Exam ID ___________

Law School of Harvard University / 2017-2018

Partnership Taxation

Professor Abrams
Monday, December 18
2:00pm - 5:00pm

This exam is 11 pages long. Please check to see that you have all 11 pages.

This examination consists of two essay questions and 20 multiple-choice questions. You should allow approximately 2 hours for the essay questions and an hour for the multiple-choice questions. Each essay question will be worth 60 points and each multiple-choice question will be worth 3 points (60 points total for the multiple-choice questions). **You have three hours in which to complete the examination.** You must turn in your bluebooks and the examination itself to receive credit for the class. Please answer the multiple-choice questions directly on the examination.

The exam mode is OPEN. You will not be able to cut and paste text from any document on your hard drive or the Internet into your exam answer. Please use the provided bluebooks for your t-charts; you may write text in the bluebooks, into the Exam4 software, or into any combination of the two.

Assume that the law in effect for taxable years beginning January 1, 2017, always has been in effect. Unless otherwise indicated, assume that all persons use the calendar year as their taxable year and that they keep their books and records using the cash receipts and disbursements method of accounting. Assume that the proposed regulations under section 751(b) are in effect.

If any facts are not given which you believe you need, please state the facts and explain their relevance. Citation to relevant authority is expected, and "relevant authority" includes cases, code sections, and regulations. You may assume that all regulations, proposed regulations, and temporary regulations not overruled by any court are valid. If you believe that the correct answer to any multiple-choice question is not provided or that the facts of any multiple-choice question are not adequate to determine the correct answer, briefly indicate the problem with the question at the end of your essays.

You may have with you any material you desire *other than* commercially prepared secondary material not required for the course. No material may be shared by any students during the examination. You may use a calculator if you desire. You may not access the Internet.

Exam4 will automatically put your Anonymous ID on the exam copy.

Good luck!

DO NOT TURN TO PAGE TWO UNTIL THE PROCTOR TELLS YOU TO BEGIN.

<u>Essay Question 1</u> (Suggested Time = 1 Hour)

X and Y form the XY limited liability company. X contributes cash of $960,000 and Y contributes property with fair market value of $480,000, adjusted basis of $100,000, and encumbered by a nonqualified, nonrecourse debt of $160,000. They agree that X will be allocated three-quarters of all profits and losses and Y will be allocated one-quarter of all profits and losses. Assume the contribution by Y is treated as a disguised sale.

Assume that the partnership will not use tier 3A in allocating nonrecourse debt, and tier 3B allocations will be made in proportion to general profits interests (that is, 75% to X and 25% to Y).

Question 1: How much gain does Y recognize on the formation of XY?

Question 2: What are the outside bases and capital accounts of X and Y, assuming the partners elect not to apply the remedial allocation method to the property contributed by Y?

Question 3: What are the outside bases and capital accounts of X and Y, assuming the partners elect to apply the remedial allocation method to the property contributed by Y?

Essay Question 2 (Suggested Time = 1 Hour)

A, B and C form the ABC general partnership, with A contributing cash of $3,000, B contributing cash of $3,000, and C contributing depreciable property (to be used in the partnership's trade or business) having fair market value of $40,000, adjusted basis of $30,000, and subject to a nonrecourse loan of $36,000. Assume that tax depreciation for the partnership's first taxable year equals $15,000 and that the partnership does not elect to use remedial allocations. In the partnership's second year, the depreciable property is sold to a stranger for its current fair market value of $50,000, the partnership pays off the debt, and the remaining cash is distributed to the partners in liquidation of their interests. Assume that no interest was paid on the loan and that the disguised sale provision of section 707(a)(2)(B) cannot apply**.** Finally, assume that the partnership is not entitled to claim any depreciation in its second year.

The partnership agreement provides that gain recognized on the sale of the property will be allocated 25% to A, 25% to B, and 50% to C while all other items will be allocated 30% to A, 30% to B, and 40% to C. Each partner has an unlimited, unconditional deficit restoration obligation, capital accounts will be maintained properly, and liquidation proceeds will be distributed in proportion to final capital account balances. The partnership will not use tier 3A in allocating nonrecourse debt, and tier 3B allocations will be made in proportion to general profits interests (that is, 30% to A, 30% to B and 40% to C).

Discuss the tax consequences of the formation of the partnership, of the depreciation in year 1, of the sale in year 2, and of the liquidating distributions. Determine how much of the liquidating proceeds should be distributed to each partner.