21

2 #3 - We should make sure not unwittingly creating investment company per §351(e). 80% test. Cash counts against you.

2 Upon contribution of the property, No gain or loss is recognized to RST or to any of the partners under § 721.

The partner gets a transferred basis under §722, and the partnership gets an inside basis under §723.

The initial balance sheet is:

Assets	A.B.	Bk Val	Liab	A.B.	Bk Val.
			Equity (Partners' capital)		
Cash	150,000	150,000	R	100,000	100,000
Greenacre	70,000	50,000	S	120,000	100,000
Bigco	115,000	100,000	T	115,000	100,000
	335,000	300,000		335,000	300,000

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2 T has a built-in loss under 704(c) of $15,000, so when Bigco is sold, he must be allocated the first $15,000 loss. The remaining loss is shared by the other partners, generally according to profit and loss percentages (Here 1/3 each)

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	AB	Bk Val		AB	Bk Val
Cash	235,000	235,000	R	95,000	95,000
Greenacre	70,000	50,000	S	115,000	95,000
Bigco	-0-	-0-	T	95,000	95,000
	305,000	285,000		305,000	285,000

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R & S each have a $5,000 capital loss (long term).
2 T has a $20,000 LTCL, and their bases adjusted accordingly.
The partners' capital accounts are each reduced by $5,000 to reflect the book loss from $100,000 in Bisco to $85,000.

S has a built-in loss of $20,000 in Greenacre.
2 But upon sale, it has a 65,000 increase.
Normally land would be a capital asset, but here it is considered inventory, and it is ordinary
2 income if sold within 5 years.
So S will realize a $20K loss, and then the partners will realize an $85,000 gain, divided
2 equally.

	AB	Bk Val		AB	Cap. Acct.
Cash	350,000	350,000	R	95000 + 28,333 = 123333	116,666
			S	95,000 + 28,333	116,666
1			T	95,000 + 28,333	116,666
	350,000	350,000		370,000	350,000

The inside & outside balances are now mismatched under the traditional method.

And so is my brain! :)