Business Law Tax Boot Camp

Sun Valley, Idaho: July 29, 2021

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Developing Partnership Discussion

Aaron and Cal go into the Produce Business shipping lettuce from the Salinas Valley to Manhattan.

Aaron contributes $80,000 of cash inherited from his mother, Cathy. Aaron and Cal agree that the Produce Business will use the $80,000 in cash to cover a majority of the $100,000 in operating expenses they expect to incur. To cover the $20,000 in operating losses, both Aaron and Cal will sign personal guarantees for loans.

Cal contributes an ice plant he was gifted from his father, Adam. The ice plant has a FMV of $80,000, basis of $40,000 and debt of $20,000. The Produce Business will be the debtor for a refinance of the ice plant, and the partnership will use the additional $20,000 obtained from the refinance to pay for ice plant facility improvements.

Developing Partnership Questions

- What are the pitfalls or benefits of organizing the Produce Business as a: C-Corp? S-Corp? Partnership?

- What are the tax considerations if Aaron and Cal want to grant a 20% equity interest to Lee, a trusted advisor, in exchange for services performed by Lee, but no capital contribution? What if Lee is a foreign national?

Developing Partnership – Changes and Questions

- After working in the partnership for several years, Lee decides to retire. What are the different options and associated tax consequences for buying-out Lee?
- Aaron later becomes angry with Cal over an issue about their mother, Cathy. Aaron forces a dissolution of the Produce Business so that he can run away and enlist in the Army. What are the tax consequences of the dissolution?

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