

Distribution examples

Assumptions:

- 1) Paul contributes \$900 and Steve contributes \$100 on Day 1 of Year 1
- 2) In Year 2, Partnership borrows \$200 from Allan
- 3) In Year 2, Partnership distributes \$100 to partners
- 4) At end of Year 3, Partnership dissolves and makes liquidating distributions at end of year

Example 1

- 5) Partnership repays loan from Allan and distributes remaining \$1500 in liquidating distribution
- 6) Partnership is NOT an LLP

	Paul	Steve	Total	Source
Year 1				
Contributions	\$ 900	\$ 100	\$ 1,000	
Year 2				
Distributions	\$ 50	\$ 50	\$ 100	Section 405(a)
Year 3				
Distributions	first* - \$ 850	\$ 50	\$ 900	Section 806(b)(1)
	second - \$ 300	\$ 300	\$ 600	Section 806(b)(2)
* unreturned contributions	\$ 850	\$ 50	\$ 900	
Summary				
Total contributions	\$ 900	\$ 100	\$ 1,000	
Total distributions	\$ 1,200	\$ 400	\$ 1,600	

Example 2

- 5) Partnership repays loan from Allan and distributes remaining \$800 in liquidating distribution
- 6) Partnership is NOT an LLP

Year 1				
Contributions	\$ 900	\$ 100	\$ 1,000	
Year 2				
Distributions	\$ 50	\$ 50	\$ 100	Section 405(a)
Year 3				
Distributions	* \$ 756	\$ 44	\$ 800	Sections 806(b)(1) and 806(e)
* unreturned contributions	\$ 850	\$ 50	\$ 900	

Summary

Total contributions	\$	900	\$	100	\$	1,000
Total distributions	\$	806	\$	94	\$	900

Note: example focuses attention on default rule under section 806(b)(2). I think still correct as long as pre-dissolution distributions are made equally (which I agree they should be).

Example 3

5) Partnership only has \$100 to repay loan from Allan when it liquidates

6) Partnership is NOT an LLP

Year 1

Contributions	\$	900	\$	100	\$	1,000
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Year 2

Distributions	\$	50	\$	50	\$	100	Section 405(a)
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Year 3

Distributions	\$	-	\$	-	\$	-	Section 806(b)(1)
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Contribution to pay debt	\$	50	\$	50	\$	100	Section 806(b)(4)(B)
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Summary

Total contributions	\$	950	\$	150	\$	1,100
Total distributions	\$	50	\$	50	\$	100

Note: seems to work because contribution to pay debt offsets pre-dissolution distribution