

## 2009 PARTNERSHIP QUIZ

1. T F Two investment consultants, Best and Better, jointly operate and jointly bill for their services as a firm called Money Management. The entity is a partnership.
2. T F If Best and Better bill separately for their services and only share office expenses, they are not considered a partnership.
3. T F The Smith family and the Jones family are neighbors. The fence that separates them has become run down and they agree to share costs of rebuilding the fence equally. They have formed a partnership
4. T F Jim and John own an apartment building equally. They share expenses of maintenance and taxes but neither of them does any work on the apartments themselves. They hire a management firm to rent and collect rents. They must file a partnership return on the rental property.
5. T F Jeremy and Sarah are married and file a joint return. They are both Tax Consultants and both work in their own business and share the profits and losses equally. They may split all of the income and expenses and file two separate Schedule C forms.
6. T F In Jeremy and Sarah's situation, above, they may file a joint schedule C and identify the operations as a joint venture - filing two separate SE forms.
7. T F If Jeremy were the Tax Consultant and Sarah was not licensed and only worked during the rush season as receptionist for a salary which Jeremy paid to her, they do not have a partnership in the tax business.
8. Ted and Mary (husband and wife) and Fred and Jane (separate individuals) purchased an office building which they rent out to various business enterprises. Ted and Mary provide the janitorial services, Fred does all the repairs, and Mary does the accounting and collects the rents.
  - a. They have a partnership
  - b. They have a joint venture
  - c. They have individual rental properties.
9. T F A general partner in a partnership has unlimited liability.
10. T F Partnership tax must be paid with filing of the form 1065.
11. Partnership X (with 4 partners) gave all their information for their tax return to the accountant in January. The accountant was too busy right then and put the information in the file and forgot about it. The partnership return did not get filed until June 15 (without extension). The penalty is:
  - a. \$400
  - b. \$720
  - c. \$500

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12. If Partnership X (with 4 partners) did not file their partnership return until September of the year due, the penalty would be:
- a. \$250
  - b. \$1,000
  - c. \$1,800
  - d. \$1,200
13. T F A partnership generally is required to adopt the same taxable year as that of the partners owning a majority of the interest in the partnership capital or profits.
14. T F If partners owning majority of the interests in a partnership do not have the same tax year, the partnership may adopt the tax year they select
15. T F A partnership agreement must be written
16. T F Modifications to a partnership agreement may be made at any time prior to or on the due date of the tax return.
17. T F Touch and Go did not find it necessary to write up a partnership agreement when they entered a venture that they thought might be profitable. They did, in fact, become quite successful and the venture was making a lot of money which they split evenly. In June of the current year Touch had a heart attack and died. He was not currently married but had an ex wife who absolutely hated Go and she was the guardian of Touch's only survivors—his two children ages 4 and 5. Go now has to deal with Touch's estate, his ex wife, and the two children in order to keep his business going.
18. T F Assume that both of the partners above were still living and Touch was still married. His wife can file for divorce and be awarded his interest in the business without any approval from Go.
19. T F A partnership agreement should clearly define the purpose for which the partnership was created leaving no room for expansion into other areas.
20. T F It is not important to provide for non compete agreement in the partnership agreement since this only applies if the partners sell to outsiders.
21. T F Partnership agreement should make provisions for withdrawal of funds from capital accounts.
22. T F Individuals who become partners by contribution of services may be exempt from sharing in partnership losses.
23. T F Legal fees for partnership agreements can be amortized over a minimum of 60 months
24. T F An election is required before amortization of organizational costs can be taken.

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25. T F Election to amortize expenses only covers expenses incurred during the period that ends with the due date (including extensions) of the form 1065 for the year the business commences.
26. T F If amortization expense election is NOT made, the expenses must be capitalized and can only be taken as capital loss at the time of disposition of the partnership interest.
27. T F Start up costs include pre-opening activities (training) and may be amortized over 60 months if proper election is made.
28. T F Costs of promoting or selling a partnership interest are non deductible and non amortizable. They are not ordinary deductions on disposition but only affect capital gain or loss upon disposition.
29. T F Gain may be recognized where the partnership assumes liabilities of the contributor or takes property subject to liability. (Regarding contributions to a partnership)
30. If a partnership assumes liabilities of the contributor or takes the property subject to liability, the portion of the indebtedness assumed by the other partners is:
- a. Deemed a distribution of money to contributor and is taxable at that time
  - b. Deemed a distribution of money to contributor and reduces his basis
  - c. Deemed a guaranteed payment and taxable to contributor
31. If a partnership assumes liabilities of the contributor or takes the property subject to liability, the portion of the indebtedness assumed by the other partners:
- a. Is treated as a contribution of property and increases their basis in partnership interests
  - b. Is treated as a contribution of money and increases their basis in partnership interests
  - c. Is ignored for basis of the other partners interest since it reduces basis of the contributor
32. T F A contributor or property to a partnership will have gain to the extent that the assumed liability exceeds the partnership basis after the contribution.
33. T F Non recognition rules do not apply and gain must be recognized on a contribution to a partnership of appreciated property in exchange for an interest in the partnership if the partnership would be considered an investment company if it were incorporated.
34. T F A partnership is treated as an investment company if, after the exchange, more than 50% of the value of assets (excluding cash and nonconvertible debt obligations) are held for investment and are readily marketable stocks or securities, or interests in a regulated investment company or real estate trust.

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35. T F Steve purchased an interest in XYZ partnership for cash and assumption of liabilities of the partnership. His basis includes the portion of liabilities assumed.
36. T F If there is no decrease in unrealized receivables when a new partner joins the partnership, but merely a decrease in liabilities, the former partners must declare ordinary income.
37. Dan purchased an interest in a partnership. He paid \$2,500 cash and will share in liabilities and receivables. His interest in the partnership is 25%. Liabilities of the partnership, before he bought into the partnership were \$8,000 and accounts receivable was \$1,200. His basis in the partnership is:
- a. \$2,500
  - b. \$4,800
  - c. \$4,500
  - d. \$4,200
38. T F Unrealized receivables include depreciation recapture
39. General Partnership is formed with a cash contribution from Partner A of \$20,000 cash, Partner B \$20,000 cash and Partner C land with fair market value of \$20,000. The land has a basis of \$5,000 in the hands of Partner C at time of contribution. The partnership decides that it does not want the land to build on because location proves to be wrong for them. They sell the land for \$25,000. Gain is allocated: (Assume holding period for partnership qualified for capital gain)
- a. \$1,666 capital gain to each partner
  - b. \$6,666 capital gain to each partner
  - c. \$1,666 each to Partner A and B and \$16,666 to Partner C
  - d. \$20,000 to Partner C
40. T F Generally, exceptions and built in gains/losses rules combine to put a contributing partner in the same position he or she would be in if he or she simply sold the property directly rather than contributing it to the partnership.
41. T F Contribution of services to a partnership in exchange for an interest therein is not included in the non-recognition rules.
42. Value of capital interest for services rendered is considered as:
- a. W2 wages and reportable as such with withholding
  - b. Distribution of capital and no tax consequences if not below basis
  - c. Guaranteed payment and subject to SE tax to the provider of the services only

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43. Alice wanted to join in a partnership with her friend but had no assets to contribute. She gave the partnership her promissory note for \$5,000 payable over 5 years, with interest. She paid \$1,000 principal in the first year. As of the end of the first year, her capital in the partnership (ignoring current year profits and losses) was
- a. \$5,000
  - b. \$1,000
  - c. -0-
44. Assume that the above partnership was a craft shop and Alice had been in business for herself for several years doing the same type of business. She had a sewing machine and other craft equipment with a value \$5,000 to contribute to the partnership. There were no liabilities attached to her contribution of the equipment.
- a. Alice must recognize recapture income of \$5,000 upon the transfer
  - b. No gain is recognized on the transfer and when the asset is sold or traded in later, Alice must recognize the recapture gain.
  - c. No gain is recognized on the transfer and when the asset is sold or traded in later, the partners will share in the ordinary recapture in the same proportion as total gain is allocated.
45. T F Partner's tax basis is the same as capital account on his partnership K1 form
46. T F Della belongs to a limited partnership. Her K1 last year reflected a negative balance in her capital account. She sells the entire interest in the partnership in the current year for \$5,000. She has an automatic capital gain of \$5,000.
47. T F A partnership's basis in property contributed is the same as the partner's basis in the property prior to contribution.
48. T F The inside basis of a partnership interest is the partner's tax basis in each asset.
49. T F The outside basis of a partnership interest is the partner's investment for tax purposes.
50. T F Taxable and non taxable income allocated to a partner increase outside basis.
51. T F Decrease in partner's share of liabilities increases outside basis.
52. T F Withdrawals of money and distributions of property to partner reduce outside basis.
53. T F Distributions of property to the partner are distributed at adjusted basis in the hands of the partnership.
54. T F Partnership tax returns are due by April 15<sup>th</sup> if calendar year partnership
55. T F An incomplete form K1 constitutes failure to show all required information and is subject to the penalty of \$50 per month per partner until corrected (5 months maximum)

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56. T F Reasonable cause test can be met by all partnerships if all of the partners are natural persons, there are no specially allocated items, and all the partners have fully reported their shares from the partnership on their timely filed income tax returns.
57. T F An amended partnership return will require that all the partner's K1s be amended and each individual return amended accordingly.
58. T F Travel, meals, and entertainment expenses must be separately stated on K1s of the partnership tax return.
59. Which of the following items is not required to be separately stated on partnership returns?
- a. Short term capital gains and losses
  - b. Long term capital gains and losses
  - c. Personal exemption allowances
  - d. Gains and losses from sale or exchange of 1231 property
  - e. Charitable contributions
  - f. Foreign taxes paid
60. T F Charitable contributions are deductible in arriving at partnership taxable income
61. T F Depletion of oil and gas wells is not deductible in arriving at partnership taxable income.
62. Sam and John did not see that it was necessary to have a written partnership agreement. This year Sam paid \$2,000 worth of partnership expenses from his own funds due to a lack of partnership cash flow.
- a. Sam may claim the deductions on his personal return on Schedule E
  - b. Sam may not claim the expenses and neither can the partnership
  - c. The \$2,000 is considered a contribution to capital and the partnership takes the deduction
63. T F If partnership agreement requires partner to pay, out of his own funds, certain business expenses, the partner can deduct the payment as a business expense on Schedule C of his personal return.
64. T F Section 179 expense limits are determined at partner level, not by partnership.
65. T F Partners are taxed on distributive share of income even if no money or property is distributed.
66. T F A guaranteed payment made by the partnership for use of capital and made without regard to partnership income is taxable to the recipient partner as ordinary income and subject to S E tax.

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67. T F If partner sells property to the partnership for current value, the transaction is treated as occurring between partnership and non-partner. Partner must recognize gain on sale.
68. T F Loans from a partner to a partnership have priority over loans from unrelated creditors.
69. T F Partner's share of partnership loss is deductible only to the extent of his inside basis
70. T F Disallowed losses because of basis limits can be carried over until the partner has sufficient basis to take the deduction.
71. T F At risk rules apply to all activities of the partnership
72. T F Amount at risk includes fair market value of property contributed to partnership
73. T F Partner's share of indebtedness for which he has unlimited liability are considered at risk for at risk limits.
74. T F At risk rules apply to the amount the partner has at risk at the beginning of the taxable year.
75. T F Passive activity losses can only be used to offset income from passive activities and such suspended losses are only allowed when interest is sold.
76. T F If property, rather than money, is distributed, there is no immediate gain or loss recognition unless distribution is "ordinary income asset" or liquidating distribution
77. T F Fringe benefits provided to partners in return for services are treated as guaranteed payments and subject to SE tax.
78. T F Accident and health insurance premiums paid on behalf of a partner are considered a guaranteed payment and are taxable to partner but non deductible by partnership
79. T F If there is no partnership agreement and state law mandates, the death of a partner terminates the partnership and requires a distribution of partnership assets to the partners or successors in interest.
80. T F Cash required to "buy out" a deceased or retired partner are tax deductible ordinary expense.
81. T F Sale of a partnership interest is usually a capital gain or loss and reportable on Sch. D
82. T F Sale of a partnership interest generally does not close the tax year.
83. T F Gift of a partnership interest is a taxable event to donee

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84. T F If a partnership interest is exchanged for corporate stock and exchange qualifies as a section 351 exchange, there is generally no taxable event.
85. T F An exchange of partnership interest for corporate stock generally closes the partnership tax year.
86. T F Unless there is a shift in liabilities, a partnership interest exchanged for another partnership interest in the same partnership is non taxable.
87. T F A decedent's distributive share of partnership income is reported on the decedent's estate tax return.
88. T F A partnership tax year does not close unless the partnership terminates
89. T F Tired and Retired had a partnership for many years. When Retired decided he wanted out of the partnership, Tired bought all of his interests in the partnership. The partnership must be terminated.
90. T F Paul, Peter, and Samuel had a partnership in which ownership and profit sharing was 1/3 each. During this year, Adam bought out both Peter and Samuel's interest in the partnership. The original partnership must be terminated.
91. Leslie has suspended losses in a partnership in the amount of \$1,000 due to basis limitations. She sells her partnership interest this year for \$5,000. Her reportable gain on the sale is:.
- a. \$5,000
  - b. \$4,000
  - c. -0-
92. If Leslie (in above question) had suspended losses due to "at risk" rules, her reportable gain on the sale would be:
- a. \$5,000
  - b. \$4,000
  - c. -0-
93. If Leslie (in above question) had suspended losses due to "passive activity" rules, and she sold only one half of her interest in the partnership, her reportable gain would be:
- a. \$5,000
  - b. \$4,000
  - c. -0-
94. T F A seller of partnership interest must notify the partnership of the sale or exchange by the end of the taxable year in which the sale takes place.

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95. T F A seller of partnership interest must allocate gain or loss for passive activity rules to each activity (trade or business, rental, investment)
96. T F Income from sale of a partnership interest may not be reported under installment method for any part of the income attributable to depreciation recapture.
97. T F Partnership must file form 8308 with tax return for sale of a partnership interest.
98. T F If sale is of a publicly traded partnership interest, sale is reported on 1099-B
99. T F A IRC section 754 election is a n election to adjust inside basis of assets.
100. T F Partnership interests are never included in probate of a deceased partner's estate.
101. T F Family partnerships can not include minors if minor can not be shown to be competent to manage his own affairs.
102. T F State law governs formation of limited partnerships
103. T F Limited partners occupy a position behind that of general creditors but ahead of the general partners on dissolution.
104. T F A checklist of partnership items should be considered when forming a partnership
105. T F Partnership agreements should provide for identification and duties of management partner as well as provisions of removal from management position.
106. Farmer John and Farmer John Jr. formed a partnership several years ago. Over the years, Farmer John contributed more to his capital account but their partnership agreement stated that profits and losses would be shared equally, regardless of capital. At the end of 2003, Jr.'s capital account on is K1 (which, in this case was also his outside basis) is a negative \$10,000. He has suspended losses due to basis of \$10,000. He gets mad at his father and walks away from the partnership on December 31. At that time there are no receivables but there is partnership debt of a total of \$50,000 which each partner is liable for one half. Dear old dad does not want to make things tough on Jr. so he just assumes the debt, closes the partnership and continues on as a sole proprietor. Junior tells his tax consultant that he just walked away from it and has no gain or loss. He
- a. Is correct in what he told his tax consultant and no action need be taken
  - b. Has gain due to debt relief in the amount of \$25,000 which is fully taxable
  - c. Has gain due to debt relief in the amount of \$25,000 which can be offset by the \$10,000 suspended losses.

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107. Assume that Jr. (in above problem) had sold his interest in the partnership to his brother for a Fair Market Value of \$40,000 (of which \$25,000 is debt assumed by his brother and balance cash. (No unrealized receivables or appreciated inventory)
- a. His gain is \$40,000
  - b. His gain is \$30,000
  - c. His gain is \$50,000
108. T F Under certain conditions, you are not required to complete partnership form 1065 schedules L, M1 and M2
109. T F Completion of the balance sheet and reconciliation schedules M1 and M2 should be considered a “check point” for accuracy of the return.
110. T F You, as a tax preparer, should always compute outside basis in a partnership for your client at the close of each year.

TRANSFER YOUR ANSWERS TO THE  
ANSWER SHEET

EMAIL OR FAX OR MAIL ONLY THE ANSWER SHEET

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