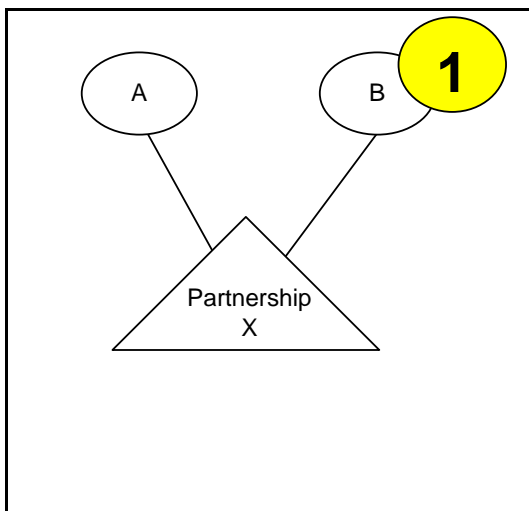


**Revenue Ruling 84-111
Situation 1**

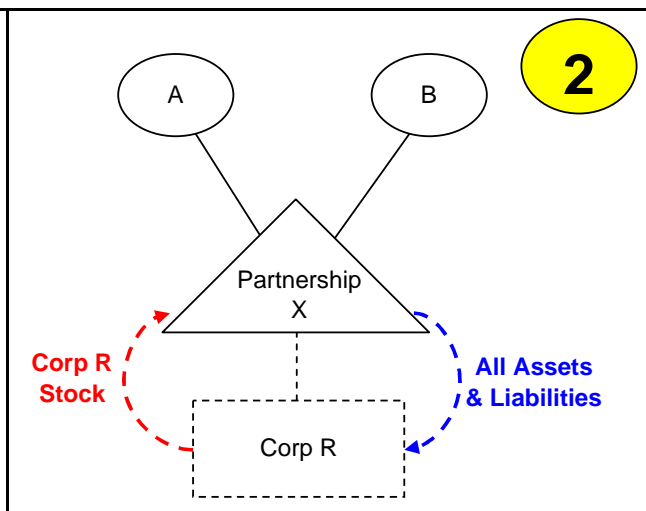
**Partnership Conversion
to Corporation:
Assets Down & Stock Up**

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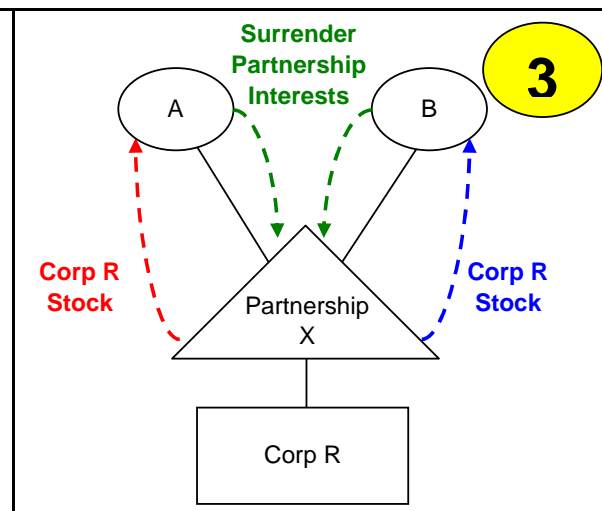
Initial Structure



Asset Contribution



Stock Distribution

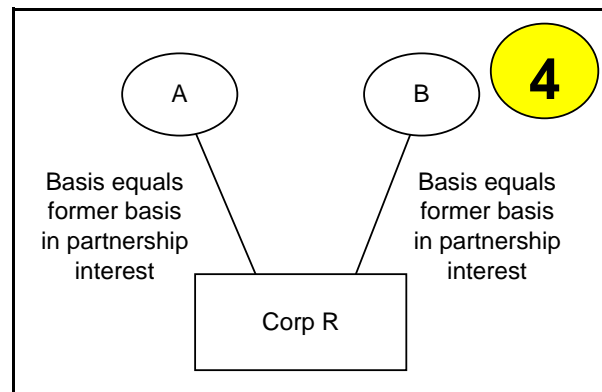


Partnership X transferred all of its assets to newly-formed corporation R in exchange for all the outstanding stock of R and the assumption by R of X's liabilities. X then terminated by distributing all the stock of R to X's partners in proportion to their partnership interests.

Under section 351, gain or loss is not recognized by X on the transfer by X of all of its assets to R in exchange for R's stock and the assumption by R of X's liabilities. Under section 362(a), R's basis in the assets received from X equals their basis to X immediately before their transfer to R. Under section 358(a), the basis to X of the stock received from R is the same as the basis to X of the assets transferred to R, reduced by the liabilities assumed by R, which assumption is treated as a payment of money to X under section 358(d). In addition, the assumption by R of X's liabilities decreased each partner's share of the partnership liabilities, thus, decreasing the basis of each partner's partnership interest pursuant to sections 752 and 733.

On distribution of the stock to X's partners, X terminated under section 708(b)(1)(A). Pursuant to section 732(b), the basis of the stock distributed to the partners in liquidation of their partnership interests is, with respect to each partner, equal to the adjusted basis of the partner's interest in the partnership.

Ending Point



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