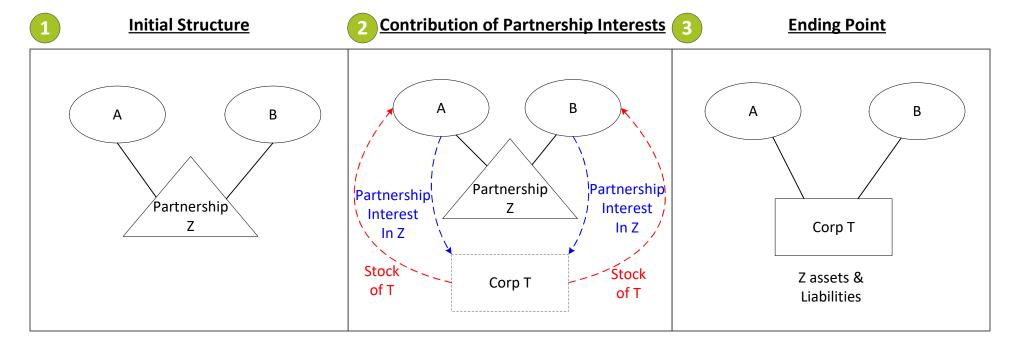
## Partnership Conversion to Corporation: "Interests Over"





The partners of Z transferred their partnership interests in Z to newly-formed corporation T in exchange for all the outstanding stock of T. This exchange terminated Z and all of its assets and liabilities became assets and liabilities of T.

Under IRC §351, gain or loss is not recognized by Z's partners on the transfer of the partnership interests to T in exchange for T's stock.

On the transfer of the partnership interests to the corporation, Z terminated under IRC §708(b)(1)(A).

Under IRC §358(a), the basis to the partners of Z of the stock received from T in exchange for their partnership interests equals the basis of their partnership interests transferred to T, reduced by Z's liabilities assumed by T, the release from which is treated as a payment of money to Z's partners under IRC §§ 752(d) and 358(d).

T's basis for the assets received in the exchange equals the basis of the partners in their partnership interests allocated in accordance with IRC §732(c).

Note: Based on Rev. Rul 84-111, the form selected for incorporating a partnership controls how a transaction will be treated. Because the tax consequences may differ, partners should evaluate each option (i.e., based on Situations 1, 2, & 3) prior to selecting how to incorporate their partnership.