

San José State University
College of Business
Accounting and Finance Department

Taxation of Partnerships

BUS 223B
Late Spring 2017

| | |
|-------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Instructor: | Joel Busch |
| Office Location: | Lucas Graduate School of Business |
| Telephone: | (408) 924-3494 |
| Email: | Joel.Busch@sjsu.edu |
| Office Hours: | 30 minutes before and after class and by appointment |
| Class Days/Time: | Wednesdays - 6:00 p.m. to 10:00 p.m. (4/19 to 6/7) Saturday, May 6 (1:00 p.m. to 5:00 p.m.) + 1 online class session |
| Classroom: | Lucas School Silicon Valley Site 2933 Bunker Hill Lane - Suite 120 Santa Clara, CA 95054 *** However, for Wednesday, May 17 , the class will be on the <u>main campus</u> – classroom BBC 003 (College of Business Classrooms) |
| Prerequisites: | Bus 223A, graduate standing |

Faculty Web Page

Course materials such as syllabus, handouts, PowerPoint slides, notes, assignment instructions, etc. may be found on the Canvas learning management system course website. You are responsible for regularly checking Canvas to learn of any course updates – including new messages, readings and assignments.

Course Description

Income tax treatment of partners and partnerships and LLCs, including the creation, operation, liquidation and sale or other amalgamation of organizations. Special allocation and non-recourse debt arrangements are also covered.

Course Learning Outcomes

Upon completion of this course you should be able to:

CLO 1: Understand the theories underlying the Federal income tax provisions dealing with the formation, operation, liquidation and sales of partnerships, and transactions between partners and partnerships. Comparisons to other forms of business entities; multi-member limited liability companies taxed as partnerships and the California taxation of partnerships and multi-member LLCs will also be discussed.

CLO 2: Identify key areas where state tax rules may have different treatment for partnerships / LLCs than the federal tax rules and the relevance to tax planning.

CLO 3: Develop conceptual and analytic skills with real world applications.

CLO 4: To identify, understand and resolve complex and multijurisdictional tax issues within the context of our global economy and society.

CLO 5: To learn and acquire research skills for exploring both familiar and novel areas of the tax law and to communicate the findings using clear terms.

CLO 6: To appreciate tax policy issues and foundations of the tax law.

CLO 7: To understand the ethical implications of tax practice.

CLO 8: To develop skills for effective tax practice including keeping current, interacting with others, and career advancement.

Required Texts/Readings

Textbooks

- 1) (Primary) The Logic of Subchapter K – A Conceptual Guide to the Taxation of Partnerships – Fifth Edition – West Academic (Referred to below as *Cunningham*).
- 2) (Supplemental) Customized eTextbook by South-Western / Cengage (Referred to below as *Cengage*). Instructions for purchasing this eTextbook will be posted on Canvas.

Other Readings

[All materials available online or via your online SJSU library account]

- Internal Revenue Code sections and Income Tax Regulations. It is expected that students *read the IRC sections and Regulations that are referenced in the texts*, in addition to those emphasized in the course syllabus and, if applicable, posted on Canvas.
- California FTB – 2016 Partnership Tax Booklet:
https://www.ftb.ca.gov/forms/2016/16_565bk.pdf
- California FTB – Limited Liability Company (LLC) Filing Information Publication (FTB 3556): <https://www.ftb.ca.gov/forms/misc/3556.pdf>
- California FTB – Overview of Withholding on Distributions to Non-California Partners, LLC Members and S Corporation Shareholders:
https://www.ftb.ca.gov/individuals/wsc/partnerships_and_limited_liability_companies.shtml
- California FTB Publication 1017: <https://www.ftb.ca.gov/forms/misc/1017.pdf>
- BNA Portfolio 1550 Choice of Entity – An Overview of Tax and Non Tax Considerations (selected sections)
- *IRS v. Culbertson*, 337 US 733 (1949) [U.S. Supreme Court Case]
- Use of RIA, CCH and/or BNA for research and background reading to supplement above readings
- Additional materials may be delivered in class or posted on the Bus 223B Canvas website

MST Program Administrative Guidelines

- Please see the Fall 2016 / Spring 2017 MST New Student Handbook at:
<http://www.sjsu.edu/lucasgsb/docs/MST-New%20Student%20Handbook%20Fall%202016.pdf>

Assignments and Grading Policy

Reading and Viewing Assignments: Reading assignments have been scheduled throughout the class term. It is expected that the students have completed the assigned reading prior to class.

In-Class Assignments: Throughout the course time will be allocated for in-class assignments that will be worked on either in groups or individually. In addition to ungraded in-class problems there will be a total of two graded in-class assignments during the semester. The assignments will be written or informal presentations. The format and details of each in-class assignment will be provided in class. You must be present and/or complete the in-class assignment in order to receive applicable points. There may be a significant loss of points for any graded in-class assignments turned in late.

Quizzes: There will be 5 quizzes during the semester. This quizzes will be taken online on Canvas. You will have two attempts at each quiz. The highest score of the two attempts will be used as your score for that particular quiz. Any quizzes turned in late are subject to a significant reduction in points. **The online quizzes must be undertaken on an individual basis – they are not group quizzes. It is against MST and University policy to share answers among students (current, former or future).**

Exam: A final examination will be administered during the final week of class. One page of notes (not larger than 8.5" x 11", double-sided) will be allowed. Details regarding the general format of the exam will be discussed in class. Under almost all circumstances there are no make-up exams. On very rare occasions and at my discretion, students may be allowed to make up the final exam. Students must give advance notification with documentation in order for me to make a decision regarding a make-up exam. If an exam is missed without prior consent, the exam grade is zero under almost all circumstances. The final exam must be taken on the scheduled date and time detailed on the assignment schedule. *All submitted exam answers will require the use of a Scantron form (Version 882-E) unless stated otherwise.*

Grades: Course grades will be determined on the basis of total points earned in the class. Please see below for additional information on grading:

| | | |
|----------------------------------|--------------------------|-------------------------|
| Canvas Online Quizzes (5) | 50 points | (10 points each) |
| In-Class Assignments (2) | 20 points | (10 points each) |
| Final Exam | <u>130 points</u> | |
| Total Possible Points | 200 points | |

Grades will follow the pattern of 90% or higher for an A, 80% or higher for a B, 70% or higher for a C, etc. Plus (+) and minus (-) grades will be used for scores within two percentage points of the grade breakpoint (for example, 92% for an A- grade).

Class Participation: While you are encouraged to ask or answer questions in class, points will not be awarded for class participation.

University Policies

Per University Policy S16-9, university-wide policy information relevant to all courses, such as academic integrity, accommodations, etc. will be available on Office of Graduate and Undergraduate Programs' Syllabus Information web page at: <http://www.sjsu.edu/gup/syllabusinfo/>

Lucas College and Graduate School of Business:

Mission: We are the institution of opportunity in Silicon Valley, educating future leaders through experiential learning and character development in a global business community and by conducting research that contributes to business theory, practice and education.

Taxation of Partnerships

Bus. 223B – Late Spring 2017

Wednesdays 6:00 p.m. to 10:00 p.m.

(Saturday Session on May 6)

(SCHEDULE IS SUBJECT TO CHANGE WITH FAIR NOTICE)

(Any changes will be announced in class and/or on Canvas)

Course Schedule

| C l a s s | Date | Class Topic | Reading Due <u>Before</u> Class (See links above under “Readings”) | Homework and Other Activities to Complete <u>Before</u> Class |
|-----------------------|------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|
| 1 | 4/19 | <p>Introduction to the course and topic</p> <p>Partnership Overview and Definitions</p> <p>Partnership Formation and Basis Fundamentals</p> <p>Introduction into Federal reporting compliance rules</p> <p>Overview of LLCs</p> | <p><i>Cunningham</i>: Chapter 1; Chapter 2: Pages 11 to top of Page 13 (Up to Common Issues on Formation) and 18-23; Chapter 3: Pages 34-36</p> <p><i>Cengage</i>: Chapter 10: Sections 10-1a; 10-1b; 10-2a; 10-3c [through Example 30]; 10-5a; 10-5b; 10-5d;</p> <p>Chapter 11: 11-7b (LLCs); 11-7c (LLPs)</p> <p>IRC §§701; 705(a); 721; 722; 723; 752(a) and (b); 761(a) through (c); 7701(a)(1) and (a)(2)</p> <p>Treas. Reg. §§301.7701-1(a)(1) and (a)(2); 301.7701-3(a) and -3(b)(1)(i)</p> <p>BNA Portfolio 1550 (in the State Portfolios Section) – Section 1550.02.C (the General Partnership – incl. The Limited Liability Partnership); 1550.02.D (The Limited Partnership); 1550.02.H (LLCs); 1550.03.C.3; 1550.03.C.4; and 1550.03.C.7</p> <p><i>IRS v. Culbertson</i>, 337 US 733 (1949)</p> | |

| C l a s s | Date | Class Topic | Reading Due <u>Before</u> Class (See links above under “Readings”) | Homework and Other Activities to Complete <u>Before</u> Class |
|-----------------------|---------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|
| 2 | 4/26 | <p>Start-up, Organizational and Syndication Costs</p> <p>Partnership Interests in Exchange for Services - Introduction</p> <p>Calculation of Partnership Income</p> <p>Payments to Partners – Incl. 707(a) and 707(c) Guaranteed Payments</p> <p>Periods and Methods</p> | <p>Cunningham: Chapter 2 – Pages 23-24 (Organization and Syndication Expenses); Chapter 3: Pages 25-36; Chapter 9: Pages 169-174</p> <p>Cengage: Sections 10-2b (Services portion only); 10-2e; 10-2f; 10-2g; 10-4a; 10-4b</p> <p>IRC §§195 [skip §195(b)(3)]; 267(a)(1), (a)(2); 448(a)(2), (b)(1), (b)(2), (b)(3), and (c); 702; 703;706; 707; 709;</p> <p>Treas. Reg. §§1.704-1(b)(2)(iv); 1.707-1</p> | Online Canvas Quiz #1 |
| 3 | 5/3 | <p>Maintenance of capital accounts</p> <p>Special allocations on contributions of property – including subsequent partnership sales of contributed property</p> <p>Character and Presentation of Partnership Income</p> <p>Allocation of Income and Deductions on Transfer or Change in Partnership Interests</p> | <p>Cunningham: Chapter 2: Pages 14-18; Chapter 4; Chapter 7; Chapter 10: Pages 213-217</p> <p>Cengage: Sections 10-3a; 10-3b</p> <p>IRC §§704; 724</p> <p>Treas. Reg. §1.706-1(c)</p> | Online Canvas Quiz #2 |
| 4 | <p>5/6 Sat.</p> <p>(1:00 p.m. to 5:00 p.m.)</p> | <p>Partner’s Share of Partnership Debts and Liabilities</p> <p>Partnership Loss Deductibility Limitations</p> | <p>Cunningham: Chapter 8</p> <p>Cengage: Section 10-3e</p> <p>IRC §465(b)(6); 752</p> | |

| C l a s s | Date | Class Topic | Reading Due <u>Before</u> Class (See links above under “Readings”) | Homework and Other Activities to Complete <u>Before</u> Class |
|-----------------------|------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|
| | | | | |
| 5 | 5/10 | Partnership Distributions Sales of Partnerships Interests Partnership Terminations – including technical terminations | Cunningham: Chapter 10 (Pages 189-198 and 211-218), Chapter 11; Chapter 13 Cengage: Section 11-1(a) through (e) (Distributions); 11-3 (Sales of Partnership Interests) IRC §§732; 733; 741; 753(a) to (d)(1); 751 | Online Canvas Quiz #3 |
| 6 | 5/17 Class is on MAIN CAMPUS BBC 003 | Partnership Assets – Optional and Required Basis Adjustments Disguised Sales Partnership terminations – including technical terminations | Chapter 10: Pages 199-210; Chapter 12; Chapter 15 Cengage: Sections 10-2b (Disguised sale portion only) and 11-1d (Disguised sales); 11-5 (Optional basis adjustments under §754); 11-6 (Partnership terminations) IRC §§ 708(a) and (b)(1); 734 [skip §734(e)]; 737; 743 [skip §§743(e) and (f)]; 754; 755 | |
| 7 | 5/24 | Death or Retirement of Partners Special Allocations of Partnership Income – Incl. Substantial Economic Effect; Allocation on Nonrecourse Deductions Allocation of Income and Deductions from Contributed Property | Cunningham – Chapters 5, 6 and 14 Text: 11-2 (Retirement and Death of Partners); 11-4c Treas. Reg. §1.704-1(b)(2) | Online Canvas Quiz #4 |

| C l a s s | Date | Class Topic | Reading Due <u>Before</u> Class (See links above under “Readings”) | Homework and Other Activities to Complete <u>Before</u> Class |
|-----------------------|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| 8 & 9 | 5/31 | <p>California partnership and LLC reporting – including California withholding and California taxes and fees</p> <p>California, Interstate and Other State-Related Issues (Online Class Lecture)</p> <p>Review for Final Exam</p> | <ol style="list-style-type: none"> 1) California FTB – 2016 Partnership Tax Booklet (Skip sections on credits) 2) California FTB – Withholding on Partnerships and LLC’s 3) California FTB – Limited Liability Company (LLC) Filing Information Publication (FTB 3556) 4) California FTB – Publication 1017 (Pages 14-17 - Domestic Pass-Through Entities Section: Partnership and LLCs) | <p>1) View California, Interstate and Other State Tax Issues via Online Class Lecture (Posted on Canvas)</p> <p>2) Online Canvas Quiz #5</p> |
| 1 0 | 6/7 | Final Exam | | |