EXAMPLIFY PASSWORD:

Advanced Partnership Tax **Spring 2023**
Bogdanski

WRITE YOUR EXAM NUMBER HERE: ________

FINAL EXAMINATION
(Three hours)

INSTRUCTIONS

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QUESTION 1
(One hour)

Greta and Lee form a limited partnership, LP. Greta is the general partner, and Lee is the limited partner.

At the formation of LP, each partner contributes a parcel of undeveloped real estate to LP, as follows:

- Greta contributes Greenacre, with an adjusted basis to Greta immediately before the contribution of $50,000 and a fair market value at that time of $300,000. LP assumes a mortgage on Greenacre securing a recourse loan that Greta had previously obtained from a finance company. Immediately before the contribution of Greenacre and assumption of the liability, the outstanding balance on the mortgage loan is $120,000, so that Greta's "equity" in Greenacre immediately before the transfer is $180,000. By assuming Greta's mortgage, LP becomes contractually obligated to make all payments due on the loan, and to reimburse Greta for any amounts that Greta pays on the loan. Repayments of principal on the loan are not due for several years, but interest is payable monthly.

- Lee contributes Blackacre, with an adjusted basis to Lee immediately before the contribution of $100,000 and a fair market value at that time of $180,000.

The LP operating agreement provides that all profits and losses of LP are to be shared equally between the partners. The agreement requires that the partners' capital accounts be maintained in accordance with the regulations under Section 704(b) of the Code, and that any distributions in liquidation of a partner's interest be made in accordance with the partner's positive capital account balance. However, only Greta is required to restore any deficit in Greta's capital account, upon liquidation of her interest. As for Lee, the operating agreement contains a "qualified income offset," as defined by the aforementioned regulations; Lee has no obligation to make any further payments to LP or Greta.

About a year after LP is formed, in a transaction not planned or contemplated when LP was formed, LP sells Blackacre, still unimproved, to an unrelated third party for $160,000 cash.

Assuming that LP does not elect to be taxed as an association, what are the federal income tax consequences of the transactions just described – to Greta, Lee, *and* LP – with *and* without all other available elections? Be sure to discuss the amount, timing, and character (capital or ordinary) of any income, gain, loss, or deduction realized or recognized by each party; and each party's basis in the partnership interest or assets that party holds (actually or constructively), at each stage of the transactions.

Discuss.

(End of Question 1)

QUESTION 2
(One hour)

Genco is a general partnership with three partners: Ahmad, Bea, and Cara. The partnership agreement of Genco, which includes all of the "big three" provisions required to meet the primary test for economic effect under the regulations under Section 704(b) of the Code, provides that all items of income, loss, deduction, and credit of Genco are to be shared equally among the three partners.

Genco has the following balance sheet:

	Assets			***Liabilities***	
	Adjusted basis	**Fair market value**		**Adjusted basis**	**Fair market value**
Cash	$ 120,000	$ 120,000	Debt		-0-
Accounts receivable	-0-	60,000		*Members' capital*	
Capital asset	60,000	180,000	Ahmad	$ 60,000	$ 120,000
			Bea	60,000	120,000
			Cara	60,000	120,000
Total	$ 180,000	$ 360,000	Total	$ 180,000	$ 360,000

In an operating distribution, Genco distributes the accounts receivable to Cara. After the distribution, Cara has a one-fifth interest worth $60,000 in the remaining partnership assets.

Assuming that Genco does not elect to be taxed as an association, what are the federal income tax consequences of the transactions just described – to Ahmad. Bea, Cara, *and* Genco – with *and* without all other available elections? Be sure to discuss the amount, timing, and character (capital or ordinary) of any income, gain, loss, or deduction realized or recognized by each party; and each party's basis in the partnership interest or assets that party holds (actually or constructively), at each stage of the transactions.

Explain.

(End of Question 2)

QUESTION 3
(One hour)

XYZ is a limited liability company that is engaged in an active, high-risk business. As of December 31, 2022, its two members are Rob and Sam.

On January 1, 2023, Tara joins XYZ as its third member. Tara receives her membership interest in XYZ solely in exchange for future services to be performed on XYZ's behalf by Tara. Tara's membership interest entitles her only to a share of future profits; Tara is not entitled to any of XYZ's capital as of the date of her admission as a member.

Immediately after Tara's joining the company, the XYZ operating agreement provides that all profits and losses of XYZ are to be shared equally among the three members. However, only Rob is required to restore any deficit in Rob's capital account, upon liquidation of Rob's interest. As for Sam and Tara, the operating agreement contains a "qualified income offset," as defined by the regulations under Section 704(b) of the Code; they have no obligation to make any further payments to XYZ or the other members. The operating agreement also requires that the members' capital accounts be maintained in accordance with the aforementioned regulations, and that any distributions in liquidation of a member's interest be made in accordance with the member's positive capital account balance.

Immediately after Tara's receiving her interest, XYZ has the following balance sheet:

	Assets			***Liabilities***	
	Adjusted basis	**Book value**		**Adjusted basis**	**Book value**
Cash	$ 20,000	$ 20,000	Debt		-0-
Real estate used in business	65,000	100,000		*Members' capital*	
Inventory	15,000	30,000	Rob	$ 50,000	$ 100,000
			Sam	50,000	50,000
			Tara	-0-	-0-
Total	$ 100,000	$ 150,000	Total	$ 100,000	$ 150,000

None of XYZ's assets were contributed to XYZ by a member.

On February l, 2023, XYZ borrows $150,000 from a bank to pay current expenses. Because XYZ is a limited liability company, none of the members are personally liable for the debt.

For its 2023 tax year, XYZ has gross income of $80,000 and deductions of $200,000, for a net operating loss of $120,000 for the year.

Assuming that XYZ does not elect to be taxed as an association, what are the federal income tax consequences of the transactions just described – to Rob, Sam, Tara, *and* XYZ – with *and* without all other available elections? Be sure to discuss the amount, timing, and character (capital or ordinary) of any income, gain, loss, or deduction realized or recognized by each party; and each party's basis in the partnership interest or assets that party holds (actually or constructively), at each stage of the transactions.

Discuss.

(End of examination)