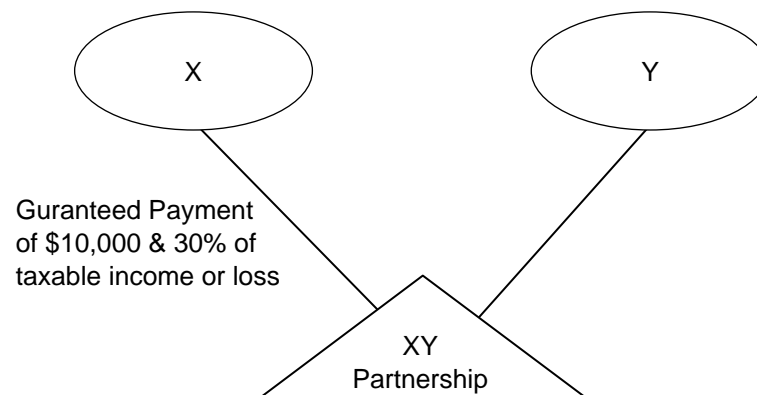


Reg. 1.707-1(c), Example 4

Fixed Guaranteed Payment & Capital Gains

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Partnership Capital Gains	\$30,000
Ordinary Income (Loss) before Guaranteed Payment	0
Guaranteed Payment to X	<u>(10,000)</u>
Ordinary Income (Loss) after Guaranteed Payment	(10,000)
Distributive Share to X - Percentage	30%
Distributive Share to X - Dollars (Ord. Loss)	(3,000)
Total Ordinary Income to X (Gtd. Pmt. + Distr. Share)	<u>7,000</u>
Total Capital Gain to X	9,000



Partner X in the XY partnership is to receive a payment of \$10,000 for services, plus 30 percent of the taxable income or loss of the partnership. The partnership has \$30,000 in capital gains and no other items of income or deduction except the \$10,000 paid X as a guaranteed payment. Since the items of partnership income or loss must be segregated under section 702(a), the partnership has a \$10,000 ordinary loss and \$30,000 in capital gains. X's 30 percent distributive shares of these amounts are \$3,000 ordinary loss and \$9,000 capital gain. In addition, X has received a \$10,000 guaranteed payment which is ordinary income to him.