

Week Five Team B Assignment

ACC455

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**C: 9-35 Allocation of Precontribution Gain Solution**

Patty: \$3,200 ordinary income, \$7,600 gain

Dave: \$4,800 ordinary income, \$2,400 gain

Patty must report \$3,200 in ordinary income (40% of \$8,000). The precontribution gain is allocated among the partners with Patty's allocation of \$6,000 (40% of \$10,000) and Dave's allocation of \$2,400 (60% of \$10,000). The postcontribution for the sale of the land would be \$1,600 gain for Patty (40% of \$10,000 - \$6,000). Dave would report \$4,800 of ordinary income (60% of \$8,000 basis in contributed land).

A current distribution causes gain recognition if the distribution exceeds a partner's basis. The precontribution gain is the difference between the FMV and the adjusted basis of property when contributed to the partnership. When the partner contributes property the precontribution gain is recognized when the partnership distributes the property to any other partner within seven years of the contribution the amount of the gain equals the amount of precontribution gain remaining that would have been allocated to the contributing partner had the property instead been sold for its FMV on the distribution date (Anderson, Pope, & Kramer, 2010 p.10-2).

**C: 11-45 Use of Losses by Shareholders Solution**

The stock basis and the debt basis are adjusted. The stock basis starts with the initial investment of \$100,000 and the \$100,000 ordinary loss is deducted (basis cannot be less than zero). Once the stock basis is reduced to zero, the indebtedness is reduced, but not below zero) by the remainder of the loss and deduction item (loan amount). The ordinary income in the subsequent year is used to restore debt basis. Repayment of the debt results in gain recognition and if secured by a note is capital gain. If not secured by a note, it is ordinary income. The

\$25,000 carry over loss from the prior year is increased with the ordinary income from the next year bringing the stock basis to zero and adjusts the debt basis. This results in a capital gain of \$15,000 (Anderson, Pope, & Kramer, 2010, p. 11-24 – 11-26).

Table 1

	Stock Basis	Debt Basis
Basis at beginning of last year	\$100,000	\$0.00
Loan - Hammer		50,000
Ordinary loss last year	(100,000)	(50,000)
Basis at beginning of current year	\$0	\$0
Balance at beginning of current year	\$0	\$0
Ordinary Income	\$25,000	\$35,000
Loss carry-over allowed	(25,000)	
Repayment		(50,000)
Basis at end of current year	\$0	\$15,000

a. What amount of Hammer's current year loss can Tom deduct on his income tax return?

100,000 basis for stock + 50,000 basis for note = \$150,000

b. What is Tom's basis for the Hammer stock and note at the end of the loss year?

Stock = \$0 Note = \$0

c. What income and deductions will Tom report next year from Hammer's activities and the loan repayment?

Ordinary income of \$60,000

Loss carry-over of \$25,000 (\$175,000 - \$50,000)

Capital gain \$15,000

### C: 10-4 Discussion

Distributions of cash and property will reduce the outside basis. The total amount of basis that can be assigned to property distributed is limited to the partner's outside basis in the partnership interest just prior to the distribution. For Cindy this is \$4,000. The inside basis