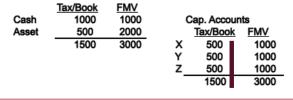
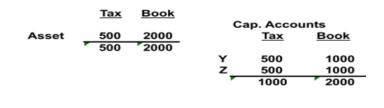
Section 734(b) Adjustments: Gain on Distribution

 PSH XYZ distributes 1000 to X in liquidation of her PSH interest. X realizes a 500 gain. XYZ's balance sheet before and after the liquidation (and subsequent book up) is:





Partnership Distributions
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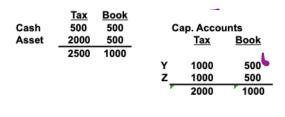
- 1. Remember: liquidation of P's PSH interest generally requires book up/down of PSH assets
- 2. Each P's share of PSH IB is 500 (1500/3) before liquidation. X takes out 1000, 500 more than her share. X recognizes a gain of 500. This leaves too much gain inside of PSH.
- 3. X's share of PSH BIG is 500 (1500/3). After liquidation, there is still 1500 of BIG inside PSH.
- 4. After liquidation, Z's and Y's share of PSH IB is 250 (500/2). OB is 500 each.
- 5. Sale of asset for 2000 yields gain of 1500, allocated 750 each to Z & Y. Their OB is 1250 each but PSH interest worth 1000 each. BIL of 250.
- 6. If 754 election in effect, PSH must increase basis in remaining asset by gain recognized (500) by A.

734(b)(1)(A). When asset sold, gain is 1000, allocated 500 to Y & Z. Their OB will equal book and FMV of PSH interest.

Section 734(b) Adjustments: Loss on Distribution

 PSH XYZ distributes 500 to X in liquidation of her PSH interest. X realizes a 500 loss. XYZ's balance sheet before and after the liquidation (and subsequent book up) is:

	Tax/Book	FMV				
Cash	1000	1000	Cap. Accounts			
Asset	2000	500		Tax/Book	FMV	
	3000	1500	Х	1000	500	
			Υ	1000	500	
			Z	1000	500	
			_	3000	1500	



Distribution_20 Partnership Distributio

- 1. Remember: liquidation of P's PSH interest generally requires book up/down of PSH assets
- 2. Each P's share of PSH IB is 1000 (3000/3) before liquidation. X takes out 500, 500 less than her share. X recognizes a loss of 500. This leaves more loss inside of PSH for remaining Ps.
- 3. After liquidation, Z's and Y's share of PSH IB is 1250 (2500/2). OB is 1000 each.
- 4. Sale of asset for 500 yields loss of 1500, allocated 750 each to Z & Y. Their OB is 250 each but PSH interest worth 500 each. BIG of 250. They recognized a loss greater than FMV of PSH interest.
- 5. If 754 election in effect, PSH must reduce basis in remaining asset by loss recognized (500) by X. 734(b)(2)(A). If asset sold for 1500, loss of 1000 allocated 500 to Y & Z. This reduces OB to 500 each, which is equal to FMV & book.

Section 734(b) Adjustments: Step Up in Basis of Distributed Property

 PSH XYZ distributes Thing #1 to X in liquidation of her PSH interest. X takes a 700 basis in the property. XYZ's balance sheet before and after the liquidation (and subsequent book up) is:

	Tax/Book	FMV				
Thing #1	300	1200	(Cap. Accounts		
Thing #2	1800	2400		Tax/Book	FMV	
	2100	3600	Х	700	1200	
			Υ	700	1200	
			Z	700	1200	
			_	2100	3600	

	<u>Tax</u>	<u>Book</u>		Сар. Ассо	ounts
Thing #2	1800	2400		<u>Tax</u>	<u>Book</u>
_	1800	2400			
			Y	700	1200
			Z	700	1200
			,	1400	2400

orbusions, 20 Partnership Distributio

- 1. Remember: liquidation of P's PSH interest generally requires book up/down of PSH assets
- 2. Each P's share of PSH IB is 700 (2100/3) before liquidation. X takes out 300, 400 less than her share. X increases basis of property to 700, his OB before distribution. This leaves less gain inside of PSH for remaining Ps.
- 3. X's share of inside gain was 500 (1500/3), but X takes out 900 of inside gain (1200-300).
- 4. After liquidation, Z's and Y's share of PSH IB is 900 (1800/2). OB is 700 each.
- 5. Sale of Thing #2 for 2400 yields gain of 600, allocated 300 each to Z & Y. Their OB is 1000 each but PSH interest worth 1200 each. BIG of 200.
- 6. If 754 election in effect, PSH must reduce basis in Thing #2 by 400. 734(b)(2)(B). If Thing #2 sold for 2400, gain of 500 allocated to each Y & Z. This increase OB to 1200 each, which is equal to FMV & book.

Section 734(b) Adjustments: Step Down in Basis of Distributed Property

PSH XYZ distributes Thing #1 to X in liquidation of her PSH interest. X takes a 700 basis in the property, stepping down the basis from 1900. XYZ's balance sheet before and after the liquidation (and subsequent book up) is:

	Tax/Book	<u>FMV</u>				
Thing #1	1900	1200	(Cap. Accounts		
Thing #2	200	2400		Tax/Book	FMV	
,	2100	3600	Х	700	1200	
			Υ	700	1200	
			Z	700	1200	
			_	2100	3600	

	<u>Tax</u>	Book				
			C	Cap. Accounts		
Thing #2_	200	2400		<u>Tax</u>	<u>Book</u>	
_	200	2400				
			Y	700	1200	
			Z	700	1200	
				1400	2400	

Distributions_20 Partnership Distribution

- 1. Remember: liquidation of P's PSH interest generally requires book up/down of PSH assets
- 2. Each P's share of PSH IB is 700 (2100/3) before liquidation. X takes out 1900, 1200 more than her share. X decrease basis of property to 700, his OB before distribution. This leaves more gain inside of PSH for remaining Ps.
- 3. X's share of inside gain was 500 (1500/3), but X takes out 700 of BIL (1200-1900).
- 4. After liquidation, Z's and Y's share of PSH IB is 100 (200/2). OB is 700 each.
- 5. Sale of Thing #2 for 2400 yields gain of 2200, allocated 1100 each to Z & Y. Their OB is 1800 each but PSH interest worth 1200 each. BIL of 600.
- 6. If 754 election in effect, PSH must increase basis in Thing #2 by 1200. 734(b)(1)(B). If Thing #2 sold for 2400, gain of 500 allocated to each Y & Z. This increase OB to 1200 each, which is equal to FMV & book.