Reg. 1.722-1, Example 2

A acquired a 20% interest in a partnership by contributing property. At the time of A's contribution, the property had a fair market value of $10,000, an adjusted basis to A of $4,000, and was subject to a mortgage of $6,000. Payment of the mortgage was assumed by the partnership. The basis of A's interest in the partnership is computed as follows:

A's basis in partnership interest
- Adjusted basis of property contributed: 4,000
- Mortgage Assumed by other partners ($6,000 x 80%): 4,800
- A's basis in partnership interest: 800

Since A's basis cannot be less than zero, the $800 in excess of basis, which is considered as a distribution of money under section 752(b), is treated as capital gain from the sale or exchange of a partnership interest. See section 731(a).

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