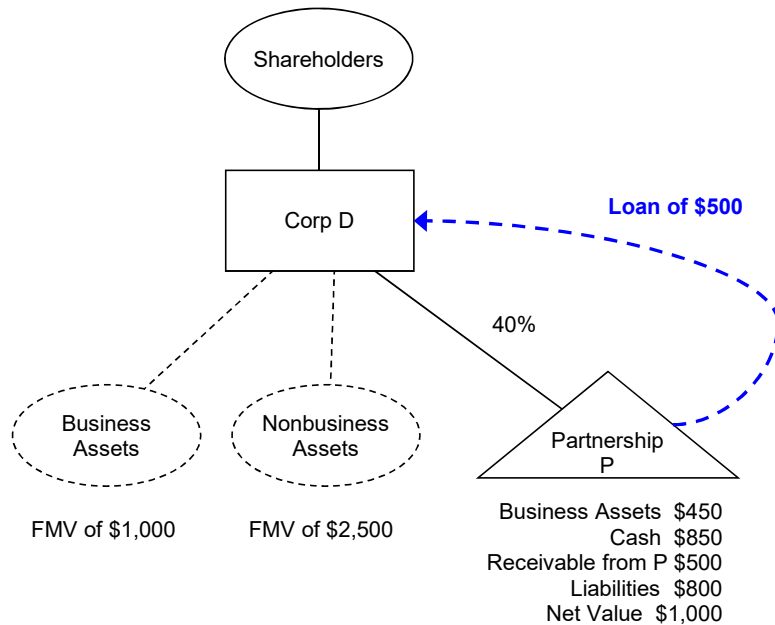


**Prop. Reg. 1.355-2(d)(4)
Example 7**

**Nonbusiness Asset Percentage:
Borrowing From Partnership**

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$$\text{Corp D Nonbusiness Asset Percentage} = \frac{(2,500+300-200)}{(1,000+2,500+400-200)} = \frac{2,600}{3,700} = 70.3\%$$

D has directly held Business Assets of \$1,000, directly held Nonbusiness Assets of \$2,000, and a 40% partnership interest in P. P has \$450 of Business Assets and \$1,350 of cash, which P holds as a Nonbusiness Asset, and owes a liability of \$800.

D then borrows \$500 from P and invests the proceeds in a Nonbusiness Asset. P's directly-held Nonbusiness Assets increase by \$500. The D obligation is a Nonbusiness Asset in P's hands.

D's directly-held Nonbusiness Assets increase by \$500, to \$2,500. There is no corresponding decrease in the amount of Business Assets or Nonbusiness Assets allocated to D from P, because a Nonbusiness Asset of P (\$500 cash) has been replaced by another \$500 Nonbusiness Asset, the obligation from D. Effectively, because D has a 40% interest in P, D has borrowed \$200 (40% of \$500) from itself. Accordingly, D's Nonbusiness Assets must be decreased by \$200. D's Business Assets will continue to be \$1,100 (\$1,000 directly held plus \$100 allocated from P), and D's Nonbusiness Assets will be \$2,600 (\$2,500 directly held, plus \$300 allocated from P less the \$200 decrease to prevent double inclusion of the obligation and the obligation proceeds).