1. If a partnership elects to use the traditional method with curative allocations with respect to a particular piece of property contributed to the partnership with built-in gain and there is insufficient income or loss in one year to fully cure the book/tax disparity in the property arising from depreciation in that year, then in the following year:

(a) The partnership must, if possible, cure both the book/tax disparity incurring in that following year as well as the uncured book/tax disparity from the previous year.

(b) The partnership may, if it desires, cure both the book/tax disparity incurring in that following year as well as the uncured book/tax disparity from the previous year.

(c) The partnership must, if possible, cure both the book/tax disparity incurring in that following year as well as a fraction of the uncured book/tax disparity from the previous year, where this fraction is determined by comparing the book/tax disparity arising in the current year with the book/tax disparity arising in the previous year.

(d) The partnership must cure the book/tax disparity incurring in that following year but may not cure uncured book/tax disparity from the previous year.

2. P, Q and R are each one-third partners in the PQR Partnership. On March 15, 2017, P sells his partnership to S. On April 15, 2017, Q sells his partnership interest to T. On May 15, 2017, R sells his partnership interest to U. Assuming that there are no other transfers of interests in the partnership, which of the following is true?

(a) The partnership liquidates on April 15 but not on May 15, and the liquidating distribution is deemed made to Q, R, and S.

(b) The partnership liquidates on April 15 but not on May 15, and the liquidating distribution is deemed made to R, S, and T.

(c) The partnership terminates on April 15 and on May 15, and the first liquidating distribution is deemed made to Q, R, and S, and the second liquidating distribution is deemed made to R, S and T.

(d) The partnership liquidates on April 15 and on May 15, and the first liquidating distribution is deemed made to R, S, and T, and the second liquidating distribution is deemed made to S, T, and U.

3. If encumbered property is contributed to a partnership in exchange for an interest in the partnership, the contributing partner’s capital account is increased by:

(a) The fair market value of the contributed property less the value of the encumbrance.

(b) The adjusted basis of the contributed property.

(c) The fair market value of the contributed property.

(d) The fair market value of the contributed property less the portion of the encumbrance that shifts to other partners under the rules of section 752.

4. A and B form the AB general partnership, with A contributing cash of $400 and B contributing property having an adjusted basis of $120, fair market value of $200, and is encumbered by a debt of $50. Assume the debt is properly treated as fully recourse under the rules of section 752 and the partners agree to share profits and losses three-quarters to A and one-quarter to B. What is B’s outside basis immediately after the partnership is formed, taking into account the rules of section 752?

(a) $120.

(b) $95.

(c) $82.50.

(d) $70.

5. If an accrual-basis partnership owes but fails to make a deductible guaranteed payment to a cash-basis partner, which of the following is true?

(a) The partnership deducts the payment when it accrues, and the partner includes the payment in income when it is received.

(b) The partnership deducts the payment when it is paid and the partner includes the payment when it is received.

(c) The partnership deducts the payment when it accrues, and the partner includes the payment at the same time.

(d) The payment is reclassified as a distribution described in section 731.

Answers: 1(d), 2(b) (now repealed), 3(a), 4(d), 5(c).