A and B form a limited partnership. A is a limited partner and B is the general partner. A contributes $360 and B contributes $40 to the partnership. The partnership agreement contains a minimum gain chargeback provision and complies with the qualiﬁed income offset rules of the I.R.C.§ 704(b) Regulations. Neither partner has a deﬁcit restoration obligation. The partnership agreement

further provides that all losses will be allocated 90% to A and 10% to B and that all income will be allocated in the same manner until income allocations equal previous loss allocations. Thereafter income and losses will be allocated 50% to A and 50% to B. The partnership borrows $1,600 from an unrelated commercial lender on a nonrecourse basis and purchases depreciable real estate on leased land for $2,000. Only interest on the loan is due for the ﬁrst ﬁve years the debt is outstanding. The partnership breaks even in its ﬁrst three years of operation except for depreciation deductions of $400 per year, and thus generates a loss each of its ﬁrst three years of $400 (the depreciation rules in real life do not permit this rapid of a depreciation rate — we are ignoring the real world to make the problem more manageable; we are also ignoring ﬁrst-year conventions).

a.

Assume that on January 1 of year 4, the partnership sells the property for $2,400. Assume that aside from this sale, the partnership breaks even on operations in year four. For years 1-4, provide the partners’ capital accounts and shares of minimum gain.

b.

How would your answer change if, instead of selling the property on January 1 of year 4, the partnership borrows an additional $500 on a nonrecourse basis, securing it with a second mortgage on the property, and distributes the proceeds equally to A and B? For purposes of this question, assume the partnership breaks even in year 4 except for depreciation deductions.