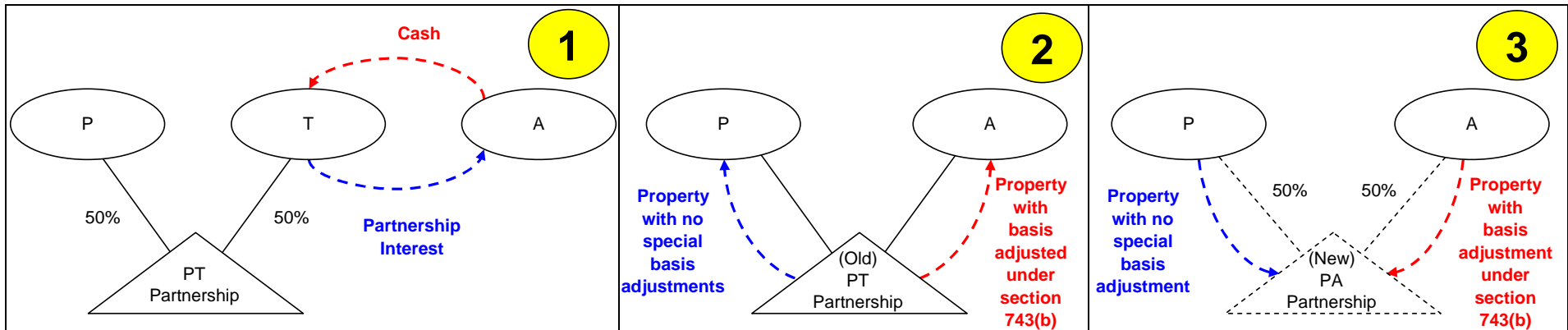


Sale of 50% Partnership Interest

Deemed Distribution

Deemed Contribution



T, a 50% partner in PT, a partnership, sold its interest to A. For the taxable year in which the sale occurred, PT had an election in effect under section 754, and the fair market value of PT's property exceeded its adjusted basis. The partnership is terminated because there is a sale or exchange of 50% or more of the total interest in partnership capital and profits.

The partnership property is treated as being a constructively distributed to the incoming purchaser and the remaining partners. The purchaser is a partner for the instant before the constructive liquidating distribution is deemed to occur; the section 754 election applies in the instant before termination, and the incoming partner's basis in the partnership assets is correspondingly adjusted. Upon the deemed distribution-recontribution under Reg. 1.708-1(b)(1)(iv), the special basis adjustment under section 743(b) is taken into account in applying sections 732(b) and (c). If the new partnership, PA, wants to make a section 754 election, it will have to file a new election.