

**Reg. 1.736-1(b)(7),
Example 4**

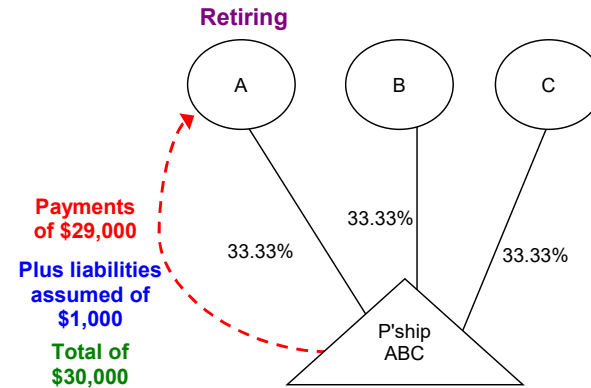
**Retiring Partner, Fixed Amount, No Payment
for Goodwill, 1245 Property**

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Assets	Adj. basis per books	Market value	A's 1/3 Share of Value
Cash	13,000	13,000	4,333
Unrealized receivables	0	30,000	(cannot be 736(b), see 1.736-1(a)(3))
Cap. & 1231 (not 1245 prop.)	20,000	21,000	7,000
1245 property (unreal. rec.)	0	2,000	(cannot be 736(b), see 1.736-1(a)(3))
Total	33,000	66,000	11,333 Sec. 736(b)

Liabilities & Capital			A's 1/3 Share for Basis
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

Capital gain from partnership distributions		333
Total proceeds to be received (over 3 years)		30,000
Less 736(b) payments		(11,333)
Total 736(a)(2) payments (considered as guaranteed pmts.)		18,667 Sec. 736(a)(2)



	736(a)(2)	736(b)	Cap. gain if no election	Cap. gain if 1.736- 1(b)(6) election
Year 1 pmt.s (cash of 9,000 & liab.s ass. 1,000)	10,000	6,222	3,778	111
Year 2 pmt.s (cash)	10,000	6,222	3,778	111
Year 3 pmt.s (cash)	10,000	6,222	3,778	333
Total	30,000	18,667	11,333	

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. In addition he is to receive \$9,000 in the year of retirement plus \$10,000 in each of the two succeeding years. Thus, the total that A receives for his partnership interest is \$30,000 (\$29,000 in cash and \$1,000 in liabilities assumed). The capital and section 1231 assets consist of an item of section 1245 property (as defined in section 1245(a)(3)). Under Reg. 1.751-1(c)(4) the section 1245 property is an unrealized receivable to the extent of \$2,000. Therefore, the value of A's interest in section 736(b) partnership property is only \$11,333 (one-third of \$34,000, the sum of \$13,000 cash and \$21,000, the fair market value of section 1245 property to the extent not an unrealized receivable). From the disposition of his interest in partnership property, A will realize a capital gain of \$333 (\$11,333 minus \$11,000, the basis of his interest). The remaining \$18,667 (\$30,000 minus \$11,333) will constitute payments under section 736(a)(2) which are taxable to A as guaranteed payments under section 707(c). The payment for the first year is \$10,000, consisting of \$9,000 in cash, plus \$1,000 in liability assumed (section 752(b)). Thus, unless the partners agree otherwise under Reg. 1.736-1(b)(5)(iii), each annual payment of \$10,000 will be allocated as follows: \$6,222 (18,667/30,000 of \$10,000) is a section 736(a)(2) payment and \$3,778 (11,333/30,000 of \$10,000) is a payment for an interest in section 736(b) partnership property. (The partnership may deduct the \$6,222 guaranteed payment made to A in each of the 3 years.) The gain on the payments for partnership property will be determined under section 731, as provided in Reg. 1.736-1(b)(6). A will treat only \$3,778 of each payment as a distribution in a series in liquidation of his entire interest and, under section 731, will have a capital gain of \$333 when the last payment is made. However, if A so elects, as provided in Reg. 1.736-1(b)(6), he may treat such gain as follows: Of each \$3,778 payment attributable to A's interest in partnership property, \$111 is capital gain (one-third of the total capital gain of \$333), and \$3,667 is a return of capital.