



51A Middle Street Newburyport, MA 01950

Phone: 800-588-7039 Fax: 877-902-4284

contact@bhfe.com

www.bhfe.com

Course Information

Course Title: *Tax Guide to Partnerships #4931*

Recommended CPE credit hours for this course

In accordance with the standards of the CFP Board, the National Registry of CPE Sponsors and the IRS, CPE credits have been granted based on a 50-minute hour.

CFP® 1 (All states) CFP Board Course ID# 195450

CFP Board sponsor number: 1008.

CPA 2 (All states)

National Registry of CPE Sponsors ID Number: 107615.

Sponsor numbers for states requiring sponsor registration:

Florida Division of Certified Public Accountancy: 4761 (Ethics #11467)

Hawaii Board of Public Accountancy: 14003

New York State Board of Accountancy: 002146

Ohio State Board of Accountancy: M0021

Texas State Board of Accountancy: 009349

EA/OTRP 2 (All States) IRS: Qualified Sponsor number: *FWKKO*.

CLU, ChFC/PACE Recertification 2

Course Description

The mini-course will examine tax issues relating to the formation and operation of partnerships. Participants will gain a familiarity with basic areas of partnership taxation so as to recognize a problem and have at hand some practical knowledge for its solution.

Program Delivery Method: Self-Study (NASBA QAS Self-Study/interactive)

Subject Codes/Field of Study

NASBA (CPA), CFP Board of Standards, Inc.: Taxes.

IRS (EA, OTRP): Federal Tax Law.

NAPFA: Taxes

Course Level, Prerequisites, and Advance Preparation Requirements

Program Level: CFP Board: Intermediate; NASBA/CPA, IRS: Overview.

This program is appropriate for professionals at all organizational levels.

Prerequisites: Basic familiarity with federal taxation

Advance Preparation: None

Course Content

Publication/Revision Date: 5/29/2015.

Author: Danny Santucci, J.D.

Final exam (online): Ten questions (multiple-choice).

Instructions for taking this course

In order to receive CPE credit for this course, you must complete the course within one year of the date of purchase. This includes achieving a passing grade of at least 70% on the final exam. Exams may be retaken if not passed on the first attempt (no charge).

Complete the course by following the learning assignments and objectives listed on the following page and studying the review questions after each major section in the text. Once you have completed each learning assignment and you are confident that the learning objectives have been met, answer the final exam questions (online).

Instructions for Taking the Final Exam Online

- Login to your account online at www.bhfe.com.
- Go to "My Account" and view your courses.
- Select "Take Exam" for this course and follow instructions.

Have a question? Call us at 800-588-7039 or email us at contact@bhfe.com.

Learning Assignment & Objectives

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

ASSIGNMENT

At the start of the materials, participants should identify the following topics for study:

- * Partnership definition
- * Partnership income
- * Partnership tax return
- * Year taxable
- * Transactions between partner & partnership
- * Contributions to partnerships
- * Sales & exchanges of partnership interests
- * Partnership distributions
- * Partnership liquidations
- * Limited liability companies

Learning Objectives

After reading the chapter, participants will be able to:

1. Recognize the tax treatment of partnerships noting advantages and disadvantages and their affect on income attribution.
2. Determine partnership income and reporting requirements by:
 - a. Identifying filing requirements and the impact partnership K-1's on individual or partner taxation; and
 - b. Specifying loss deduction limitations and stating the tax treatment of guaranteed payments, organizational expenses and other fees.
3. Identify the tax treatment of contributions of property to a partnership under §721 and the impact on tax basis.
4. Recognize the tax treatment of partnership distributions and sale of partnership interests by:
 - a. Identifying the tax treatment of partner liabilities and of sales and exchanges of partnership interests and property; and
 - b. Determining the differences between liquidating and nonliquidating payments including definition of a partner's basis on such an event.

Notice

This course and test have been adapted from materials and information contained in the above text and any supplemental material provided. This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.

Tax Guide to Partnerships



By

Danny C. Santucci

The author is not engaged by this text, any accompanying electronic media, CD, or lecture in the rendering of legal, tax, accounting, or similar professional services. While the legal, tax, and accounting issues discussed in this material have been reviewed with sources believed to be reliable, concepts discussed can be affected by changes in the law or in the interpretation of such laws since this text was printed. The accuracy and completeness of this information and the author's opinions based thereon cannot be guaranteed. In addition, state or local tax laws and procedural rules may have a material impact on the general discussion. As a result, the strategies suggested may not be suitable for every individual. Before taking any action, all references and citations should be checked and updated accordingly.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert advice is required, the services of a competent professional person should be sought.

—From a Declaration of Principles jointly adopted by a committee of the American Bar Association and a Committee of Publishers and Associations.

Copyright February 2015

Danny Santucci

TABLE OF CONTENTS

Course Information	ii
Learning Assignment & Objectives	iv
Introduction	1
Definition of Partnership	1
Section 761(a)	1
Factors	1
Husband-Wife Partnerships	1
Limited Partnerships	2
Taxed as Corporations	2
Analysis	2
Continuity	2
Centralized Management	2
Limited Liability	3
Transferability	3
Ruling Policies	3
Corporate General Partner	3
Co-tenancies	4
Definition of Trade or Business	4
Joint Ventures	4
Partnership Agreement	5
Modifications	5
Partner's Share of Tax Items	5
Limited Partners	5
Family Partnerships - §704(e)	5
Capital Partnerships	6
Gifts & Interfamily Sales	6
Material Use of Capital	7
Minor Children as Partners	7
Non-Capital Partnerships	7
Advantages	8
Disadvantages	8
Partnership Income	8
Partners Taxed as Individuals	8
Self-Employment Tax	9
Exception - Separate Entity for Some Purposes	9
Individual Returns & K-1s	9
Partnership Expenses Paid By a Partner	10
Separately Treated Items	10
Character of Items & Limitations	11

Deduction of Losses	11
Outside Basis Limitation - §704(d)	12
Loss Ultimately Deductible	12
Effect of Losses on Outside Basis - §705	12
Partnership Tax Return	12
Organization & Syndication Fees - §709	12
Capitalized Syndication Fees	13
Business Start-up Costs - §195	13
Definition	13
Filing Requirements	14
Due Date of Return	14
Failure to File	14
Failure to Furnish Copies to Partners	15
Year Taxable - §706(a)	15
Limitation on Choice of Taxable Year	15
Required Tax Year	15
Business Purpose - §706(b)	16
Rev. Proc. 87-32	16
Highest Average Requirement	16
47-Month Exclusion	16
Restrictions	17
Form 1128	17
Section 444 Election	17
Limitations on Changing a Tax Year	17
Making the Election - Form 8716	18
Back-Up Election	18
Required Payment	18
When to File	18
Termination of Election	18
Transactions between Partner and Partnership	19
Treating Partner as Stranger - §707(a)	19
Payments by Accrual Basis Partnership to Cash Basis Partner	19
Guaranteed Payments - §707(c)	19
Capitalization	20
Prepaid & Capital Expenses - §707(c)	20
Organization & Syndication Expenses - §709	20
Guaranteed Minimum	20
Year Taxed - §706(a)	20
Salary vs. Distribution	20
Stranger Payment vs. Guaranteed Payment	21
Payments Resulting in Loss	21
Recipient of Salary as an “Employee”	21
Exception	21
Accident & Health Insurance Premiums	21
Certain Losses Disallowed - §707(b)	21
Two Partnerships	22
Constructive Ownership	22
Sales at Gain	22

Contributions to Partnerships

25

Contributions of Property - §721	25
Contribution vs. Sale or Exchange	25
Disguised Sale - §707(a)	25
Disguised Taxable Exchanges - §704 & §737	25
Precontribution Gain or Loss Property	26
Property Distribution to Contributing Partner - §737	26
Anti-Abuse Rules Under §737	26
Contributed Property Distribution to Another Partner - §704(c)	27
Seven Year Period (Formerly Five)	27
Allocation Methods for Precontribution Gain or Loss	27
Transfers to Investment Company Type Partnerships - §721(b)	28
Contributed Assets Inside (Partnership) Basis - §723	28
Allocations as to Contributed Property - §704(c)	29
Liabilities	29
Earlier Optional Application of §704(c)	29
Character of Subsequent Gain	29
Taint On Contribution - §724	30
Character of Subsequent Loss - §724(c)	30
Contribution of Services	30
Basis of Partner's Interest - Outside Basis	31
Original Basis - §722	31
Adjustments to Basis	31
Effect of Liabilities - §752	32
Deemed Distribution & Contribution	32
Special Rule for Liabilities of Cash Basis Partnership	32
Partner's Share of Partnership Liabilities	32
Limited Partnerships	32
Exception	33
Guarantees	33
Sales & Exchanges of Partnership Interests	33
Capital Asset Treatment - §741	33
Importance of Capital Treatment	33
Regs on Gain on Sale of Passthrough Entities - §1(H)	34
Exchanges & Transfers	34
Like-Kind Exchanges - §1031	34
Transfers to Controlled Corporations - §351	35
Partner's Interest Basis	35
Hot Assets - §751	35
Liabilities of Partnership	35
Inside Basis after Transfer of Partnership Interest	36
General Rule - §743(a)	36
Special Inside Basis Adjustment - §754 & §743(b)	36
Allocation of Basis - §755	36
Death of Partner	37
Basis Exception	37
Permanency of Election	37
Partnership Distributions	37
General Nonrecognition Rule - §731	37

Exceptions to General Rule	38
Basis Adjustments	38
Partner's Interest - §733	38
Property Received - §732	38
Nonliquidating Distribution	38
Basis Limitation - §732(a)	38
Liquidating or Complete Distribution	38
Allocation of Basis When Limited - §732(c)	39
Partnership's Basis Greater Than Partner's Basis	39
Partner's Basis Greater Than Partnership's Basis	39
Special Adjustment to Basis	39
Mandatory Application	40
Holding Period - §735	40
Partnership Property - §754 & §734	40
Basis Allocation on Properties Distributed By a Partnership	40
Partnership Liquidations	41
Flexible Treatment	41
Types of Liquidating Distributions	41
Liquidating Distributions of Money	41
Section 736(a) Payments	41
Section 736(b) Payments	42
Effect	42
Exclusions From §736(b) Treatment	42
Basis Adjustment after Distributions	43
Election - §754	43
Additional Adjustments Required by §734	43
Limited Liability Companies	44
Introduction	44
LLC Benefits	44
Disadvantages	44
Federal Tax Consequences	45
Check-the-Box Regulations	45
Glossary	53
Index of Keywords & Phrases	54