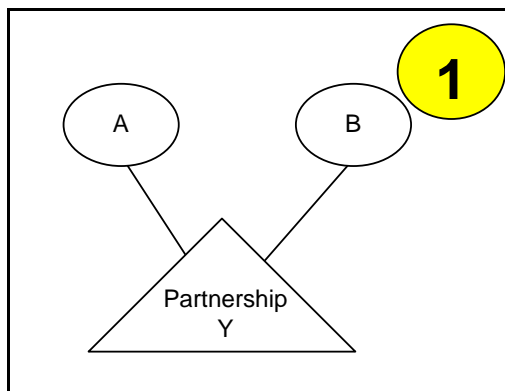


**Revenue Ruling 84-111
Situation 2**

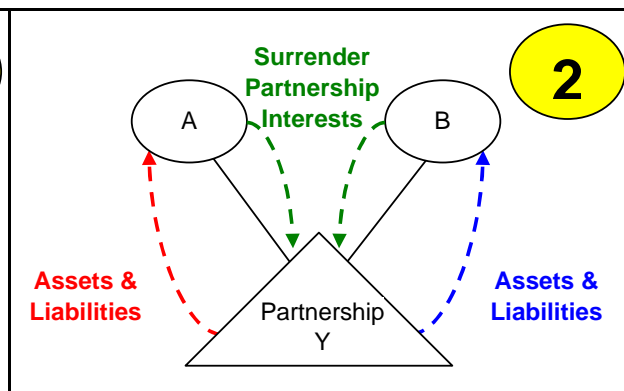
**Partnership Conversion
to Corporation:
Assets Up & Assets Down**

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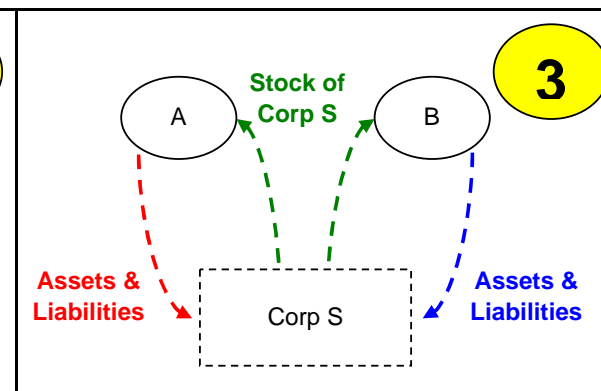
Initial Structure



Assets Up



Assets Down

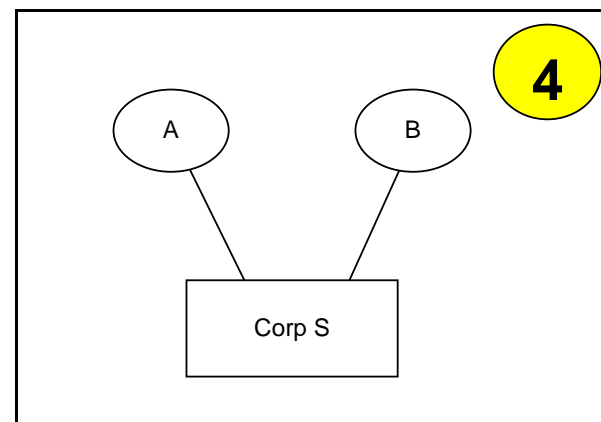


Partnership Y distributed all of its assets and liabilities to its partners in proportion to their partnership interests in a transaction that constituted a termination of Y under section 708(b)(1)(A). The partners then transferred all the assets received from Y to newly-formed corporation S in exchange for all the outstanding stock of S and the assumption by S of Y's liabilities that had been assumed by the partners.

Pursuant to section 732(b), the basis of the assets (other than money) distributed to the partners in liquidation of their partnership interests in Y was, with respect to each partner, equal to the adjusted basis of the partner's interest in Y, reduced by the money distributed.

Under section 752, the decrease in Y's liabilities resulting from the transfer to Y's partners was offset by the partners' corresponding assumption of such liabilities so that the net effect on the basis of each partner's interest in Y, with respect to the liabilities transferred, was zero. Under section 351, gain or loss is not recognized by Y's former partners on the transfer to S in exchange for its stock and the assumption of Y's liabilities, of the assets of Y received by Y's partners in liquidation of Y.

Ending Point



Under section 358(a), the basis to the former partners of Y in the stock received from S is the same as the section 732(b) basis to the former partners of Y in the assets received in liquidation of Y and transferred to S, reduced by the liabilities assumed by S, which assumption is treated as a payment of money to the partners under section 358(d). Under section 362(a), S's basis in the assets received from Y's former partners equals their basis to the former partners as determined under section 732(c) immediately before the transfer to S.

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