

**Reg. 1.708-1(c)(5),
Example 3**

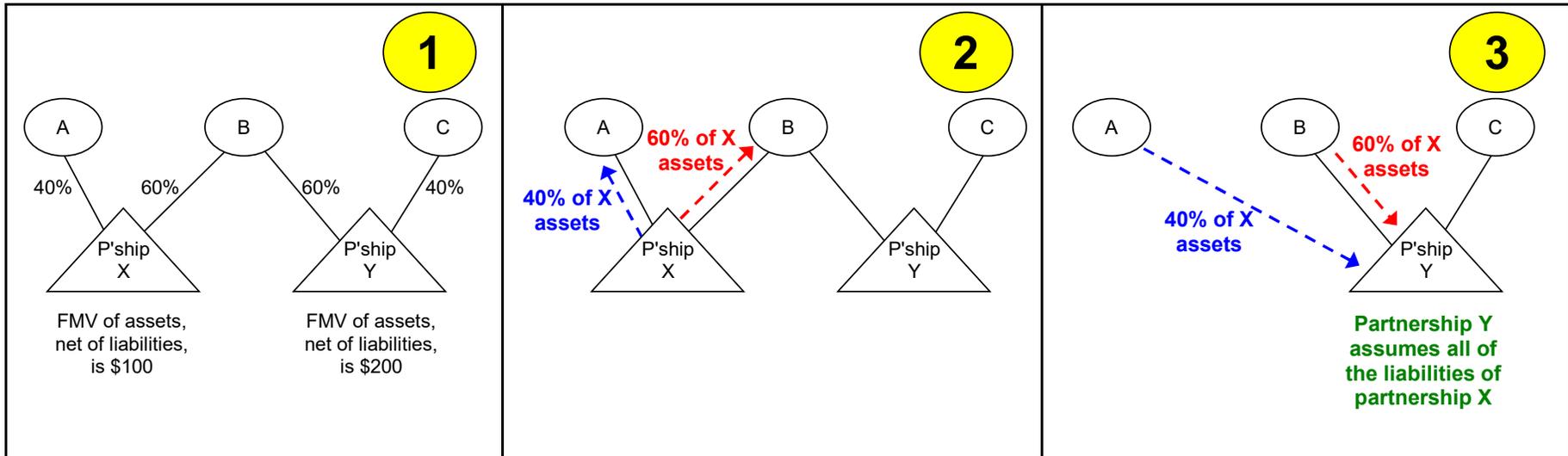
**"Assets-Up" Partnership Merger
(Form Respected)**

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Initial Structure

Step 1 of "Assets-Up" Form of Merger

Step 2 of "Assets-Up" Form 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. Partnership X is engaged in a trade or business and has, as one of its assets, goodwill. 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 having partnership X convey an undivided 40-percent interest in each of its assets to A and an undivided 60-percent interest in each of its assets to B, with A and B then contributing their interests in such assets to partnership Y. Partnership Y also assumes all of the liabilities of partnership X. Under Reg. 1.708-1(c)(3)(ii), the form of the partnership merger will be respected so that partnership X will be treated as following the assets-up form for Federal income tax purposes.

Ending Point

