**8768. How is a partner’s basis in the partnership calculated?**

A partner’s “basis” in the partnership interest is the partner’s interest in the partnership for tax purposes. It is used to determine the tax imposed upon cash distributions, gain or loss on sale, and the limit on loss deduction (see Q 8767).

Initially, the partner’s basis is the amount of money and the adjusted basis of any property the partner has contributed to the partnership, though it is subject to various adjustments thereafter.[[1]](#footnote-1) The basis is increased by any further contributions and by the partner’s distributive share of taxable income, tax-exempt income, and the excess of the deductions for depletion over the basis of the property subject to depletion.[[2]](#footnote-2) The basis is decreased (but not below zero) by current distributions from the partnership, by the partner’s distributive share of losses and nondeductible expenditures not properly chargeable to capital and by the amount of the partner’s deduction for depletion with respect to oil and gas wells.[[3]](#footnote-3)

A partner’s basis also includes his or her share of partnership liabilities (see Q 8769). Basis is increased by any increase in the share of partnership liabilities, as though the partner had made an additional cash contribution.[[4]](#footnote-4) A partner is deemed to receive a cash distribution to the extent that the partner’s share of partnership liabilities decreases. As a result, basis decreases if the share of partnership liabilities decreases.[[5]](#footnote-5)

If a limited partner contributes a personal note to the partnership, the basis in the partnership interest is not increased, however, because it is treated as a contribution of property in which the partner has no basis.[[6]](#footnote-6) When the note is paid, the amount becomes an additional contribution that is added to basis.

**Planning Point:** A partner’s basis is very much of a “moving target” and must be reexamined every time the owner wants to engage in tax planning.

1. . IRC Secs. 722, 705. [↑](#footnote-ref-1)
2. . IRC Sec. 705(a)(1), Treas. Reg. §1.705-1(a)(2). [↑](#footnote-ref-2)
3. . IRC Secs. 705(a)(2), 705(a)(3). [↑](#footnote-ref-3)
4. . IRC Secs. 752(a), 705(a). [↑](#footnote-ref-4)
5. . IRC Secs. 752(b), 705(a)(2). [↑](#footnote-ref-5)
6. . *Oden v. Comm.*, TC Memo 1981-184; Rev. Rul. 80-235, 1980-2 CB 229. [↑](#footnote-ref-6)