

Partnership Taxation

A Complete Guide

Course Description

The program will examine tax issues relating to the formation and operation of partnerships. Participants will gain a familiarity with basic areas of partnership taxation so as to recognize a problem and have at hand some practical knowledge for its solution. This course is presented in four practical segments: (1) the formation of partnerships, (2) the basic day-to-day operations of partnerships, (3) distributions of assets to partners, and (4) the termination of partnership affairs.

Completion Deadline & Exam: This course, including the examination, must be completed within one year of the date of purchase. In addition, unless otherwise indicated, no correct or incorrect feedback for any exam question will be provided.

Course Level: Overview. This program is appropriate for professionals at all organizational levels.

CPE Credits: 14 (CPA, EA)

Category: Taxation

Prerequisite: None

Advanced Preparation: None

Course Learning Objectives

Chapter 1: Introduction

1. Determine what constitutes a partnership for federal income tax purposes under §761(a) by:
 - a. Recognizing factors for partnership existence noting co-tenancy status and identifying a husband-wife partnership along with the correct reporting of income and loss;
 - b. Identifying the liability of general and limited partners including how such liability might be contained; and
 - c. Specifying the factors previously used to determine whether a business was a corporation or a partnership and the factors of the current check-the-box regulations.
2. Recognize the impact of partnership agreements on partners' shares of tax items, specify the requirements of §704(e) for family partnerships, and cite the pros and cons of partnerships to determine when the entity choice is appropriate.

3. Identify the complete or partial exclusion from partnership treatment under §761.

Chapter 2: Partnership Income

1. Recognize the allocation of income and deduction among partners, identify when a partnership or its partners are subject to income or estimated tax, determine what constitutes §1402 self-employment taxes, and specify instances where partnerships are viewed as separate entities.
2. Specify the types of separately stated partnership expenses noting the character of such items and their deduction limitations, and recognize the §704(d) outside basis limitation and its impact on losses.
3. Determine whether a partnership can elect to amortize certain business-related expenses, and specify the elements and requirements of the partnership tax return and the items of deduction to which individuals are entitled.
4. Identify a partnership's year taxable under §706(a) and the allocation of items of income and deduction from the partnership to the partners by:
 - a. Specifying instances when a partnership generally must conform its tax year to its partners' tax years and the least aggregate deferral of income for each partner whose tax year is different from other partners;
 - b. Recognizing the availability of the natural business year including the §444 election as it relates to a partnership's tax year noting its costs and/or benefits; and
 - c. Determining tax year termination and non-termination events for a partnership.
5. Identify transactions between a partner and a partnership as being between a stranger and a partnership or as guaranteed payments.

Chapter 3: Contributions to Partnerships

1. Recognize the tax-free capitalization rules of §721 by:
 - a. Specifying the differences between a contribution and a sale or exchange noting the treatment of transfers to investment company type partnerships; and
 - b. Identifying when the property taint rules apply and methods of allocation for precontribution gain or loss.
2. Determine a partnership's basis for contributed assets under §723.
3. Specify the taxation of contributed services noting strategies to avoid immediate taxation.
4. Determine the original and adjusted basis of an interest acquired by contributing property and/or money under §722.
5. Recognize a partner's loss deduction when the limits on deductions of partnership losses apply by:

- a. Determining amounts at risk under §465; and
- b. Specifying the buckets of income under §469 noting the impact of passive loss rules.

Chapter 4: Sales & Exchanges of Partnership Interests

1. Determine capital asset treatment on the sale or disposition of a partnership interest under §741 by:
 - a. Recognizing whether the Corn Products Rule applies and the reasoning behind the determination;
 - b. Specifying the reasons why capital treatment is important and recognizing the impact of capital gain regulations on sales or exchanges of partnership interests; and
 - c. Identifying the tax consequences of exchanges and transfers, and specifying partnership incorporation methods.
2. Recognize the tax treatment of a sale or exchange of a partnership interest where the partnership possesses hot assets (unrealized receivables and inventory), and identify the impact of partnership liabilities in computing both the amount realized on a sale of a partner's interest and the adjusted basis of the sold interest.
3. Specify optional basis adjustment provisions noting how they relate to the general rule for the inside basis after the transfer of a partnership interest, determine the tax consequences of making a gift of a partnership interest, and recognize the unique treatment of partnership interests that are abandoned or foreclosed on with or without related liabilities.

Chapter 5: Partnership Distributions

1. Determine the treatment of distributions of cash or property by a partnership to the partners by:
 - a. Recognizing the general nonrecognition rule under §731 and specifying exceptions to this general rule;
 - b. Identifying a partner's basis on either a liquidating or a non-liquidating distribution under §§732 and 733, and specifying instances when a partner may choose a special basis adjustment when receiving a distribution of property other than cash that influence how the partner's basis is determined; and
 - c. Recognizing the tax consequences associated with proportionate and disproportionate distributions, particularly the effect of distributions of receivables or inventory.

Chapter 6: Partnership Liquidations

1. Determine ways to liquidate a retiring partner's interest by:

- a. Recognizing the types of liquidating distributions and specifying the character and treatment of cash distributions under §736; and
 - b. Identifying the tax treatment of property distributions in liquidation permitting partnerships to distribute unrealized receivables or inventory.
2. Identify a withdrawing partner's basis when there are distributions in liquidation or in nonliquidation, and specify the requirements of a §754 election noting additional adjustments required.

Chapter 7: Limited Liability Companies

1. Determine the taxation of limited liability companies noting the variety of tax entity choices and their advantages and disadvantages by:
 - a. Specifying the advantages and disadvantages LLC noting the advantages of LLCs over C corporations;
 - b. Identifying the advantages that LLCs have over S corporations and the differences between an LLC and a limited partnership; and
 - c. Cite the drawbacks of LLCs noting their bearing on entity choice.
2. Identify ways to use an LLC noting business-planning opportunities, and specify business ventures that should avoid LLCs.
3. Recognize the federal tax consequences of establishing an LLC by:
 - a. Determining the role of check-the-box regulations in the entity characterization and identifying self-employment tax regulations noting their application to LLC members;
 - b. Specifying whether an LLC member is at risk for recourse debt and determine the treatment of debt discharge income on an LLC;
 - c. Identifying the passive loss rules noting their association with LLCs and selecting an appropriate method of accounting for an LLC based on its characterization; and
 - d. Determining how an LLC can designate a tax matters partner for audit purposes.
4. Identify the dangers and tax consequences in converting to an LLC from another form of entity, and recognize the potential assessment of sales and use tax, real property taxes, and real property transfer taxes on entities on conversion to an LLC.