Long v. Commissioner, 71 T. C. 724 (1979)

A partner's contribution to partnership liabilities cannot increase another partner's basis in the partnership.

Summary

In Long v. Commissioner, the Tax Court addressed whether an estate could increase its basis in a partnership by paying partnership liabilities with funds partially belonging to another partner, Robert Long. The court held that the estate's basis could not be increased by Robert's contribution, emphasizing that only the partner assuming the liability could claim a basis increase. The court rejected the estate's arguments on factual grounds and the legal effect of Robert's contribution, affirming the principle that a partner's basis cannot be increased by another partner's payment of partnership liabilities.

Facts

Marshall Long, as the beneficiary of an estate, claimed capital loss carryovers from the estate's termination. The estate succeeded the decedent's interest in a partnership, which was liquidated in 1969. Disputes arose over basis adjustments for partnership liabilities. The estate argued for an increased basis due to payments of partnership liabilities, but some payments were made with funds belonging to Robert Long, another partner and beneficiary of the estate. The probate court noted that Robert's share of the estate offset his share of partnership liabilities.

Procedural History

The Tax Court initially ruled against the estate's claim for a basis increase in Long v. Commissioner, 71 T. C. 1 (1978). The estate filed a motion for reconsideration under Rule 161 of the Tax Court Rules of Practice and Procedure, which led to the supplemental opinion in 71 T. C. 724 (1979).

Issue(s)

1. Whether the estate could increase its basis in the partnership by paying partnership liabilities with funds partially belonging to another partner?

Holding

1. No, because the estate's basis could not be increased by another partner's contribution to partnership liabilities.

Court's Reasoning

The court applied the rule from Section 752(a) of the Internal Revenue Code, which governs basis adjustments for partnership liabilities. The court found that Robert

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Long’s share of the estate was used to offset his share of partnership liabilities, and thus, the estate could not claim a basis increase for liabilities paid with Robert’s funds. The court emphasized that the estate had complete control over Robert’s share, and the timing of the probate court’s order did not affect the tax consequences. The court rejected the estate’s factual claims due to insufficient evidence and dismissed arguments about prejudice, noting that the issue of Robert’s contribution was known and discussed by both parties.

Practical Implications

This decision clarifies that a partner’s basis in a partnership cannot be increased by another partner’s payment of partnership liabilities, even if those payments are made with funds belonging to the other partner. Practitioners must carefully track the source of funds used to pay partnership liabilities to ensure proper basis adjustments. This ruling impacts estate planning and partnership agreements, requiring clear delineation of liability assumptions. Subsequent cases have reinforced this principle, ensuring that only the partner directly assuming a liability can claim a basis increase.

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