

Reg. 1.722-1, Example 1

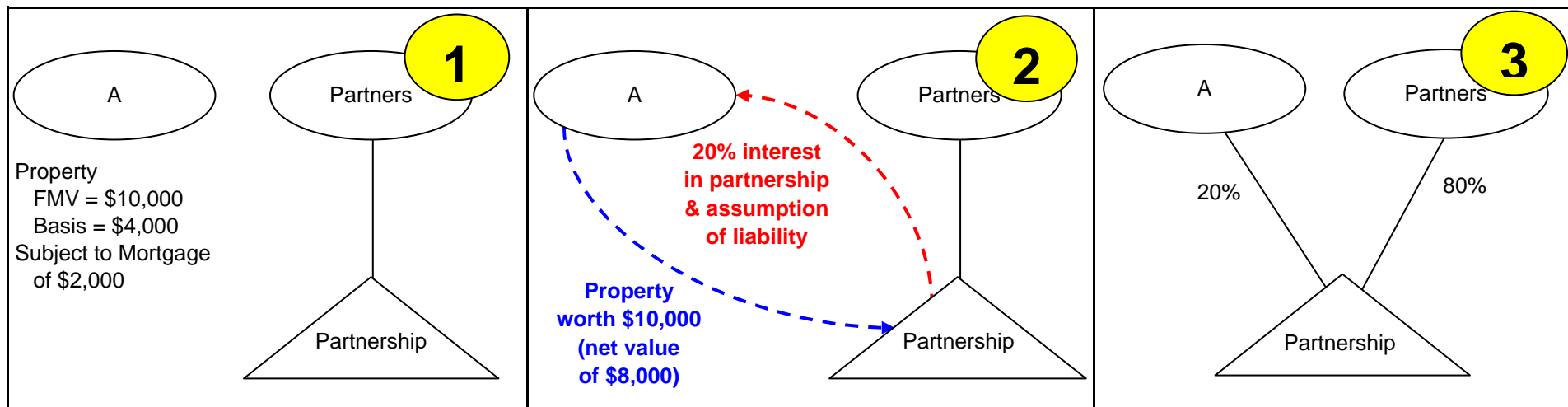
Basis of Contributing Partner's Interest With Liabilities Assumed

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Initial Structure

Contribution

Ending Point



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 \$2,000. Payment of the mortgage was assumed by the partnership. The basis of A's interest in the partnership is \$2,400, computed as follows:

A's basis in partnership interest

Adjusted basis of property contributed	4,000
Mortgage Assumed by other partners (\$2,000 X 80%)	<u>(1,600)</u>
A's basis in partnership interest	2,400

Check

Potential gain prior to contribution:	
FMV of Property	10,000
Less Property Basis	<u>(4,000)</u>
Potential Gain	6,000
Potential gain after contribution:	
FMV of P'ship Interest	8,000
Less P'ship Interest Basis (2,400)	<u>(2,400)</u>
Relief of Debt (20% of 2K)	<u>400</u>
Potential Gain	6,000