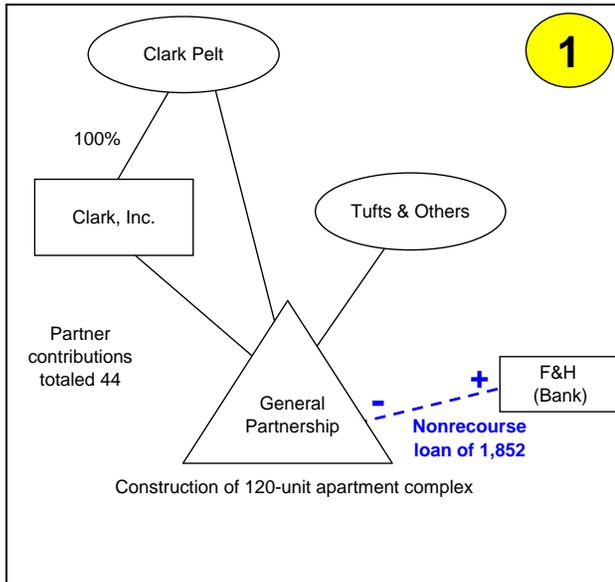


Commissioner v. Tufts
461 U.S. 300 (1983)
 (All amounts in thousands)

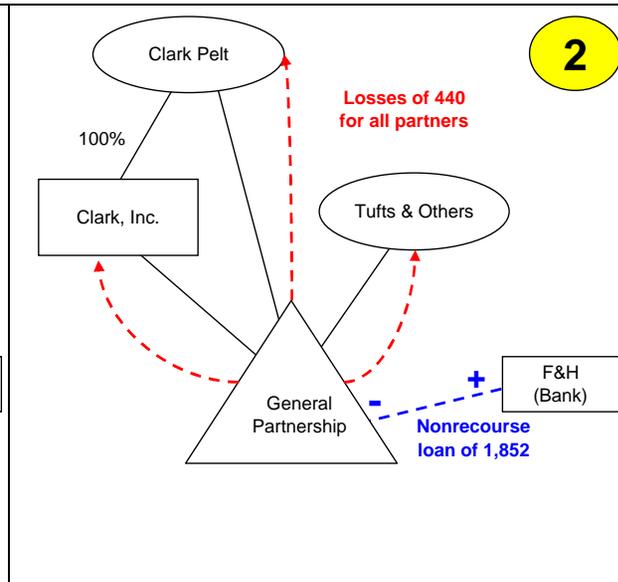
**Debt Relief from Nonrecourse Mortgage:
 FMV of Property Less Than Debt**

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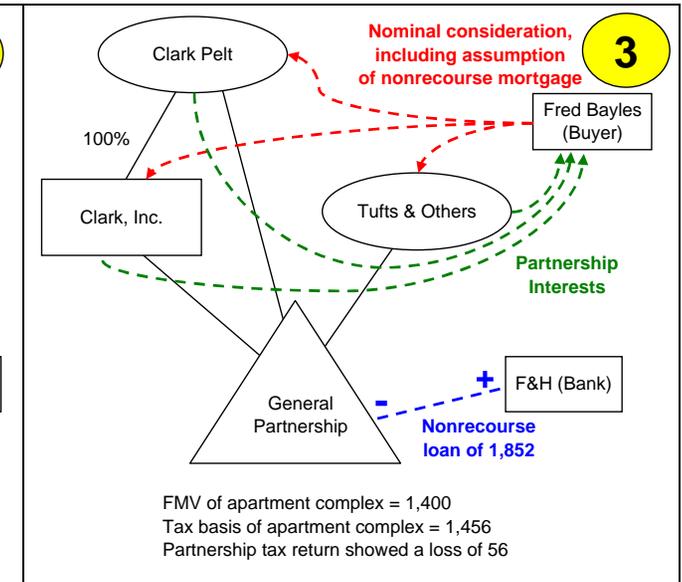
Initial Structure (August 1971)



Losses Recognized (1971 & 1972)



Sales of Partnership Interests (August 1972)



Excerpt from Tufts:

Over 35 years ago, in Crane . . . this Court ruled that a taxpayer, who sold property encumbered by a nonrecourse mortgage (the amount of the mortgage being less than the property's value), must include the unpaid balance of the mortgage in the computation of the amount the taxpayer realized on the sale. The case now before us presents the question whether the same rule applies when the unpaid amount of the nonrecourse mortgage exceeds the fair market value of the property sold. . . .

Because no difference between recourse and nonrecourse obligations is recognized in calculating basis, Crane teaches that the Commissioner may ignore the nonrecourse nature of the obligation in determining the amount realized upon disposition of the encumbered property.

As a result, the sellers of the partnerships interests must include in their "amount realized" the debt relief of 1,852 under section 752(d). Assuming that the selling partners had inside basis equal to outside basis, their total gain would have been 396 (Amount realized of 1,852 less tax basis of 1,456 [original investment of 44, plus loan of 1,852, less losses of 440]).

Ending Point

