

Jerome B. Schroeder, CPA
Douglas E. Schleucher, CPA
Ann E. Woolum, CPA
Timothy J. Gephart, CPA
Mark L. Schroeder, CPA
Angela L. Bursby, CPA
Jeffrey C. Quinlan, CPA

Balance *sheet*

Basis in Partnerships and S Corps

By Thomas Tomlins

No single concept is more important in understanding partnership and S-Corporation (S-Corp) taxation than that of basis in the partnership interest or S-Corp stock (often called outside basis). A taxpayer's outside basis is the tax scorecard used to keep track of virtually every partnership or S-Corp transaction. For example, it is used to determine gain or loss on distributions, the basis of distributed property, and gain or loss on the disposition of a partnership interest or S-Corp stock. Basis also limits the taxpayer's ability to deduct losses that flow through from the partnership or S-Corp.

The first step in tracking basis is establishing an initial basis amount. When a taxpayer purchases a partnership interest or S-Corp stock, the purchase price becomes the initial basis number. When a partnership interest or S-Corp stock is acquired by gift, the transferee taxpayer's basis generally equals the donor's basis. The basis of an inherited partnership interest or S-Corp stock equals the fair market value of the partnership interest at the decedent's date of death or the alternative valuation date, if applicable.



After the initial basis has been established, that basis is adjusted to reflect subsequent partnership or S-Corp operations and other events. Basis is increased by additional contributions of money, property, and services for both partnerships and S-Corps. For partnerships and S-Corps, basis is increased by the partner's and stockholder's share of income, gain items, and certain additions to an asset's basis due to general business credit recapture. In addition, for partnerships, basis is increased by the partner's share of liabilities and partnership income. For both partnerships and S-Corps, basis is decreased (but not below zero) by the amount of money and the basis of property distributed to the taxpayer, as well as by the taxpayer's share of the losses and nondeductible expenses.

It is your responsibility, not that of the partnership or the S-Corp, to keep track of your basis. If you need assistance in determining or tracking your basis, or if you would like to discuss this further, please contact us.

Items presented are not intended to be technically complete. Additional information may be required to make an informed decision.
You cannot rely upon this information for avoiding tax penalties.a