Taxation Assignment

Reading

**Text: Federal Taxation of Partnerships and Partners, McKee, Nelson, & Whitmire,**

with the current supplement. **ISBN: 978-0-7913-8518-0**

Lesson Assignment # 6 Partnership Distributions

Text: Study Chapter 19 through 21 of the text.

Lesson Assignments must be prepared in Microsoft WORD® using the Times New Roman font,

12 point, single space, and double space between paragraphs. Submit your responses to these

questions in one WORD document. List the question first, and then your response. Please

include three citations.

**Comprehensive Case Study**

**Facts:**

Honeymooner is a calendar year general partnership whose partners, Kramden and Norton, share

equally in the profits, losses and capital. Kramden and Norton founded the partnership several

years ago and funded the partnership with cash contributions. As of December 31, 2003, the

partnership had the following balance sheet:

**Description Tax Basis Fair Market Value**

Cash $30,000 $30,000

Inventory $10,000 $50,000

Equipment $20,000 $70,000

Land Held for Investment $120,000 $10,000

**Totals $180,000 $160,000**

Capital

Kramden $90,000 $80,000

Norton $90,000 $80,000

**Totals $180,000 $160,000**

The partnership is liquidated by the following distributions:

**Description Tax Basis Fair Market Value**

To Kramden: Cash $30,000 $30,000

Inventory $10,000 $50,000

**Totals $40,000 $80,000**

To Norton Equipment: $20,000 $70,000

Land $120,000 $10,000

**Totals $140,000 $80,000**

**Assumptions:**

The equipment would yield $40,000 of ordinary income under IRC Section 1245 if sold by the partnership.

The land is a capital asset to the partnership.

Kramden and Norton each have a $90,000 tax basis in their respective partnership interests on the date of the distribution.

NOTE: Each question should be reproduced in bold italic type, followed by your answer in normal type. There is no minimum or maximum length for your answers. They should simply be sufficient to answer the questions. Please include three citations.

**Questions:**

1) Do Kramden and Norton recognize gain or loss on the liquidating distributions? What is the

amount and character of such gain or loss, if any?

2) Does Honeymooner recognize any gain or loss relating to the liquidating distributions?

3) What is Kramden and Norton’s tax basis in the respective property received by them in the

liquidating distribution?

4) If Kramden sells the inventory after holding it for two years as investment property for its fair

market value of $50,000, what is the amount of the gain or loss recognized and what is the

character of such gain or loss?

5) If Norton sells the equipment and land for their respective fair market values soon after

receiving the property, what is the amount of gain or loss recognized on each sale and what is

the character of each gain or loss?

6) For this question and question number 7 only, assume that the distributions were current

distributions and not liquidating distributions, do Kramden, Norton or the partnership recognize

any gain or loss on such distributions and what is the character of such gain or loss, if any?

7) Assuming that such distributions were current distributions, what are Kramden and Norton’s

tax basis in the property received?

8) For this question only, assume that Honeymooner redeems an 18.75% interest from Kramden

for $30,000, thereby leaving Kramden with a 31.25% interest after the redemption; what are

the tax consequences to Kramden and Honeymooner as a result of this transaction (assume

that Honeymooner does not have an IRC Section 754 election in place)?

9) For this question and question number 10 only, assume that instead of a liquidation of

Honeymooner or a redemption of Kramden’s interest, Kramden sells his entire partnership

interest to Alice for $80,000; what gain or loss does Kramden recognize and what is the

character of such gain or loss assuming that the purchase price was allocated based on the

above values under arm’s length negotiations?

10) What is Alice’s tax basis in her partnership interest and if Honeymooner has an IRC Section

754 election in effect, what basis adjustments must Honeymooner make on the sale of the

interest from Kramden to Alice and to what assets are such adjustments allocated?