



Contact:

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Ryan C. Sheppard, CPA, CFF
Partner
Knight Roller Sheppard CPAS, LLP
rcs@krscpasllp.com

Q: What is partnership basis?

A: Partnership basis is a device used to track a member's investment in an entity from inception, and the allowable flow of losses to the member's 1040.

Q: What items increase/decrease my partnership basis?

A: Items that increase partnership basis include a member's share of net income, cash and property contributions, and a member's share of an increase in partnership debt.

Items that decrease partnership basis include a partner's share of net loss, cash and property distributions and a member's share of a decrease in partnership debt.

Q: Can I have negative basis?

A: No – basis cannot be below \$0. Cash & property distributions in excess of basis result in long-term capital gain income. The impetus behind this is that a member is receiving economic benefit in excess of their investment, thus treatment as a capital gain.

Q: Can I use losses to reduce my income from guaranteed payments?

A: Yes, provided you have basis to recognize the losses. As Guaranteed Payments are, by definition, payments made irrespective of income, a situation can arise in which the partnership is in a loss position, but the member still reports net income on their 1040 (if there is no basis to recognize the loss).