**Title:** Breaking Up is So Hard to Do "Complications of Exit Consequences" (Part 1 of 3)

**Subtitle:** Introduction to some of the complications of "exit consequences", and the messy aftermath that often follows

**Meta Description:** This post introduces some of the complications of exit consequences, or when parties decide to leave a a project, and the messy aftermath that often follows

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Forrest Gump was a wise man for coining the phrase "Stuff Happens" (according to the G-Rated version of the movie). People--whether investors or business owners--often have different aspirations that many times do not necessarily coincide with the project they were undertaking. A simple case is when one owner/investor is more anxious to move on with the next "project", as opposed to managing the project at hand to ensure its security. This post will introduce some of the complications of "exit consequences", or when parties decide to leave a a project, and the messy aftermath that often follows.

One instance of this messy endeavor is when an estate has received its closing letter to distribute assets to its beneficiaries. Among the assets to be distributed are membership interests in a limited liability company (“LLC”) or limited partnership interests in a limited partnership (“LP”). The LP and LLC may have served their intended purposes by allowing losses to be utilized, subjecting income to only one level of tax or obtaining discounts for lack of marketability and for a minority stake that reduced estate tax. However, investment philosophy and risk tolerances may reasonably differ. Liabilities may consume cash flow, increasing the tension between those able to hold for the long term and those needing immediate cash for other reasons. Basically, if someone values their family ties, they may not want to be partners with their siblings.

Income tax consequences of liquidating distributions are tested by IRC Section (“§”) 704(c)(1)(B), §731(c) and §737, in that order or sequence.

Notable, § 704(c)(1)(B) requires that Build-in-Gain, the difference between the asset’s fair market value and tax basis, be allocated to the contributing partner. Where the contributing partner transfers its interest, the transferee will receive the allocation. This has a dramatic impact upon the recipient of a gift that does not have the cash to pay the income tax resulting from a distribution.

Layman should realize that marketable securities, broadly defined, are treated as cash, resulting in immediate taxation upon distribution, unless one of four exceptions applies. Perhaps it is equally important to the success of partnership to anticipate an exit strategy at the outset. If anything, this tempers the expectations of the participants and makes them sensitive to the planning.

For more on this series, check out part two and three:

\*Part 2 - The Drama Continues…Queue the Red Tape!

\*Part 3 - Strategies for avoiding gain recognition when distributing assets

**Raw Content:** <h2 style="text-align: center;">Introduction to some of the complications of "exit consequences", and the messy aftermath that often follows</h2>
<p>Forrest Gump was a wise man for coining the phrase "Stuff Happens" (according to the G-Rated version of the movie). People--whether investors or business owners--often have different aspirations that many times do not necessarily coincide with the project they were undertaking. A simple case is when one owner/investor is more anxious to move on with the next "project", as opposed to managing the project at hand to ensure its security. This post will introduce some of the complications of "exit consequences", or when parties decide to leave a a project, and the messy aftermath that often follows.</p>
<p><a href="https://shhcsgmvsndmxmpq.nyc3.digitaloceanspaces.com/2011/12/TAX-1.jpg"><img class="alignright size-full wp-image-24980" src="https://shhcsgmvsndmxmpq.nyc3.digitaloceanspaces.com/2011/12/TAX-1.jpg" alt="Introduction to some of the complications of “exit consequences”" width="300" height="150" /></a>One instance of this messy endeavor is when an estate has received its closing letter to distribute assets to its beneficiaries. Among the assets to be distributed are membership interests in a limited liability company (“LLC”) or limited partnership interests in a limited partnership (“LP”). The LP and LLC may have served their intended purposes by allowing losses to be utilized, subjecting income to only one level of tax or obtaining discounts for lack of marketability and for a minority stake that reduced estate tax. However, investment philosophy and risk tolerances may reasonably differ. Liabilities may consume cash flow, increasing the tension between those able to hold for the long term and those needing immediate cash for other reasons. Basically, if someone values their family ties, they may not want to be partners with their siblings.</p>
<h2>Income Tax Consequences</h2>
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<p>Layman should realize that marketable securities, broadly defined, are treated as cash, resulting in immediate taxation upon distribution, unless one of four exceptions applies. Perhaps it is equally important to the success of partnership to anticipate an exit strategy at the outset. If anything, this tempers the expectations of the participants and makes them sensitive to the planning.</p>
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<p>\*Part 2 - The Drama Continues…<a href="/law-firm-insights/tax/taxes/business-tax/breaking-up-is-so-hard-to-do-part-2-of-3/">Queue the Red Tape! </a></p>
<p>\*Part 3 - <a href="/law-firm-insights/tax/taxes/business-tax/breaking-up-is-so-hard-to-do-part-3-of-3/">Strategies for avoiding gain recognition when distributing assets</a></p>