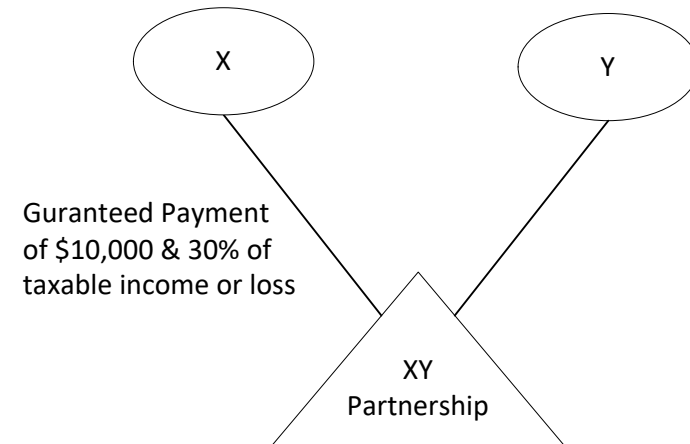


Ordinary Income Before Gtd. Pmt.	\$1000
Guaranteed Payment to X	<u>(10,000)</u>
Ordinary Income (Loss) after Gtd. Pmt.	9,000
Distributive Share to X – Percentage	30%
Distributive Share to X – Dollars	<u>(2,700)</u>
Total Ord. Inc. to X (Gtd. Pmt. + Dist. Share)	7,300



Partner X in the XY partnership is to receive a payment of \$10,000 for services, plus 30 percent of the taxable income or loss of the partnership. After deducting the payment of \$10,000 to partner X, the XY partnership has a loss of \$9,000. Of this amount, \$2,700 (30 percent of the loss) is X's distributive share of partnership loss and, subject to section 704(d), is to be taken into account by him in his return. In addition, he must report as ordinary income the guaranteed payment of \$10,000 made to him by the partnership.