
adjusted basis in her partnership interest. What is Ms. B's recognized gain on the disposition?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Capital Gain** | **Ordinary income** |  | **C** |
| a. | $-0- | $30,000 |
| b. | $5,000 | $25,000 |
| c. | $20,000 | $10,000 |
| d. | $30,000 | $-0- |
| e. | $40,000 | $-0- |

|  |
| --- |
| **Determine the amount and character of the gain or loss recognized when a partner retires from a partnership or dies.**  |

 On June 30, 2015, Berk retired from his partnership. At that time, his capital account had
a balance and FMV of $50,000. His share of the partnership's liabilities was $30,000.
Berk's retirement payments consisted of being relieved of his share of the partnership
liabilities and receipt of cash payments of $5,000 per month for 18 months, starting July 1, 2015.

How much of these total payments ($90,000) will be deductible by the partnership?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** |  $0 | **b.** | $40,000 | **c.** | $50,000 | **d.** | $90,000 | CPA |   | **B** |

Ms. A is a 25% partner in the ABCD partnership. On 12-31-2015, she is allowed to withdraw
from the partnership and receives a cash payment equal to 25% of the fair value of the assets.
She is also entitled to receive retirement income payments of $24,000 per year for ten years.
How will the $24,000 payment be treated in 2016?

|  |  |  |
| --- | --- | --- |
| **a.** | It will be reported as capital gain by Ms. A  | **C** |
| **b.** | It will be tax-free to Ms. A |
| **c.** | It will be deducted by the remaining partnership |
| **d.** | It will be reported as a sharing of profits by the remaining partnership |
| **Determine whether a partnership has terminated for tax purposes.**  |

On November 1, 2015, Kerry and Payne, each of whom was a 20% partner in the
calendar-year partner­ship of Roe Co., sold their partnership interests to Reed, who was a 60% partner.
For tax purposes, the Roe Co. partnership

|  |  |  |
| --- | --- | --- |
| **a.** | Was terminated as of November 1, 2015. | **A** |
| **b.** | Was terminated as of December 31, 2015. |
| **c.** | Continues in effect until a formal partnership dissolution notice is filed with the IRS. |
| **d.** | Continues in effect until a formal partnership dissolution resolution is |
|  | filed in the office of the county clerk where Roe Co. had been doing business. |

On January 3, 2014, the partners' interests in the capital, profits, and losses of Able Partnership were

|  |  |
| --- | --- |
|  | % of Capital, |
|  | Profits and Losses |
| Dean | 25% |
| Poe | 30% |
| Ritt | 45% |

On February 4, 2014, Poe sold her entire interest to an unrelated party.
Dean sold his 25% interest in Able to another unrelated party on December 20, 2012.
No other transactions took place in 2014.
For tax purposes, which of the following statements is correct with respect to Able?

|  |  |  |
| --- | --- | --- |
| **a.** | Able terminated as of February 4, 2014. | **B** |
| **b.** | Able terminated as of December 20, 2014. |
| **c.** | Able terminated as of December 31, 2014. |
| **d.** | Able did not terminate. CPA |

 Cobb, Danver, and Evans each owned a one­-third interest in the capital and profits
of their calendar-year partnership. On September 18, 2014, Cobb and Danver sold their
partnership interests to Frank, and immediately withdrew from all participation in the partnership.
On March 15, 2015, Cobb and Danver received full payment from Frank for the sale of their
partner­ship interests. For tax purposes, the partnership:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Terminated on September 18, 2014. | **b.** | Terminated on December 31, 2014. | **A** |
| **c.** | Terminated on March 15, 2015. | **d.** | Did not terminate. (CPAN93#58) |

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| **Understand the effect of optional and mandatory basis adjustments.**  |

[Pg 28] The balance sheet for the ABC Partnership is shown below.

|  |  |  |
| --- | --- | --- |
|  |  **Basis**  |  **FMV**  |
| Cash |  $ 30,000  |  $ 30,000  |
| Inventory |  30,000  |  60,000  |
| **Total Assets** |  **$ 60,000**  |  **$ 90,000**  |
| A, Capital |  $ 20,000  |  $ 30,000  |
| B, Capital |  20,000  |  30,000  |
| C, Capital |  20,000  |  30,000  |
| **Total Capital** |  **$ 60,000**  |  **$ 90,000**  |

Unrelated investor D buys C’s capital interest for a purchase price of $30,000.

C is eliminated from the partnership and D is admitted to the partnership as a one-third owner.

If the optional basis adjustment of $10,000 is made, the adjustment will be beneficial for:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Departing Partner C | **b.** | Incoming Partner D  | **c.** | The new partnership |  | **B** |

Keith is a member of the KLM Partnership, and all partners have equal interests in capital
and profits. The partnership has made an optional adjustment-to-basis election.
Keith's interest is sold to Otis for $76,000.
The balance sheet of the partnership immediately before the sale shows the following:

|  |  |  |
| --- | --- | --- |
| **Assets** | **Adjusted Basis per Books** | **Market Value** |
| Cash | $15,000 | $ 15,000 |
| Depreciable assets | 150,000 | 213,000 |
| **Total** | **$165,000** | **$228,000** |
| Keith, Capital | $55,000 | $ 76,000 |
| Leif, Capital | 55,000 | 76,000 |
| Marta, Capital | 55,000 | 76,000 |
|  **Total Capital** | **$165,000** | **$228,000** |

The optional adjustment that is added to the basis of partnership property is

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0  | **b.** | $21,000.  | **c.** | $55,000  | **d.** | $76,000 |  |  |  | **B** |

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| **Other – Incorporation of a partnership.** |

All members of a partnership have become increasingly concerned about their individual
exposure to partnership liabilities. They wish to incorporate the entire partnership.
Which of these methods can be used to “convert” to the corporate form on a tax-deferred basis?

|  |  |  |
| --- | --- | --- |
| **a.** | Each partner's interest is transferred to the corporation in exchange for stock | **D** |
|  |  under the usual § 351 rules. The partnership is then liquidated. |
| **b.** | The partnership transfers all of its assets to the corporation in exchange for stock and |
|  | the assumption of partnership liabilities. The corporate stock then is |
|  | distributed to the partners in proportion to their partnership interest. |
| **c** | The partnership makes a pro rata distribution of all of its assets and liabilities to its  |
|  |  partners in complete liquidation. The partners then transfer their undivided interests  |
|  |  in the assets and liabilities to the corporation in exchange for stock under § 351. |
| **d.** | All of these |

**Three-Ways-to-Incorporate-a-Ptshp-RR-84-111.doc included in Chapter 10 lecture materials.**