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# Planning for the Taxable Disposition of Overleveraged Property

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**PLANNING FOR THE  
TAXABLE DISPOSITION OF  
OVERLEVERAGED PROPERTY**

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## THE PROPERTY

<b>VALUE</b>	<b>\$100</b>
<b>BASIS</b>	<b>\$ 40</b>
<b>NONRECOURSE DEBT (10 YRS.)</b>	<b>\$ 99</b>
<b>REMAINING DEPRECIABLE LIFE</b>	<b>10 YEARS</b>
<b>NEW DEPRECIABLE LIFE</b>	<b>39 YEARS</b>

**INSTALLMENT SALE**  
**SUBJECT TO FIRST MORTGAGE**

- **BUYER TAKES PROPERTY SUBJECT TO \$99 FIRST MORTGAGE, AND GIVES SELLER \$1 NOTE PAYABLE \$.10/YR. FOR 10 YRS.**

**SELLING PRICE = \$100**

**GROSS PROFIT = \$ 60**

**CONTRACT PRICE = \$ 60**

**GROSS PROFIT RATIO =  $\frac{60}{60}$**

**PAYMENT IN YR. 1:**

**DEBT \$59.00**

**CASH .10**

**TOTAL \$59.10**

**GAIN IN YR. 1: \$59.10**

**GAIN IN YRS. 2-10: \$ .90**

**INSTALLMENT SALE**  
**WRAPAROUND MORTGAGE**

- **BUYER GIVES SELLER \$100 "WRAPAROUND" MORTGAGE; SELLER AGREES TO PAY \$99 FIRST MORTGAGE**

**SELLING PRICE = \$100**

**GROSS PROFIT = \$ 60**

**CONTRACT PRICE = \$100**

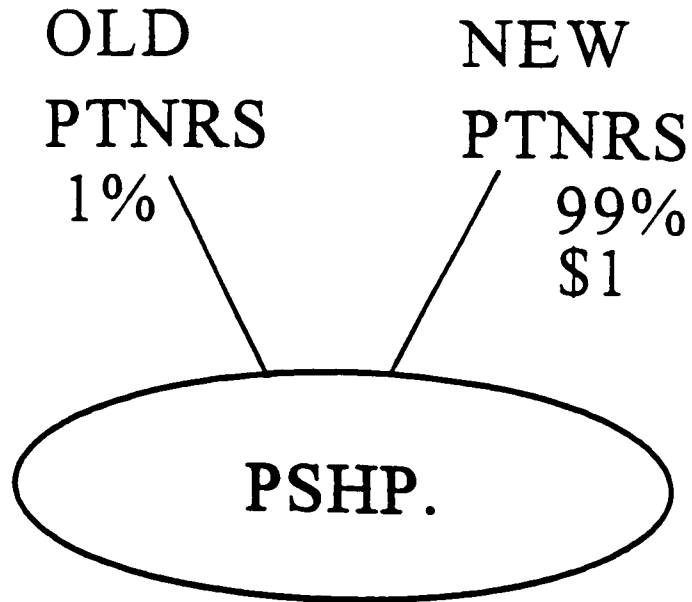
**GROSS PROFIT RATIO =  $\frac{60}{100}$**

**PAYMENT IN YR. 1: \$10**

**GAIN IN YR. 1: \$ 6**

**GAIN IN YRS. 2-10: \$54**

PARTNERSHIP ADMISSION  
WITH BOOK-UP



TAX	
Prop.	40   100 Debt
Cash	1
	1   New
	(60)   Old

BOOK	
Prop.	100   100 Debt
Cash	1
	1   New
	0   Old

**PARTNERSHIP ADMISSION**  
**WITH BOOK-UP**  
**704(c) CONSEQUENCES**

- **TRADITIONAL METHOD**
  - **NEW PARTNERS RECEIVE \$4/YR. DEPRECIATION FOR 10 YRS.**
  - **OLD PARTNERS RECOGNIZE \$6/YR. KG IN YEARS 1-10 UNDER SECTION 752 (b) / 731. 734(b) ADJUSTMENT REDUCES 704(c) GAIN.**



**PARTNERSHIP ADMISSION**  
**WITH BOOK-UP**  
**704(c) CONSEQUENCES**

- **CURATIVE METHOD**
  - **NEW PARTNERS RECEIVE \$10/YR. DEPRECIATION FOR 10 YRS.**
  - **OLD PARTNERS RECOGNIZE \$6/YR. OI IN YEARS 1-10.**

**PARTNERSHIP ADMISSION**  
**WITH BOOK-UP**  
**704(c) CONSEQUENCES**

- **REMEDIAL ALLOCATION METHOD**
  - **NEW PARTNERS RECEIVE \$5.54/YR. DEPRECIATION IN YRS. 1-10; \$1.54/YR. IN YEARS 11-39.**
  - **OLD PARTNERS RECOGNIZE \$1.54/YR. OI IN YRS. 1-39.**

**PARTNERSHIP ADMISSION**  
**WITH NO BOOK-UP**

- **704(c) PRINCIPLES INAPPLICABLE**
- **NEW PARTNERS RECEIVE \$4/YR .  
DEPRECIATION FOR 10 YRS.**
- **OLD PARTNERS DEFER GAIN UNTIL  
MINIMUM GAIN CHARGEBACK  
EVENT.**
- **UPON SALE OF PROPERTY, NEW  
PARTNERS HAVE \$60 § 1231 GAIN,  
\$60 KL. CHARACTER PROBLEMS  
UNDER § 1231(c) AND § 1250.**
- **TAXABLE CAPITAL SHIFT ISSUE?**