

Reg. 1.722-1, Example 2

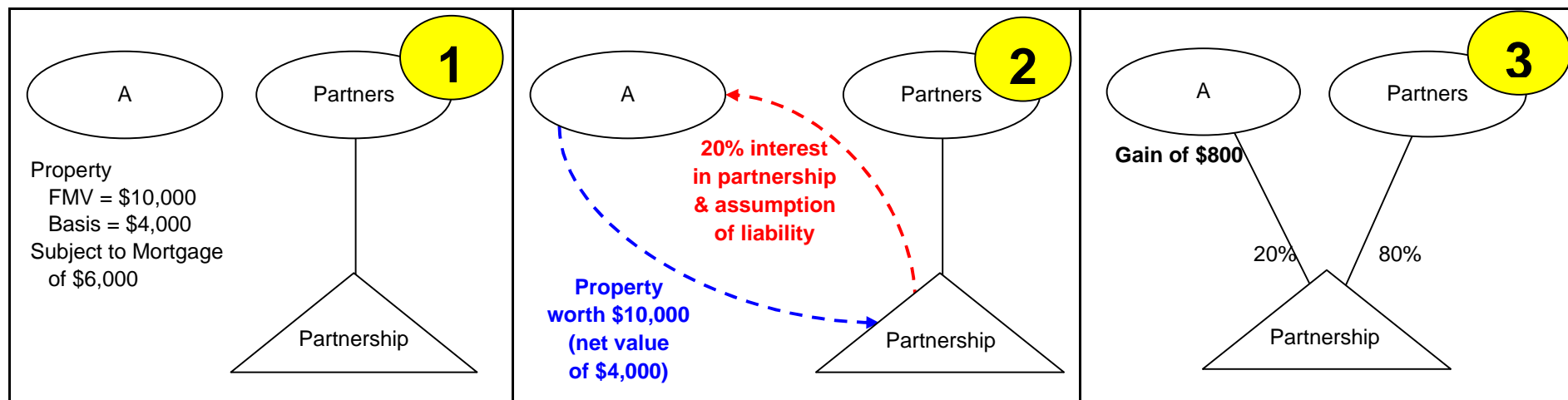
Gain on Contribution Into Partnership With Liabilities Assumed

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Initial Structure

Contribution

Ending Point



A acquired a 20% interest in a partnership by contributing property. At the time of A's contribution, the property had a fair market value of \$10,000, an adjusted basis to A of \$4,000, and was subject to a mortgage of \$6,000. Payment of the mortgage was assumed by the partnership. The basis of A's interest in the partnership is computed as follows:

A's basis in partnership interest

Adjusted basis of property contributed	4,000
Mortgage Assumed by other partners (\$6,000 X 80%)	<u>(4,800)</u>
A's basis in partnership interest	(800)

Since A's basis cannot be less than zero, the \$800 in excess of basis, which is considered as a distribution of money under section 752(b), is treated as capital gain from the sale or exchange of a partnership interest. See section 731(a).

Check

Potential gain prior to contribution:	
FMV of Property	10,000
Less Property Basis	<u>(4,000)</u>
Potential Gain	6,000

Potential gain after contribution:	
FMV of P'ship Interest	4,000
Less P'ship Interest Basis	(0)
Relief of Debt (20% of 6K)	1,200
Gain Recognized	<u>800</u>
Potential Gain	6,000