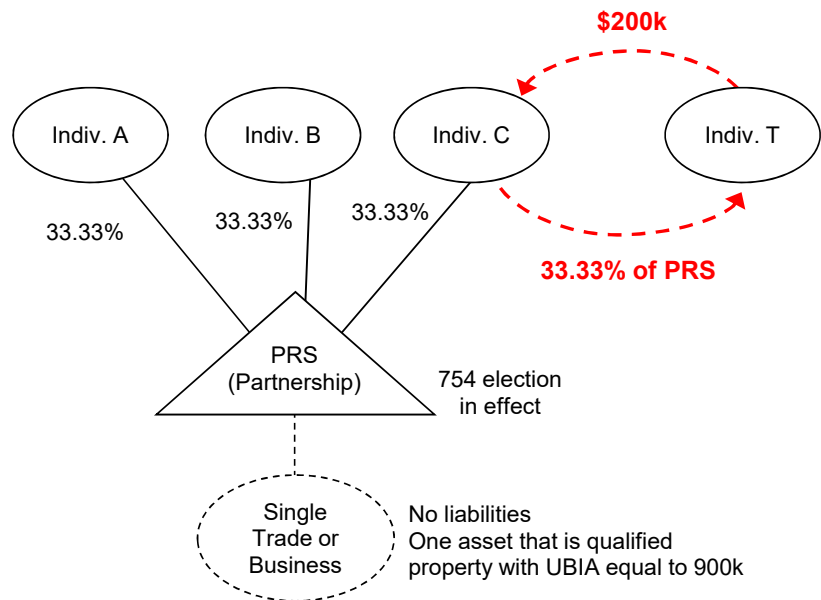


**Reg. 1.199A-1(e)(3)(iv)(D),
Example 2**

**UBIA for Partner in Partnership
with Negative 743(b) Adjustment**

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	<u>Total</u>	<u>1 / 3</u>	
FMV	600k	200k	(50k) = 743(b) basis adjustment
UBIA	900k	300k	
Tax basis in qualified prop.	750k	250k	(50k) = "excess" 743(b) basis adjustment

A, B, and C are equal partners in partnership, PRS. PRS has a single trade or business that generates QBI. PRS has no liabilities and only one asset, a single item of qualified property with a UBIA equal to \$900,000. Each partner's share of the UBIA is \$300,000.

A sells its one-third interest in PRS to T for \$200,000 when a section 754 election is in effect. At the time of the sale, the tax basis of the qualified property held by PRS is \$750,000, and the amount of loss that would be allocated to T from a hypothetical transaction under §1.743-1(d)(2) is \$50,000. Thus, T's interest in PRS's previously taxed capital is equal to \$250,000 (\$200,000, the amount of cash T would receive if PRS liquidated immediately after the hypothetical transaction, increased by \$50,000, T's share of loss from the hypothetical transaction). The amount of T's section 743(b) basis adjustment to PRS's qualified property is negative \$50,000 (the excess of \$250,000, T's share of the adjusted basis to PRS of the partnership's property, over \$200,000, T's cost basis for its interest).

In order for T to determine its UBIA, T must calculate its reduced section 743(b) basis adjustment. T's reduced section 743(b) basis adjustment is equal to the excess of the amount that would represent T's section 743(b) basis adjustment with respect to the same item of qualified property, as determined under §1.743-1(b) and §1.755-1, but calculated as if the adjusted basis of all of PRS's property was equal to the UBIA of such property less T's section 743(b) basis adjustment with respect to the qualified property, as determined under §1.743-1(b) and §1.755-1. T's section 743(b) basis adjustment calculated as if adjusted basis of the qualified property were equal to its UBIA is negative \$100,000 (the excess of \$300,000, T's share of the adjusted basis to PRS of the partnership's property, over \$200,000, T's cost basis for its interest). T's excess section 743(b) basis adjustment is equal to negative \$50,000 (negative \$100,000 less negative \$50,000).

Therefore, for purposes of applying the UBIA limitation to T's share of QBI from PRS's trade or business, T's UBIA is equal to \$250,000 (\$300,000, T's one-third share of the qualified property's UBIA, reduced by T's negative \$50,000 reduced section 743(b) basis adjustment).