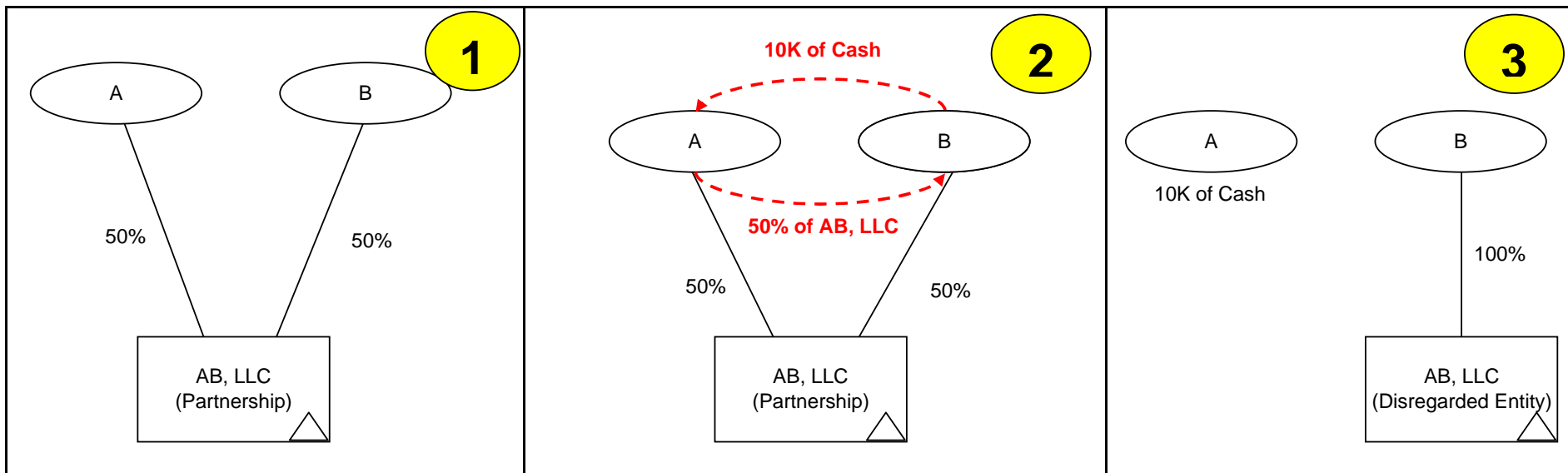


Partnership to Disregarded Entity

Initial Structure

A Sells LLC Interest to B

Ending Point



A's Treatment: A must treat the transaction as a sale of a partnership interest. Thus, A must report the gain or loss resulting from the sale in accordance with section 741.

B's Treatment: For purposes of determining the tax treatment of B, the AB partnership is deemed to make a liquidating distribution of all of its assets to A and B, and following this distribution, B is treated as acquiring the assets deemed to have been distributed to A. B's basis in the assets attributable to A's one-half interest is \$10,000. B's holding period for these assets begins on the day immediately following the date of the sale.

Upon the termination of AB, B is considered to receive a distribution of the assets attributable to B's former interest in AB. B must recognize gain or loss, if any, on the deemed distribution to the extent required by section 731(a). B's basis in the assets received in the deemed liquidation of B's partnership interest is determined under section 732(b). Under section 735(b), B's holding period for these assets includes the partnership's holding period (except for purposes of section 735(a)(2)).

△ Means "flow-thru" for U.S. tax purposes