

**PARTNERSHIP
TAXATION
SECOND EDITION**

**2009 Update
to
TEACHER'S MANUAL**

RICHARD M. LIPTON, ESQ.

Partner, Baker & McKenzie LLP

PAUL CARMAN, ESQ.

Partner, Chapman & Cutler LLP

CHARLES FASSLER, ESQ.

Of Counsel, Greenebaum Doll & McDonald PLLC

WALTER D. SCHWIDETZKY

Professor of Law

University of Baltimore School of Law

PARTNERSHIP TAXATION

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ADDITIONS, CORRECTIONS AND INSERTIONS

CHAPTER 3 OUTSIDE BASIS AND ALLOCATION OF LIABILITIES

Problem 1, page 29.

Subparagraph (4) under “(a) A’s Basis” assumes that the Partnership debt is allocated proportionately according to A and B’s percentages.

The last sentence on the bottom of page 29 should read:

Thus, A’s basis at the end of the year is \$10,750 ($\$10,000 + \$15,000 - \$750 + \$7,500 + \$1,500 - \$22,500$).

CHAPTER 4 OPERATION OF THE PARTNERSHIP: CALCULATION OF PARTNERSHIP TAXABLE INCOME

Problem 1, subparagraph (vii) on page 37.

If D personally had \$400,000 of IRC § 179 expenditures, when the \$70,000 of I.R.C. § 179 expenditures are allocated to D, his total I.R.C. § 179 expenditures are \$470,000. Pursuant to I.R.C. § 179(b)(2), this will reduce the maximum amount that could be deducted from \$125,000 to \$55,000.

Treas. Reg. § 1.179-2(b)(3)(i) provides that in applying the dollar limitation the partner's share of I.R.C. § 179 expense allocated to the partner is aggregated with any nonpartnership I.R.C. § 179 expenses. However the same paragraph states that the cost of I.R.C. § 179 property placed in service by the partnership is ignored for the purposes of determining the excess I.R.C. § 179 property placed in service.

The example in subsection (ii) of Treas. Reg. § 1.179-2(b)(3) illustrates this by taking the \$5,000 of I.R.C. § 179 expenses allocated to a partner into consideration by the partner, but ignoring both the \$150,000 cost of the I.R.C. § 179 property placed in service by the partner and the \$5,000 cost of the I.R.C. § 179 property allocated to the partner for the purposes of determining the excess I.R.C. § 179 property placed in service by the partner.

The limitations in I.R.C. § 179 have changed since the textbook was published. For years beginning before 2011, the aggregate costs that may be taken into account for the purposes of I.R.C. § 179(a) may not exceed \$125,000.

Using the \$125,000 limitation, if the \$70,000 of I.R.C. § 179 expenses of the partnership are required to be taken into account for purposes of the dollar limitation, \$55,000 under current law of the limitation would be available for D's personal I.R.C. § 179 expenses.

The regulations do not have an ordering rule, so that one could just as easily say that \$125,000 of personal I.R.C. § 179 expenses are deductible, but none of the partnership I.R.C. § 179 expenses are deductible.

CHAPTER 5 OPERATION OF THE PARTNERSHIP: ALLOCATION OF PARTNERSHIP INCOME AND LOSSES

Problem 2, page 47.

The percentages of A and B referred to in the fifth line of the problem are 95% and 5%, respectively.

CHAPTER 13 ANTI-ABUSE PROVISIONS

Problem 3, page 118.

The last paragraph under “a.” should read as follows:

Further, the partnership’s basis in the land is increased by that same \$6,000 to \$10,000 immediately before the distribution to Gail. Gail’s basis in her partnership interest is \$15,000 (\$5,000 cash contribution and the contribution of equipment with a basis of \$10,000). On the distribution of the land to Gail, her basis in the land is a carryover basis of \$10,000 under I.R.C. § 732, and her basis in the partnership interest is reduced to \$5,000 under I.R.C. § 733.