South-western federal taxation

Finance

The paper " South-Western Federal Taxation" is an excellent example of a case study on finance and accounting. According to U. S code 26 U. S. Code § 731 a partner's gain shall not be deemed recognized to a partner except in cases where the extent of the money distributed is more than the adjusted basis of such a partner's interest in the partnership immediately before the distribution has been done. A loss shall also not be recognized to a partner except whereby the d distribution in liquidation of a pa partner's interest in the partnership where there was no property that is described to such a partner, (Hoffman, et. al, 2017). In the Timothy case study, the assets received during an operating distribution are nontaxable in general terms when in the hands of a partner and the firm. The distributed assets are written off in the books of the partnership and their carrying value is charged against the partner. To be specific when the cash distribution is more than the outside basis of the interests of a partner such operating distribution is taxable in the hands of that partner. Therefore the cash distribution is not taxable in this scenario because its distribution did not exceed the basis of interest in the partnership. The cash distributed which is less than the outside interest basis is not taxable in the hands of Timothy. When distributing inventory the fair market value is considered for taxation purposes. The distribution is less than the balance of the outside interests and therefore not taxable. In the case of land, it is only taxable when such distribution is treated as “ disguised sales”, “ marketable securities” or “ pre-contribution gain”. There is no gain in this case, and therefore not taxable. When conducting a liquidation distribution taxes are only attracted when the distributed assets are more than the reduced outside basis interest of the partner. When cash is distributed in this case, the outside interests of the partner are more than the value. Therefore the distribution does not qualify for taxation. When inventory is being distributed the reduced the distribution is $75, 000 which is less than their reduced outside interests, therefore, taxes cannot be applied on inventory distribution. This is the same case when it comes to land as there is no tax consequence because the amount does not exceed the reduced cash basis from the other distributions that come first. When dealing with proportionate distributions to partners of a partnership, their distributions run for the most part whether it is for a land liquidating or liquidating distribution. The difference is that when liquidating, the partners and their business in the partnership interest is allocated to the assets received in the liquidating distributions unless the partner is required to recognize a loss.