#3

no gain or loss is recognized to the partnership or any of the partners on the contributions, despite 721(b) (which only applies to §721 gains)

Raja has a 100K basis in RST since Raja contributed 100K cash.

Samantha has 120K basis in RST since she contributed 50K cash plus Greenacre, in which she has a 70K basis.

Tom has a 115K basis in RST since he contributed his stock in which he has a 115K basis.

When RST sells BigCo stock for 85K, RST has both a book loss and a tax loss. Tom already has a precontribution LTC loss of 15K which he recognizes under 704(c), and RST then recognizes an additional 15K capital loss, shared equally among the partners. After the BigCo stock sale, the partners bases in the partnership are as follows:

Raja: 95K (100K - 5k book loss on BigCo stock)
Samantha: 115K (120K - 5K book loss on BigCo Stock)
Tom: 95K (115K - 15K precontribution loss - 5K book loss on BigCo Stock

ordinary income loss to curatively allocate to Samantha, so lets use the remedial method, which allows the partnership create losses that are offset by gains of the same character.

When the partnership sells Greenacre, which is inventory as I said before, Samantha realizes her 20K precontribution ordinary loss which is offset by her distributive share (1/3) of Greenacres' book gain (which is about 22K since the net book gain on Greenacre is 65K. Thus, Samantha realizes about 2K of ordinary income and her new basis is about 117K (120 original basis - 5K book loss from Big Co stock - 20K precontribution loss on Greenacre + 22K book gain on Greenacre).

After the Greenacre sale, Raja will realize her distributive share (1/3) of Greenacres book gain (also around 22K) for a new basis of 117 (100 original basis - 5K book loss from Big Co stock + 22K book gain on Greenacre) This gain is ordinary income since Greenacre is inventory.

After the Greenacre sale, Tom will realize his distributive share (1/3) of Greenacres book gain

The partnership RST may use the traditional method for allocating the losses associated with the Big Co sale.

RST's sale of Greenacre is a little trickier because it involves a tax loss (Samantha's precontribution loss) and a book gain. This means the ceiling rule will produce distortions for Samantha — under the traditional method, §704(c) allocations are limited to
2 the recognized tax gain or loss of partnership, meaning that Samantha's precontribution loss would be disallowed.

If I were the partnership, I would elect to use the remedial method here to eliminate ceiling rule distortions in the sale of Greenacre. The traditional method with curative allocations requires that curative allocations must be made with respect to gain or loss from partnership sale of other property of similar character. Since Greenacre is inventory because it was contributed by a real estate dealer, and inventory produces ordinary income, the partnership
2 would need to find some ordinary income loss to curatively allocate to Samantha. As far as I know, the partnership has no

(around 22K) for a new basis of 117K.
(original basis of 115K - 115 precontribution loss on Big Co stock - 5K book loss on Big Co stock + 22K book gain on Greenacre)
The 22K book gain on Greenacre is ordinary, as I've explained before