

Partnership Taxation

Learning Objectives

As a result of studying each assignment, you should be able to meet the objectives listed below each assignment.

Chapter 1 - Introduction

Learning Objectives

After reading Chapter 1, participants will able to:

1. Define a partnership for federal income tax purposes using §761(a) by:
 - a. Naming five important factors in deciding when a partnership exists including whether a co-tenancy qualifies as a partnership and identifying a husband-wife partnership pointing out the correct reporting of income and loss;
 - b. Outlining the liability of general and limited partners including how such liability might be contained; and
 - c. Listing four factors previously used to determine whether a business was a corporation or a partnership and contrasting them with the current check-the-box regulations.
2. Analyze the impact of partnership agreements on partners' shares of tax items, apply the requirements of §704(e) to family partnerships, and list the pros and cons of partnerships to determine when the entity choice is appropriate.
3. Explain the complete or partial exclusion from partnership treatment under §761.

After studying the materials in Chapter 1, answer the exam questions 1 to 23.

Learning Objectives – Partnership Income

After reading Chapter 2, participants will able to:

1. Allocate income and deduction among partners, determine when a partnership or its partners are subject to income or estimated tax, explain self-employment taxes under §1402, and identify at least three instances where partnerships are viewed as separate entities.
2. List eight types of separately stated partnership expenses classifying the character of such items and their deduction limitations, and describe the §704(d) outside basis limitation and its impact on losses.

3. Ascertain whether a partnership can elect to amortize certain business-related expenses, and clarify the key elements and requirements of the partnership tax return and the items of deduction to which individuals are entitled.
4. Identify a partnership's year taxable under §706(a) to allocate various items of income and deduction from the partnership to the partners by:
 - a. Listing three instances when a partnership generally must conform its tax year to its partners' tax years and computing the least aggregate deferral of income for each partner whose tax year is different from the other partners;
 - b. Determining the availability of the natural business year and explaining the §444 election as it relates to a partnership's tax year including its costs and/or benefits; and
 - c. Naming two major tax year termination events and at least three major non-termination events for a partnership.
5. Classify transactions between a partner and a partnership as being between a stranger and a partnership or as guaranteed payments.

After studying the materials in Chapter 2, answer the exam questions 24 to 56.

Learning Objectives –Chapter 3 - Contributions to Partnerships

After reading Chapter 3, participants will able to:

1. Apply the tax-free capitalization rules of §721 to ensure the partner is not taxed at the time of the formation of a partnership by:
 - a. Differentiating between a contribution and a sale or exchange clarifying the treatment of transfers to investment company type partnerships; and
 - b. Ascertaining when the property taint rules apply to a contributing partner and identifying three acceptable methods of allocation for precontribution gain or loss.
2. Figure a partnership's basis for contributed assets under §723.
3. Determine the taxation of contributed services including strategies to avoid immediate taxation.
4. Compute the original basis of an interest acquired by contributing property and money under §722 and calculate adjusted basis.
5. Determine a partner's loss deduction when two major limits on deductions of partnership losses apply by:
 - a. Defining amounts at risk under §465; and

- b. Differentiating among the three buckets of income under §469 to identify the impact of the passive loss rules.

After studying the materials in Chapter 3, answer the exam questions 57 to 79.

Chapter 4 Sales & Exchanges of Partnership Interests

Learning Objectives

After reading Chapter 4, participants will able to:

1. Define capital asset treatment on the sale or disposition of a partnership interest under §741 by:
 - a. Determining whether the Corn Products Rule applies and the reasoning behind the determination;
 - b. Examining the reasons why capital treatment is important and explaining the impact of capital gain regulations on sales or exchanges of partnership interests; and
 - c. Identifying the tax consequences of exchanges and transfers, and listing three incorporation methods to be used to incorporate a partnership.
2. Describe the tax treatment of a sale or exchange of a partnership interest where the partnership possesses hot assets (unrealized receivables and inventory), and explain the impact of partnership liabilities in computing both the amount realized on a sale of a partner's interest and the adjusted basis of the sold interest.
3. Analyze four optional basis adjustment provisions and how they relate to the general rule for the inside basis after the transfer of a partnership interest, determine the tax consequences of making a gift of a partnership interest, and explain the unique treatment of partnership interests that are abandoned or foreclosed on with or without related liabilities.

After studying the materials in Chapter 4, answer the exam questions 80 to 92.

Chapter 5 Partnership Distributions

- * Disproportionate distributions
- * Effect of distributions of receivables or inventory

Learning Objectives

After reading Chapter 5, participants will able to:

1. Outline the treatment of distributions of cash or property by a partnership to the partners by:
 - a. Discussing the general nonrecognition rule under §731 and listing four exceptions to this general rule;

- b. Figuring a partner's basis on either a liquidating or a non-liquidating distribution under §§732 and 733, and naming two instances when a partner may choose a special basis adjustment when receiving a distribution of property other than cash that influence how the partner's basis is determined; and
- c. Explaining the tax consequences associated with proportionate and disproportionate distributions, particularly the effect of distributions of receivables or inventory.

After studying the materials in Chapter 5, answer the exam questions 93 to 97.

Chapter 6 Partnership Liquidations

Learning Objectives

After reading Chapter 6, participants will able to:

1. List several ways to liquidate a retiring partner's interest and thereby expand planning options by:
 - a. Distinguishing two types of liquidating distributions and describing the character and treatment of cash distributions under §736; and
 - b. Identifying the tax treatment of property distributions in liquidation permitting partnerships to distribute unrealized receivables or inventory.
2. Determine a withdrawing partner's basis when there are distributions in liquidation or in nonliquidation, and advise clients on the requirements of a §754 election and the additional adjustments required.

After studying the materials in Chapter 6, answer the exam questions 98 to 106.

Chapter 7 Limited Liability Companies

Learning Objectives

After reading Chapter 7, participants will able to:

1. Explain the taxation of limited liability companies pointing out variety of tax entity choices and their advantages and disadvantages by:
 - a. Listing four major benefits of an LLC and describing six tax advantages and four non-tax advantages of LLCs over C corporations;
 - b. Naming eight advantages that LLCs have over S corporations and distinguishing an LLC from a limited partnership; and
 - c. Giving at least seven drawbacks of LLCs and their bearing on entity choice.
2. Point out several ways to use the LLC form effectively and thereby expand business-planning opportunities, and identify three business ventures that should avoid this entity choice.

- 3.** Discuss the federal tax consequences of establishing an LLC by:
 - a.** Examining the role of check-the-box regulations have in the characterization of the entity and evaluating the self-employment tax regulations to determine whether LLC members are subject to self-employment tax based on proposed regulations;
 - b.** Ascertaining whether an LLC member is at risk for recourse debt and describing the treatment of debt discharge income on an LLC;
 - c.** Analyzing the passive loss rules and their association with LLCs and choosing an appropriate method of accounting for an LLC based on its characterization; and
 - d.** Advising an LLC to designate a tax matters partner for audit purposes.
- 4.** Identify several dangers and tax consequences in converting to an LLC from another form of entity, and explain the potential assessment of sales and use tax, real property taxes, and real property transfer taxes on entities on conversion to an LLC.

After studying the materials in Chapter 7, answer the exam questions 107 to 120.