

**Reg. 1.736-1(b)(7),
Example 2**

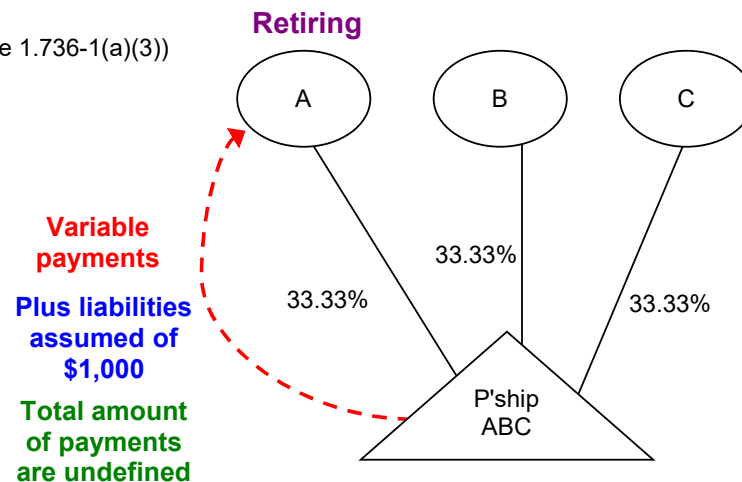
**Retiring Partner, Variable Amount,
No Payment for Goodwill**

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<u>Assets</u>	<u>Adj. basis per books</u>	<u>Market value</u>	<u>A's 1/3 Share of Value</u>
Cash	13,000	13,000	4,333
Unrealized receivables	0	30,000	(cannot be 736(b), see 1.736-1(a)(3))
Capital and section 1231 assets	20,000	23,000	7,667
Total	33,000	66,000	12,000 Sec. 736(b) (at most)

<u>Liabilities & Capital</u>			<u>A's 1/3 Share for Basis</u>
Liabilities	3,000	3,000	1,000
Capital:			
A	10,000	21,000	10,000
B	10,000	21,000	
C	10,000	21,000	
Total	33,000	66,000	11,000

Maximum capital gain from partnership distributions 1,000



Partnership ABC is a personal service partnership and its balance sheet is as shown above. Partner A retires from the partnership in accordance with an agreement whereby his share of liabilities (\$1,000) is assumed. The agreement between the partners provides for payments to A for 3 years of a percentage of annual income instead of a fixed amount. Unless the partners agree otherwise under Reg. 1.736-1(b)(5)(iii), all payments received by A up to \$12,000 shall be treated under section 736(b) as payments for A's interest in partnership property. His gain of \$1,000 will be taxed only after he has received his full basis under section 731. Since the payments are not fixed in amount, the election provided in Reg. 1.736-1(b)(6) is not available. Any payments in excess of \$12,000 shall be treated as a distributive share of partnership income to A under section 736(a)(1).

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