

(c) *The properties exchanged.* In the distribution C received his share of section 751 property (potential section 1245 income of \$2,000, i.e., 1/3 of \$6,000) and his share of section 1245 property (other than potential section 1245 income) with a fair market value of \$3,000, i.e., 1/3 of (\$15,000 minus \$6,000), and an adjusted basis of \$3,000, i.e., 1/3 of \$9,000. In addition he received \$4,000 of section 751 property (consisting of \$4,000 (\$6,000 minus \$2,000) of potential section 1245 income) and section 1245 property (other than potential section 1245 income) with a fair market value of \$6,000 (\$9,000 minus \$3,000) and an adjusted basis of \$6,000 (\$9,000 minus \$3,000). C relinquished his interest in \$1,000 of cash and \$9,000 of land. Assume that the partners agree that the \$4,000 of section 751 property in excess of C's share was received by him in exchange for \$4,000 of land.

(d) *Distributee partner's tax consequences.* C's tax consequences on the distributions are as follows:

(1) *The section 751(b) sale or exchange.* C is treated as if he received in a current distribution 4/9ths of his share of the land with a basis of \$2,667 ($18,000/27,000 \times \$4,000$). Then C is considered as having sold his 4/9ths share of the land to the partnership for \$4,000, realizing a gain of \$1,333. C's basis for the remainder of his partnership interest after the current distribution is \$7,333, i.e., the basis of his partnership interest before the current distribution (\$10,000) minus the basis of the land treated as distributed to him (\$2,667).

(2) *The part of the distribution not under section 751(b).* Of the \$15,000 total distribution to C, \$11,000 (\$2,000 of potential section 1245 income and \$9,000 section 1245 property other than potential section 1245 income) is not within section 751(b). Under section 732(b) and (c), C's basis for his share of potential section 1245 income is zero (see paragraph (c)(5) of this section) and his basis for \$9,000 of section 1245 property (other than potential section 1245 income) is \$7,333, i.e., the amount of the remaining basis for his partnership interest (\$7,333) reduced by the basis for his share of potential section 1245 income (zero). Thus C's total aggregate basis for the section 1245 property (fair market value of \$15,000) distributed to him is \$11,333 (\$4,000 plus \$7,333). For an illustration of the computation of his recomputed basis for the section 1245 property immediately after the distribution, see example 2 of paragraph (f)(3) of § 1.1245-4.

(e) *Partnership's tax consequences.* The tax consequences to the partnership on the distribution are as follows:

(1) *The section 751(b) sale or exchange.* Upon the sale of \$4,000 potential section 1245 income, with a basis of zero, for 4/9ths of C's interest in the land, the partnership consisting of the remaining members has \$4,000 ordinary income under sections 751(b) and 1245(a)(1). See section 1245(b)(3) and (6)(A).

The partnership's new basis for the land is \$19,333, i.e., \$18,000, less the basis of the 4/9ths share considered as distributed to C (\$2,667), plus the partnership purchase price for this share (\$4,000).

(2) *The part of the distribution not under section 751(b).* The analysis under this subparagraph should be made in accordance with the principles illustrated in paragraph (e)(2) of examples 3, 4, and 5 of this paragraph.

[T.D. 6500, 25 FR 11814, Nov. 26, 1960, as amended by T.D. 6832, 30 FR 8575, July 7, 1965; T.D. 7084, 36 FR 268, Jan. 8, 1971; T.D. 8586, 60 FR 2500, Jan. 10, 1995; T.D. 8847, 64 FR 69915, Dec. 15, 1999]

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[T.D. 8380, 56 FR 66350, Dec. 23, 1991]

§ 1.752-1 Treatment of partnership liabilities.

(a) *Definitions.* For purposes of section 752, the following definitions apply:

(1) *Recourse liability defined.* A partnership liability is a recourse liability to the extent that any partner or related person bears the economic risk of loss for that liability under § 1.752-2.

(2) *Nonrecourse liability defined.* A partnership liability is a nonrecourse liability to the extent that no partner or related person bears the economic risk of loss for that liability under § 1.752-2.

(3) *Related person.* Related person means a person having a relationship to a partner that is described in § 1.752-4(b).

(b) *Increase in partner's share of liabilities.* Any increase in a partner's share of partnership liabilities, or any increase in a partner's individual liabilities by reason of the partner's assumption of partnership liabilities, is treated as a contribution of money by that partner to the partnership.

(c) *Decrease in partner's share of liabilities.* Any decrease in a partner's share of partnership liabilities, or any decrease in a partner's individual liabilities by reason of the partnership's assumption of the individual liabilities of the partner, is treated as a distribution of money by the partnership to that partner.

(d) *Assumption of liability.* Except as otherwise provided in paragraph (e) of this section, a person is considered to assume a liability only to the extent that:

(1) The assuming person is personally obligated to pay the liability; and

(2) If a partner or related person assumes a partnership liability, the person to whom the liability is owed knows of the assumption and can directly enforce the partner's or related person's obligation for the liability, and no other partner or person that is a related person to another partner would bear the economic risk of loss for the liability immediately after the assumption.

(e) *Property subject to a liability.* If property is contributed by a partner to the partnership or distributed by the partnership to a partner and the property is subject to a liability of the transferor, the transferee is treated as having assumed the liability, to the extent that the amount of the liability does not exceed the fair market value of the property at the time of the contribution or distribution.

(f) *Netting of increases and decreases in liabilities resulting from same transaction.* If, as a result of a single transaction, a partner incurs both an increase in the