Section 754 calculation worksheet

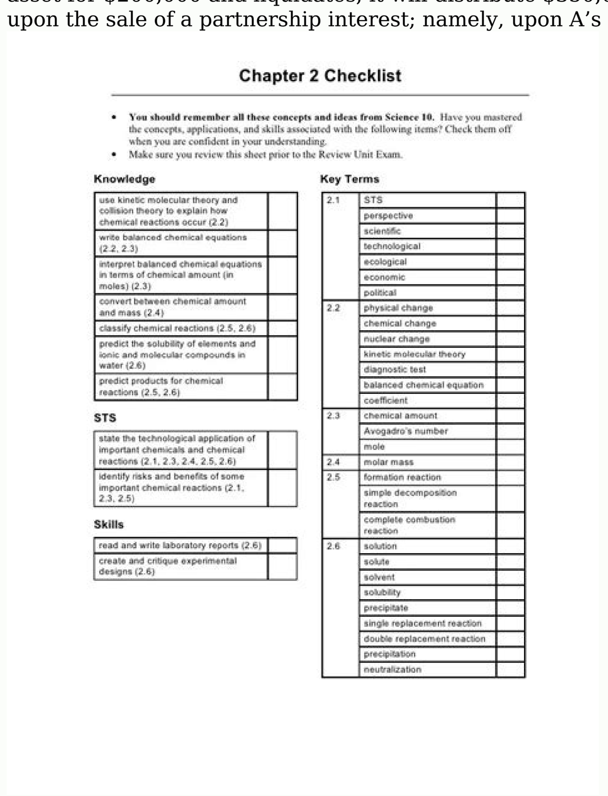
Section 754 election benefits. How to file a section 754 election. Section 754 election calculation. Section 754 calculation example.

There are a couple of important things to note: This basis increase is a tax concept only. These adjustments can only be made if the partnership has made an election under IRC Section 754. If a Section 754 election is made or in effect at the time of X's purchase of A's interest, the partnership is permitted to increase the basis of its land by the excess of: X's outside basis in the acquired interest of $350,000, over X's share of the inside basis of $250,000. This gain increases the outside basis of B, C and D, so that immediately after the transaction, the respective capital accounts and outside basis look as follows: Unlike the previous example where a Section 754 election was not in place, after the sale of the land, there is no disparity between X's capital account (which is reflective of his share of the inside basis of the assets) and his outside basis. Because nothing changes inside the partnership, X's share of the inside basis the partnership holds in its assets is $250,000, and X simply "steps into the shoes" of A's previous capital account of $250,000. Q6. Under the Section 754 regulations, however, an application to revoke the election will not be approved if the revocation's primary purpose is to avoid stepping down the basis of partnership assets. Upon liquidation, gain or loss is recognized as follows: While no gain or loss is recognized by B, C or D, X receives only $350,000 of cash in liquidation of an interest with an outside tax basis of $450,000. However, an allocation of basis reduction cannot reduce a property's basis below zero. To illustrate, assume individuals A, B, C and D each contribute $250,000 to Partnership ABCD. But then, this is Tax Geek Tuesday, where we're supposed to leave the soft stuff behind and take on the topics few others will entertain. The request must be mailed to: Department of the Treasury Internal Revenue Service Center Ogden, UT 84201-0011 If a partnership files a Section 754 election (or already has one in place), the basis of partnership property has to be adjusted under IRC § 734(b) and IRC § 743(b) in accordance with the Section 754 regulations. Expanding upon our example, when each partner contributes $250,000 to Partnership ABCD, he takes an initial basis in his partnership interest that is driven by Section 721. Of course there are. A partnership wishing to revoke the election should file a request within 30 days after the close of the partnership year for which the revocation is intended to take effect. Since a Section 754 election is difficult to revoke, tends to increase the partnership's administrative burdens, and applies on a mandatory basis to both distributions of partnership assets and transfers of partnership interests, the partnership (and partners) should thoroughly analyze the situation before making the election. For B, C and D, these two amounts are the same.

The election can be revoked only with permission from the IRS. Assume one year after formation, the value of the land held by the partnership has increased to $1,200,000. When X acquires the interest from A for $350,000, his initial basis in the partnership is not driven by Section 721, but rather by Section 1012. Note, however, that a reduction to the inside basis of partnership assets (i.e., a negative Section 734(b) adjustment) occurs only from a liquidating distribution. How is the IRC Section 754 election made? Q5. As a crosscheck, this amount should equal the amount of gain recognized by A on the sale, and in this case, it does. Assuming no other changes, the balance sheet of the partnership will now look like this: Note, even though the value of the partnership's assets has increased, nothing has changed with regards to the basis of those assets -- it remains $1,000,000 -- , nor has anything changed with regards to A, B, C or D's outside basis in the partnership – it remains $250,000 in all cases. The partnership makes the Section 754 election by attaching the appropriate information to its income tax return. This gain then flows through to each partner and increases both his capital account and his tax basis under Section 704. Because B, C, D and X each own 25% of the partnership, each is allocated 25% of the gain, or $100,000. And while the effects of these two transactions net to zero, the difference in timing negatively impacted X. Because each partner holds an equal $350,000 capital account in Partnership ABCD, each partner receives $350,000 of cash upon liquidation. Sections 754 and 743 remedy this problem.

If the partnership fails to make the election, it can file for late relief under Treasury Regulation Section 301.9100-2, which is an automatic 12-month extension for IRC Section 754 elections. Thus, the adjustment is first allocated to property held by the partnership of like character (capital gain property or ordinary income property), then the adjustment is allocated within the class of property according to unrealized appreciation or depreciation. While everything works out neatly for X in the end, there are issues with regards to timing and character, which play major roles in the reporting of taxable gain or loss. See Treasury Regulation Section 301.9100-3.

Unless the partnership is filing a tax basis balance sheet, the balance sheet would generally be unaffected by the election. To illustrate, assume that one year after the land sale, the partnership sells its remaining asset for $200,000 and liquidates by distributing its cash of $1,400,000. Enjoy. This section provides that a partner's initial tax basis is equal to the amount of cash and the adjusted tax basis of any property contributed to the partnership. A2. Tax advisers routinely turn to the statutory language of Section 754 in hopes of finding guidance as to the intent and mechanics of the election, only to be let down. To illustrate, assume the land held by Partnership ABCD lost value from $800,000 to $400,000, the other asset retained a basis and value of $200,000, and X bought A's interest for $150,000 (25% of the total value of $600,000). But nothing has changed inside the partnership; in fact, the balance sheet looks exactly as it did before the sale. With the Section 743 adjustment made, if the partnership now sells its remaining asset for $200,000 and liquidates, it will distribute $350,000 to each partner. So today, we'll peel back the layers of Section 754 – how the election works, what it means to partners and partnerships, when you should make it, and when you should pass. In this Tax Geek Tuesday, we will narrow our focus on the first scenario – a Section 754 election upon the sale of a partnership interest; namely, upon A's sale of his 25% interest to X.



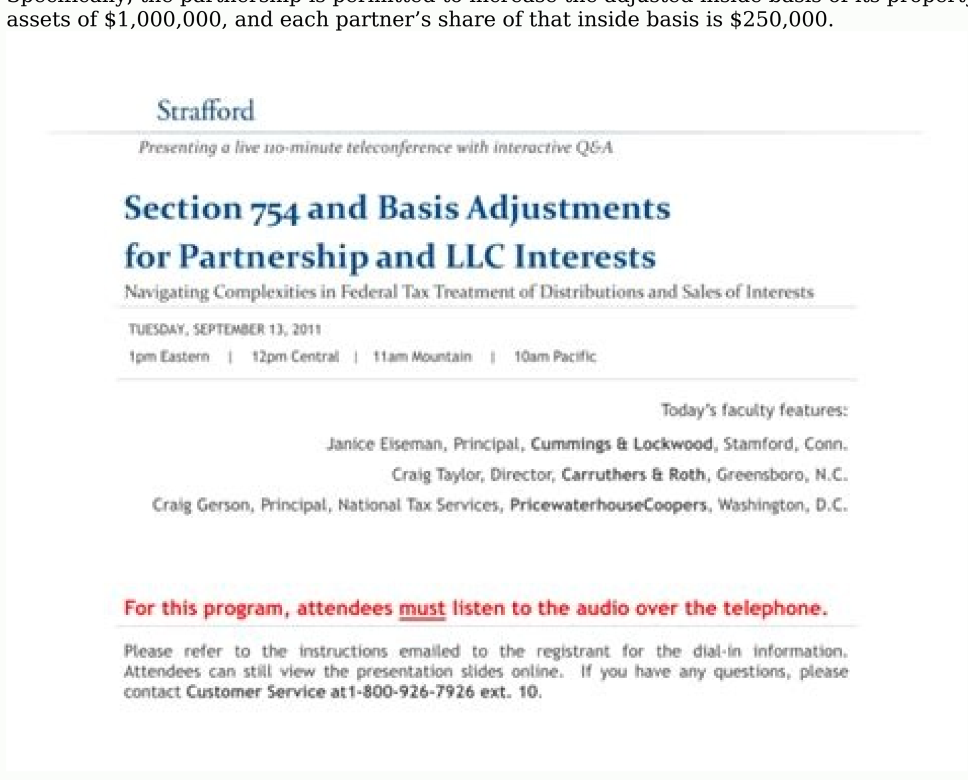
But for X, who purchases his interest from A, there is the continuing disconnect between his inside and outside basis that will now serve to make him, and the partnership, "whole" when it comes to the total gain recognized on the $400,000 appreciation inherent in the land. The partnership must provide all information relating to the reasons for the revocation request and a statement of whether the election, if not revoked, would result in a reduction in the basis of the partnership's property under IRC Section 734(b) or 743(b). Now, X recognizes no gain when the land is sold, and no gain when the partnership is liquidated. Thus, X takes an initial basis in his partnership interest of $350,000. Section 754 allows a partnership to adjust the inside basis of its property in two scenarios: The sale of a partnership interest, which is governed by Section 743, or A distribution of property, which is governed by Section 734. When the land was subsequently sold by the partnership, however, the entire $400,000 of appreciation was triggered again in the form of recognized gain, and $100,000 of that gain was allocated to X. The problem, of course, is that X's interest in the partnership is merely an extension of A's interest. This basis increase is specific only to X as the purchasing partner. While both the gain and loss will be capital in nature, they will not offset each other because they are recognized in different tax years. A6. There is a fundamental problem with what has occurred. Once the election is made, it applies to all future transfers unless the election is revoked. Partnership distributions of property can create disparities between a partner's outside basis and the partnership's inside basis when the distributee partner (1) recognizes gain or loss or (2) takes a basis in the distributed property that is different from the partnership's inside basis. Regulations list the following as acceptable reasons: (1) change in the nature of the partnership's business, (2) substantial increase in partnership assets, (3) change in the character of partnership assets, and (4) increased frequency of retirements or shifts of partnership interests increasing the administrative burdens of the election. But hopefully this discussion shed some light on why you might want to consider making an election, and how it works once you do. The Section 734(b) adjustment (increase or decrease) is allocated among the partnership's remaining assets under IRC § 755 (IRC § 734(c)). Instead, the additional basis in the land would simply be reflected outside the balance sheet; for example, on the tax depreciation schedule. In our example, A, B, C and D each have an outside basis that is exactly equal to their share of the basis of the partnership's assets – or the "inside basis" – of $250,000. Further, if the transferee later transfers their partnership interest, any basis adjustment for the subsequent transferee is determined independently from the prior Section 743(b) basis adjustment. The Section 743(b) regulations direct how to calculate the transferee's share of inside basis by adopting a deemed-sale approach, and IRC § 755 (and its regulations) direct how to allocate the adjustment among the partnership's assets. His share of the partnership's inside basis, however, remains $250,000. When a partnership liquidates, it is generally required by Section 704 to make liquidating distributions in accordance with each partner's positive balance in his capital account. X does not recognize his corresponding loss, however until a year later, when the partnership liquidates. To date, I've resisted the call to write about Section 754, largely because it's nearly impossible to make any headway on the subject in fewer than 3,000 words, and that's approximately 2,500 words longer than the standard American attention span. Since the adjustments made by the partnership apply only to the transferee partner, they have no effect on future allocations of income, deduction, gain or loss to the other partners, and no adjustment is made to the common basis of partnership property. What's the point of this increased inside basis specific to X? Section 754, In General The crux of Section 754 is the marrying of two concepts that often befuddle tax advisors: "inside" and "outside" tax basis. This increase in inside basis would then be depreciated by the partnership based on the useful life of the underlying property. As a result, the $300,000 of gain is allocated $100,000 to B, $100,000 to C and $100,000 to D.

A Section 754 election applies to all property distributions and transfers of partnership interests during the partnership tax year for which the election is made, plus for all later tax years, unless revoked. Send it along to anitti@withum.com or on twitter @nittigrittytax The Section 734(b) adjustment is determined by: increasing the adjusted basis of partnership property by the amount of gain recognized by the distributee partner, and the excess of the adjusted basis of the distributed property to the partnership immediately before the distribution over the basis of the distributed property to the distributee (IRC § 734(b)(1)), or decreasing (only in the case of a liquidating distribution) the adjusted basis of partnership property by the amount of loss recognized by the distributee partner, and the excess of the basis of the distributed property to the distributee over the adjusted basis of the distributed property to the partnership immediately before the distribution (IRC § 734(b)(2)). This information is brought to you by Checkpoint Edge, the award-winning, AI-powered tax and accounting research tool from Thomson Reuters. To illustrate, X must recognize $100,000 of gain upon the sale of the land by the partnership, even though A has already recognized that portion of the gain when he sold his interest to X. As this discussion (hopefully) illustrated, whether a partnership makes a Section 754 election should not change the net tax effect of a transaction on a partnership or its partners. If the partnership property is depreciable, the Section 734 regulations (1) treat any basis increase as newly-purchased property for Section 168 purposes and (2) account for any basis decrease over the property's remaining recovery period, starting with the period during which the basis is decreased. Got an idea for a Tax Geek Tuesday? Form 15254 must state the reason(s) for requesting the revocation. The amount of the Section 743(b) adjustment is equal to the difference between the transferee's outside basis and their share of the inside basis of partnership property. If a Section 754 election were in place, the partnership would be required to reduce the tax basis of its land – specific to X – by the excess of X's share of the inside basis of the assets ($250,000) over X's outside basis in the partnership interest, or ($150,000.) As a result, the partnership would actually decrease its basis in the land by $100,000, specific to X. Thus, there is a disparity between his outside and inside basis that creates the character and timing issues highlighted above. Is there relief for filing the election late? Late Election Q3. Thus, while B, C and D continue to possess an inside basis in the assets of the partnership of $250,000 – and specifically, in the land of $200,000 – X holds an inside basis in the assets of the partnership of $350,000, and in the land of $300,000. Wrong. Thus, for book purposes, the gain is allocated $100,000 to each of B, C, D and X, and increases each partner's capital account from $250,000 to $350,000. Yes. And from all corners of the country have come cries for me to address partnership Section 754 elections, and quite frankly, your loneliness saddens me I admire your collective desire to tackle the quagmire that is subchapter K. Making the Election Q2. Disconnect Between Inside and Outside Basis After the sale from A to X, a disparity has arisen between X's inside and outside basis. This result can be prevented, however, if the partnership makes an election under Section 754, a rather fascinating provision of the Code whose single paragraph has spawned decades of misunderstanding. Under Section 743, the inside basis of partnership property is adjusted as the result of a sale of a partnership interest if a Section 754 election is in effect. With a Section 754 election, the problem of timing is eliminated. In this case, the same $100,000 increase in the inside basis would occur when X purchases the interest from A. As a result, for tax purposes, the partnership increasing the basis of its asset, but the regulations clarify that this increase is specific to the purchasing partner. As a result, X should not recognize any gain when the land is sold, as it had previously been recognized by A upon the sale of the interest. Add these complexities up, and the reality is that managing a client with Section 754 adjustments requires a lot of man hours, and it can often be very difficult to receive equal value from the clients in the form of billings. This means that if property loses value, a partner who buys an interest for less than the selling partner's share of the inside basis of the property must decrease his share of the inside basis of the partnership property. A partnership wishing to revoke the election must file a request on Form 15254, Request for Section 754 Revocation, no later than 30 days after the close of the partnership year for which the revocation is intended to take effect. In calculating the Section 734(b) adjustment, any prior special basis adjustments under IRC § 743(b) and IRC § 732(d) have to be taken into account (i.e., any special basis adjustments are considered part of the partnership's basis in the distributed property before the distribution). He sells his entire interest to X. This $300,000 of gain is not allocated equally among the partners, however. Thus, each of A, B, C, and D will take an initial "outside basis" in Partnership ABCD equal to his cash contribution, or $250,000. Remember, the $100,000 increase in land basis is specific to X. As to a transfer of a partnership interest, the basis of partnership property is adjusted in accordance with IRC § 743(b) if the partnership makes a Section 754 election or already has one in place. This is the logical result, because all of the appreciation in the land occurred while A, rather than X, was a partner. In the brief but glorious history of Tax Geek Tuesday, I've been sure to include at the end of each segment a solicitation for future topics.

Thus, immediately after the sale, the balance sheet looks like this: Because the allocation of gain increases each partner's capital account and tax basis, the $100,000 disparity between X's capital account ($350,000) and outside basis ($450,000) remains. As we saw above, the problem for X arises because when he buys the 25% interest from A, even though he gets a "stepped up" outside basis in his interest equal to his purchase price, he "steps in the shoes" of A's capital account and his share of the inside basis of the partnership's assets. Should You Make the Election? As a result, X finds himself in the strange situation of having a capital account that is different than his tax basis, as illustrated here: Problems Caused by this Disconnect Assume that soon after X purchases A's partnership interest, Partnership ABCD sells the land for $1,200,000. The revocation request must be filed at the Ogden, UT IRS submission processing center identified in the Instructions for Form 1065 U.S. Return of Partnership Income. It should, however, put the buyer of a partnership interest in the advantageous position of not having to wait until a partnership liquidates to be made whole. In other words, the partnership will step up (or step down) its basis in partnership property when a specific event—a property distribution or the transfer of a partnership interest—occurs. A5. The gain or loss to each partner will be computed as follows: As you can see, with a Section 754 election in place, no further gain or loss is allocated to any partner. When there is a Section 754 election, these disparities are corrected by adjusting the partnership's inside basis under IRC § 734(b). No application for revocation of an election shall be approved when the purpose of the revocation is primarily to avoid a reduction in the basis of partnership assets upon a transfer or distribution. This is the beauty of the Section 754 election – it doesn't change the net effect of the partnership life cycle; rather, it eliminates timing and character concerns that could put a buying partner at a disadvantage. A recognized $100,000 of gain related to the land when he sold his interest to X, and now X is recognizing $100,000 of gain related to the land when the partnership sells the asset. Since the purchaser of a partnership interest takes a cost basis in that interest but inherits the selling partner's capital accounts (tax and book) and the seller's share of inside basis, there is almost always a disparity between the transferee's outside basis and share of inside basis; the Section 743(b) adjustment is intended to eliminate this disparity. As a general rule, if a partnership has assets that are steadily appreciating (i.e., real estate partnerships) and routinely experiences changes in partnership interests, a Section 754 election should be given strong consideration. See "Revocation of Election" below. As a result, the partnership only recognizes $300,000 of tax gain, rather than the $400,000 that was recognized when the Section 754 election was not in effect. Can We Fix It? In the previous example, X recognized $100,000 of tax gain when the land was sold, and a corresponding $100,000 capital loss upon liquidation. Stated in another way, of the $400,000 of appreciation inherent in the land, A will pay tax on $100,000 of the gain upon the sale of his interest. How Does Section 754 Work? Note, however, that this basis in the partnership interest is not the partnership capital account – or his share of the inside basis of the partnership assets – but rather his outside basis in the partnership interest. I'm not the smartest tax guy in the world, but even I know that recognizing gain in year 1 and then a loss in year 2 that may be limited or disallowed is not a good result. How can the IRC Section 754 election be revoked? This section provides that when a taxpayer acquires property via purchase, his initial basis is generally the cost of the property. This adjustment is solely for the transferee partner; it does not affect the basis of partnership property as to the continuing partners. Thus, the partnership is permitted to increase the basis of its land by $100,000. The statement must include (1) the name and address of the partnership, and (2) a declaration that the partnership elects under IRC Section 754 to apply the provisions of IRC Sections 734(b) and 743(b). As explained immediately above, X's outside basis in his partnership interest is $350,000.

Upon A's sale of his 25% interest to X, A recognized $100,000 of gain related to the $400,000 of underlying appreciation in the land and paid tax on that amount. A4. A3. Because the $100,000 increase in depreciable basis is specific to X, however, any depreciation deductions generated by the basis increase would be allocated specifically to X. Further assume that A decides that things have gotten as good as they're gonna' get, and he wants out. When computing the partnership's tax gain, however, its inside basis in the land for tax purposes is $900,000 rather than $800,000 because it has increased its basis by $100,000 by virtue of the Section 754 election and Section 743 increase. As you can see in the balance sheet, because the total value of the assets is now $1,400,000, A's 25% share of those assets is worth $350,000.

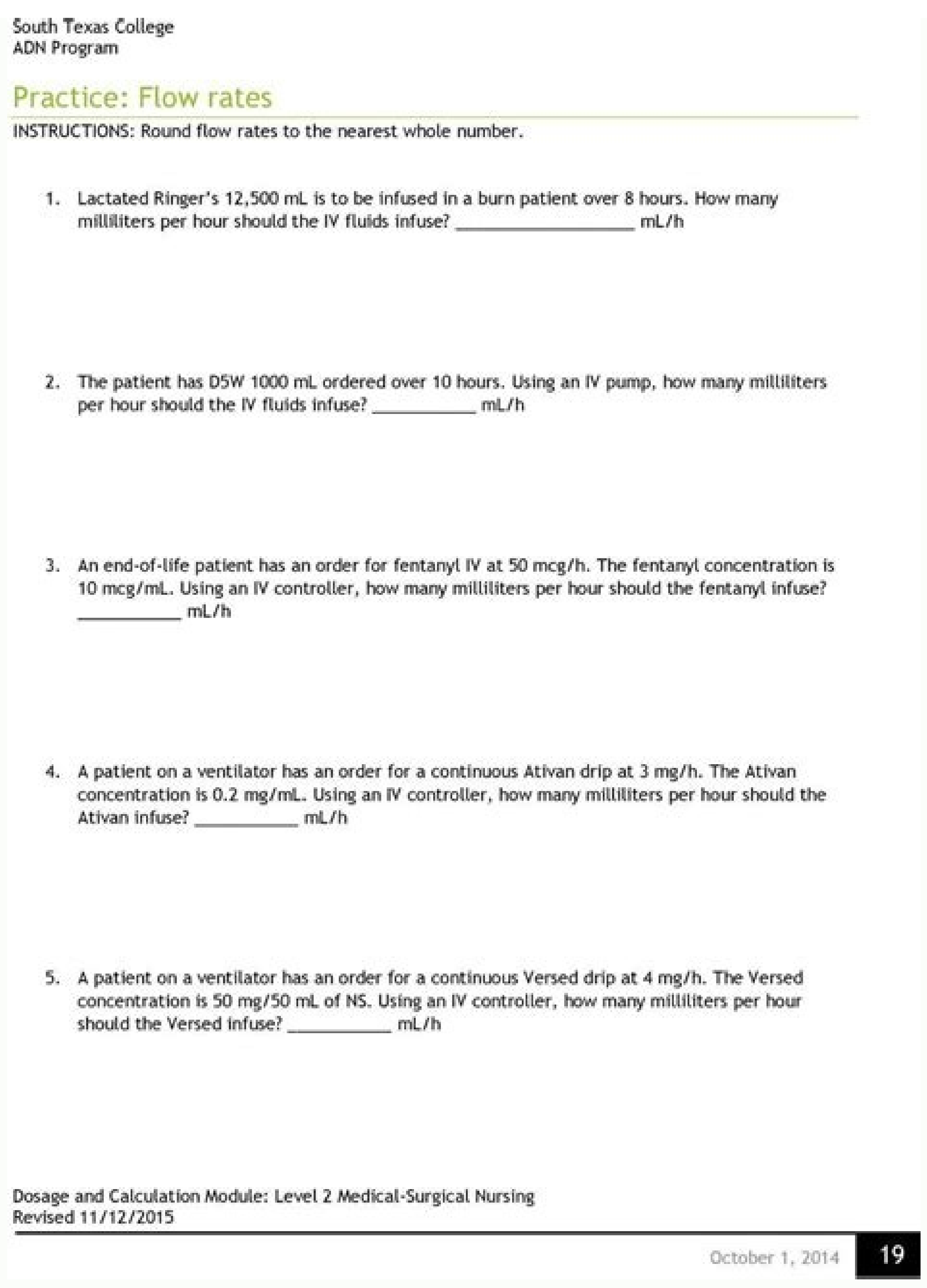
Specifically, the partnership is permitted to increase the adjusted inside basis of its property by the excess of the: Purchasing partner's outside basis in the partnership interest over The purchasing partner's share of the partnership's inside basis of the partnership assets. Stated in another way, the partnership has an "inside basis" in its partnership assets of $1,000,000, and each partner's share of that inside basis is $250,000.



Lastly, and from a purely selfish perspective, tax advisors should consider what a colossal pain in the ass maintaining and managing Section 743 and 734 increases or decreases – and the resulting depreciation – can be. Because of this loss, when we run Partnership ABCD from inception through liquidation, the total of $400,000 of taxable gain it recognized in the form of the appreciation of its land is recognized as follows: So no harm, no foul, right? Revocation of Election Q4. Let's put this all together in our example. How much will X pay for A's interest? What's the Problem? If more than 12 months have passed, late relief can still be requested but must be approved by the Commissioner. As indicated above, once the partnership makes a Section 754 election, it's stuck with it. But what happens if that changes? Where is the request for permission to revoke the IRC Section 754 election filed? The election applies to all distributions and transfers during the tax year with respect to which the election is initially filed, and to all such transactions in any subsequent years. And A recognized this appreciation as taxable gain when he sold his interest to X. Making matters worse, if the land were depreciable property, the depreciation on the resulting $100,000 decrease in inside basis would give rise to a rather anomalous result: negative depreciation deductions, or stated in another way, depreciation deductions that increase the income of X. And what happens if in the year of liquidation, X has no capital gain against which he can use his $100,000 capital loss? While this obviously seems rather unfair, understand that things will (eventually) work out. The request must be signed by one of the partners. So if X wants in, he'll have to pay A $350,000 for the interest.

Learn more and claim your free trial today. Once the election is made, it can only be revoked with permission of the Commissioner. When X purchases A's interest for $350,000, he takes an outside basis in his partnership interest of that amount. Thus, he recognizes $100,000 of loss on liquidation. Section 754 with Depreciable Property What if the land in the previous example had been depreciable property? These are not simple concepts, and we didn't even broach the rules for allocating between multiple classes of assets under Section 755 or dealing with tiered partnerships. Thus, the same $100,000 of economic gain is being taxed twice, which is contrary to the basic principles of tax law. Under Section 731, when a partnership liquidates, each partner recognizes gain or loss for the difference between the amount received and his basis in the partnership interest. An IRC Section 754 election allows a partnership to adjust the basis of the property within a partnership under IRC Sections 734(b) and 743(b) when one of two triggering events occur: 1) a distribution of partnership property or 2) certain transfers of a partnership interest. Partnership Inside Basis When we speak of partnership "inside basis," we are referring to the basis the partnership holds in its assets, and how that asset basis is reflected in the partners' capital accounts. Under Section 1212, he would be permitted to take only $3,000 of that loss, and the remainder would carry forward until X eventually triggered capital gains. The partnership will recognize gain under Section 1001 for the excess of the amount realized ($1,200,000) over the basis the partnership holds in the land ($800,000), or $400,000.

This is because as mentioned above, the magic really happens under Section 743 for purchases, and Section 734 for distributions. But are there any downsides? It cannot be revoked without permission from the Commissioner.



South Texas College
ADN Program

Practice: Flow rates

INSTRUCTIONS: Round flow rates to the nearest whole number.

1. Lactated Ringer's 12,500 mL is to be infused in a burn patient over 8 hours. How many milliliters per hour should the IV fluids infuse? ________________ mL/h

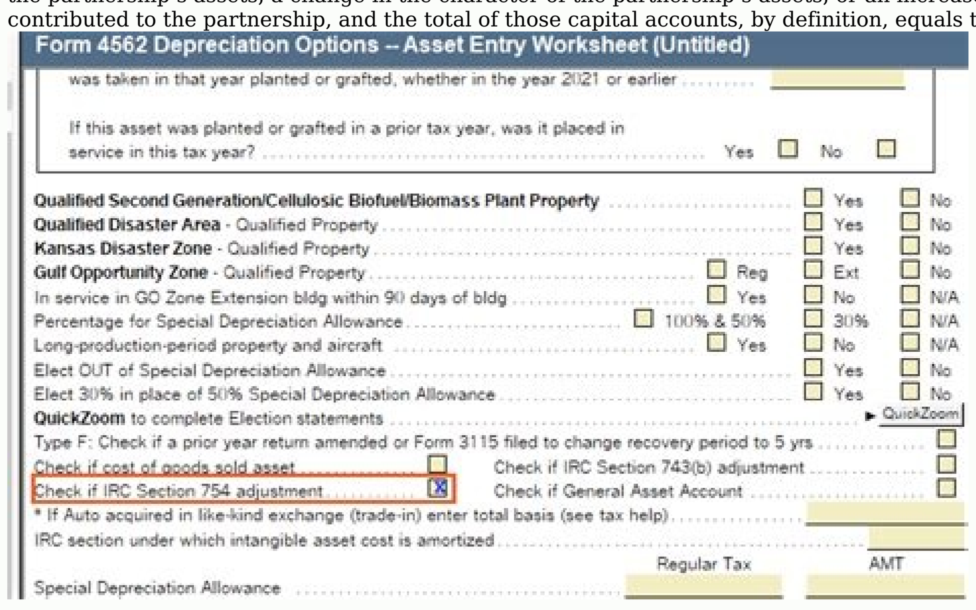
2. The patient has D5W 1000 mL ordered over 10 hours. Using an IV pump, how many milliliters per hour should the IV fluids infuse? __________ mL/h

3. An end-of-life patient has an order for fentanyl IV at 50 mcg/h. The fentanyl concentration is 10 mcg/mL. Using an IV controller, how many milliliters per hour should the fentanyl infuse? __________ mL/h

4. A patient on a ventilator has an order for a continuous Ativan drip at 3 mg/h. The Ativan concentration is 0.2 mg/mL. Using an IV controller, how many milliliters per hour should the Ativan infuse? __________ mL/h

5. A patient on a ventilator has an order for a continuous Versed drip at 4 mg/h. The Versed concentration is 50 mg/50 mL of NS. Using an IV controller, how many milliliters per hour should the Versed infuse? __________ mL/h

See Final Treasury Regulation 1.754-1(b)(1). The request should state the reason for the revocation. And once again, this increase would be specific to X. Obviously, whether to make a Section 754 election ultimately comes down to the specific facts of your client. Now, when the partnership sells its land for $1,200,000, it will recognize book gain of $400,000, because its basis in the land remains $800,000 for book purposes, as the Section 754 adjustment is a tax convention only. See the Form 15254 instructions for additional information. The partnership then uses the $1,000,000 to purchase two assets – land for $800,000 and other assets for $200,000. This creates a disconnect between inside and outside basis that is not resolved until liquidation, and perhaps not until years later if X's capital loss on liquidation is limited. What documentation must the partnership submit with the revocation request? Making the Election The Section 754 election must be made before the due date of the income tax return (including extensions) for the year in which the transfer occurs. Partnership Outside Basis When we speak of partnership "outside basis," we are referring to the basis each partner holds in his partnership interest. Treasury Regulation Section 1.754-1(c) provides examples of situations which may warrant approving an application for revocation. To make the election, a partnership must attach a statement to the partnership's timely filed return (including any extensions) for the tax year during which a distribution or transfer occurs. A1. These examples include situations where the IRC Section 754 election results in an administrative burden, such as: a change in the nature of the partnership's business, a substantial increase in the partnership's assets, a change in the character of the partnership's assets, or an increased frequency of retirements or shifts of partnership interests. No gain is allocated to X. Immediately after the contribution, the partnership's balance sheet would look like this: As you can see, each partner has a capital account equal to the amount of cash he contributed to the partnership, and the total of those capital accounts, by definition, equals the total basis the partnership has in its assets. When A sells his interest to X for $350,000, he will recognize gain under Section 741 for the excess of his amount realized ($350,000) over his outside basis in the partnership interest ($250,000), or $100,000.



Form 4562 Depreciation Options -- Asset Entry Worksheet (Untitled)

was taken in that year planted or grafted, whether in the year 2021 or earlier

If this asset was planted or grafted in a prior tax year, was it placed in service in this tax year? Yes ☐ No ☐

Qualified Second Generation/Cellulosic Biofuel/Biomass Plant Property		☐ Yes	☐ No
Qualified Disaster Area - Qualified Property		☐ Yes	☐ No
Kansas Disaster Zone - Qualified Property		☐ Yes	☐ No
Gulf Opportunity Zone - Qualified Property	☐ Reg	☐ Ext	☐ No
In service in GO Zone Extension bldg within 90 days of bldg	☐ Yes	☐ No	☐ N/A
Percentage for Special Depreciation Allowance	☐ 100% & 50%	☐ 30%	☐ N/A
Long-production-period property and aircraft	☐ Yes	☐ No	☐ N/A
Elect OUT of Special Depreciation Allowance		☐ Yes	☐ No
Elect 30% in place of 50% Special Depreciation Allowance		☐ Yes	☐ No

QuickZoom to complete Election statements ► QuickZoom

Type F: Check if a prior year return amended or Form 3115 filed to change recovery period to 5 yrs ☐

Check if cost of goods sold asset ☐ Check if IRC Section 743(b) adjustment ☐

Check if IRC Section 754 adjustment ☒ Check if General Asset Account ☐

* If Auto acquired in like-kind exchange (trade-in) enter total basis (see tax help)

IRC section under which intangible asset cost is amortized

	Regular Tax	AMT
Special Depreciation Allowance		