

**Reg. 1.708-1(c)(5),  
Example 2**

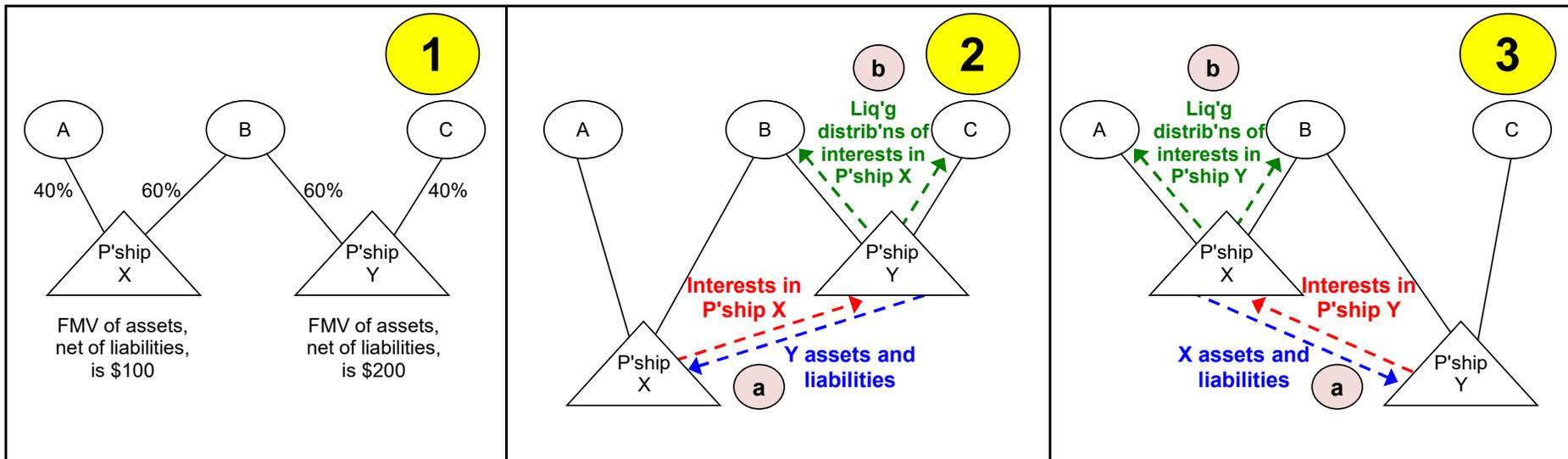
**"Assets-Over" Partnership Merger  
(Deemed Steps Differed From Actual Steps)**

Copyright © 2021 Andrew Mitchel LLC  
International Tax Services  
www.andrewmitchel.com

**Initial Structure**

**Actual Steps of Merger**

**Deemed Steps of Merger**



Partnership X, in whose capital and profits A owns a 40-percent interest and B owns a 60-percent interest, and partnership Y, in whose capital and profits B owns a 60-percent interest and C owns a 40-percent interest, merge on September 30, 1999. The fair market value of the partnership X assets (net of liabilities) is \$100X, and the fair market value of the partnership Y assets (net of liabilities) is \$200X. The merger is accomplished under state law by partnership Y contributing its assets and liabilities to partnership X in exchange for interests in partnership X, with partnership Y then liquidating, distributing interests in partnership X to B and C.

B, a partner in both partnerships prior to the merger, owns a greater than 50-percent interest in the resulting partnership following the merger. Accordingly, because the fair market value of partnership Y's assets (net of liabilities) was greater than that of partnership X's, under Reg. 1.708-1(c)(1), partnership X will be considered to terminate in the merger. As a result, even though, for state law purposes, the transaction was undertaken with partnership Y contributing its assets and liabilities to partnership X and distributing interests in partnership X to its partners, pursuant to Reg. 1.708-1(c)(3)(i), for Federal income tax purposes, the transaction will be treated as if partnership X contributed its assets to partnership Y in exchange for interests in partnership Y and then liquidated, distributing interests in partnership Y to A and B.

**Ending Point**

