

Sophisticated Exit Strategies

I. Simple Distribution

1. A and B each contribute \$100 to the AB partnership.
2. AB purchases capital asset #1 for \$100 and capital asset #2 for \$100.
3. Asset #1 increases in value to \$200; asset #2 increases in value to \$190.
4. Asset #1 is sold, asset #2 is distributed to A.

II. Leveraged Distribution Followed by Complete Sale

1. X and Y each contribute \$100 to the XY limited liability company.
2. XY purchases a capital asset for \$200, and it increases in value to \$1,000.
3. XY borrows \$490, guaranteed by X.
4. The loan proceeds are distributed to Y.
5. Y sells her partnership interest to Z for \$10.

III. Distribution of Encumbered Property to Exiting Partner

1. A, B, C and D each have a capital account and outside basis of \$10.
2. The partnership owns a single capital asset with inside basis and book value of \$40 and fair market value of \$100.
3. The partnership borrows \$75, allocated entirely to D under §752.
4. The partnership distributes its property to D, subject to the debt, in complete liquidation of D's partnership interest.

IV. Leveraged Distribution Followed by a Partial Sale

1. X is a 60% partner and Y is a 40% partner. The partnership owns an asset with inside basis of \$0, book value of \$0, and fair market value of \$2,000. Each partner has a capital account and outside basis of \$0.
2. The partnership borrows \$500, allocated 60% to X and 40% to Y. The loan proceeds are distributed \$300 to X and \$200 to Y.
3. Y sells one-half of her partnership interest for \$300.
4. The asset is sold by the partnership for \$2,000 and the debt is repaid.