Caravan Traders: A Tax Research Project For Pass-Through Business Entities
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ABSTRACT

This paper presents a tax case simulating a real-world experience in the area of partnership or flow-through entity taxation. Students are presented with an open transaction, hypothetical data and business objectives of the partners. They are then requested to consider the tax rules and the impact on the parties based upon each of two options in order to determine the best business alternative. In order to do this, they rely on knowledge learned in the typical partnership taxation course and practice research and analytical skills to synthesize the most optimum outcome. Students are asked to deliver a tax memorandum that addresses a series of progressive issues, as well as two excels worksheets which outline the tax impact under each of the two options. As a result of this assignment, students discover the value of prudent and skillful tax planning and the beneficial impact that they can have on the financial affairs of their clients.

Keywords: Taxation; Partnerships; Contribution of Services; Inside Basis; Outside Basis; §83(b) Election; §754 Step Up

CASE STUDY TEACHING NOTES

INTRODUCTION

One of the most valuable benefits that a tax professional can offer clients today is the resolution of tax issues through prudent and skillful tax planning. In a very real sense, tax professionals, whether in public or private practice, add value by advising their clients regarding ways to arrange their financial affairs which will minimize or postpone tax liabilities.

Undoubtedly undergraduate institutions are the appropriate venue to begin skill development in this area. In an article published in the January 2008 issue of The CPA Journal\(^1\) professors at Hofstra University and Lafayette College emphasize the need for development of research skills across the accounting curriculum. They state that:

*The 21st century accountant is more of a consultant than in the past, and needs to be able to locate both financial and nonfinancial information. Accountants need to know what databases and other resources to access, how to extract the relevant data, and how to organize and analyze the data and develop recommendations.* Accounting educators are responsible for teaching students the skills that are essential to this research. [emphasis added]\(^2\)

Further, the Model Tax Curriculum\(^3\) states that prior to entering the accounting profession, a student should have the ability to, among other things:

- Assess how taxes impact the economic decisions of taxing entities;
- Make supportable conclusions regarding tax issues by using research skills, including the assessment and interpretation of authorities, to evaluate strengths, weaknesses, and opportunities;

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2. Id.
3. The 2007 revision of the AICPA’s Model Tax Curriculum is available at [http://tax.aicpa.org/Community/Model+Tax+Curriculum.htm](http://tax.aicpa.org/Community/Model+Tax+Curriculum.htm)
Communicate tax conclusions and recommendations in a clear and concise manner to relevant stakeholders; and

Develop technological skills needed to undertake tax planning, compliance, and research strategies.

Toward that goal, the purpose of this assignment is to teach and enhance the skills that are essential to tax research, and in doing so, initiate soon-to-be accounting professionals on a course of success and confidence in their first experiences as accounting and tax professionals.

TEACHING OBJECTIVE

The primary goal of this case is to allow students to explore the impact of IRC §83 in the context of the formation of partnership interests. IRC §83 has to do with property transferred in connection with performance of services. The general rule in IRC §83(a) provides that when property is transferred in exchange for services, the fair market value of the property over the amount paid (if any) must be included in the gross income of the person performing such services. In the context of partnership taxation, IRC §83 can be somewhat confusing, as it impacts the timing and valuation of the service partner’s income, as well as the timing and valuation of the interest received in the exchange, the step-up in basis of various partnership assets and adjustments to the original partners’ bases.

Recent legislation further complicates understanding of this section by providing that the service partner is deemed to have made the §83(b) election to recognize income on the date of receipt (notwithstanding substantial risk of forfeiture), unless, within 30 days, the new partner elects out of current taxation under §83(c)(4).

The principles of §83 are frequently discussed in a course on flow-through entities, and students will understand these concepts in a general way from reading and lectures; however they do not always understand the impact, in real terms, of the “83(b)” (or now, the §83(c)(4)) election upon each of the partners or upon the tax basis balance sheet. This project gives them an opportunity to examine these factors and to compare the options (i.e., whether to make the election or not) in order to synthesize the best solution for these particular clients.

DESCRIPTION OF THE ASSIGNMENT – SYNOPSIS

Simulating a Real-world Experience

This assignment presents a fact pattern which is similar, in degree of difficulty and quality of information, to that which the tax professional normally receives for analysis.

Summary of the Fact Pattern

Bill and Steve Caravan are brothers and equal partners in a business that was inherited from their father several years ago. As Caravan Traders, they import and retail fine oriental rugs. They approach their tax advisor regarding the following prospective transaction:

- Bill and Steve propose to transfer an equal (one-third) share of the partnership capital interest to Omar Debashi in exchange for his services;

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4 IRC Section 83. Property transferred in connection with the performance of services. Note that the impact of §§§83(b)(1) and (c)(4) are substantially changed by recent legislation included in H.R. 4213, amendment to the American Jobs and Closing Tax Loopholes Act of 2010. Adjustments have been made to the Assignment and to the Solution Outline to accommodate those changes.

5 IRC Section 83(a). General Rule.

6 As a result of this recent legislation, it is important that the practitioner have an understanding of these provisions, as they have formed yet another trap for the unwary – make the §83(c)(4) election immediately to postpone recognition of income until risk of forfeiture lapses, or do nothing and be taxed currently.
Debashi brings with him significant industry knowledge and numerous trade contacts; the agreement is that if Omar leaves the partnership within three years for any reason, he must forfeit his partnership interest; and according to Bill and Steve’s business plan, they expect that within three years with Debashi onboard, their partnership assets will increase in value by about two-thirds.\footnote{Detailed assignment, including fact pattern and issues, provided below.}

**Issues Assigned**

The student is asked a series of questions regarding a potential IRC §83(b) (or §83(c)(4)) election, including its impact on the partnership, existing partners, and new partner. In order to comprehensively address these questions, the student must make spreadsheet calculations comparing the potential tax liability with and without the election in place, as well as the impact of the transaction on bases of the partners. Additional questions are asked regarding the mechanics (i.e., the time, manner, and revocability) of the election.

**HOW AND WHY THIS ASSIGNMENT FITS IN THE COURSE**

**A. This assignment builds on concepts learned.**

*Nature of the Assignment*

This research project builds on concepts already learned in class. The topic (e.g., the contribution of services in exchange for a partnership capital and profits interest) is discussed early in the course with materials relating to partnership formation. Hence, the project is assigned at a point in the semester when students already have some familiarity with the subject; much as a practicing tax professional would have some knowledge in a given area of tax law when sitting down to research an issue.

*Skills Developed and Assessed*

Grading of the research project rewards analytical (application of rules to fact pattern) and synthesis skills (using critical thinking and decision-making skills, concluding an appropriate outcome), as well as organization and communication skills, all of which are essential to a successful result.\footnote{Rubric available from the author by emailing: durantmon@ccsu.edu.}

**B. The assignment is formulated as an open transaction in order to promote skills needed for tax planning.**

As tax educators are aware, tax planning consists of two major categories:

1. **Closed transactions.** These are transactions which the client has already completed; documents have been signed and titles transferred. Tax planning for closed transactions is generally limited to the presentation of facts in a manner which will produce the most favorable tax outcome, as well as an assessment of the likelihood of success before the Service.

2. **Open transactions.** These are transactions which have not yet been consummated. Decisions can still be made regarding their structure and manner of implementation, and planning is prospective. This is the area where the parties have the most control over the potential tax outcome and where savvy and prudent tax planning can have the most impact.\footnote{Raabe, Wm., et al, (2009) Federal Tax Research, 8th ed., South-Western Cengage Learning (2009) p. 5.} Open transactions require that alternatives be weighed, requiring a higher degree of critical thought.

The benefits of presenting this assignment as an open (rather than closed) transaction are two-fold:
1. **Enhances critical thinking.** The goal of the assignment is to require students to do more than simply conclude on the correct reporting of a transaction and report back. The fact pattern compels students to weigh two competing alternatives (whether or not to take a §83(b)) and to quantify the financial and non-financial consequences of each alternative.

2. **Allows students to experience the value that tax planning can provide.** The assignment allows students to understand that tax planning provides benefits that can impact the growth and financial well being of businesses and their owners. In assessing the potential tax liability for the two alternatives, students are able to see the benefits that tax planning may produce (and perhaps produce increased interest in this regard).

**RESULTS IN IMPLEMENTATION**

**Assigned for Two Semesters**

This assignment was presented to students in the spring semester of two consecutive years (one section each year) with changes to the partners’ names, industry, and balance sheet values the second year. Lessons learned in the earlier year resulted in modifications which were implemented in the second year with positive results.

**Success in Critical Thinking and Analysis**

Over all, submissions demonstrated rational analysis and critical thinking as adept as many early-career professionals; some submissions exceeded expectations altogether. In terms of critical thinking and analysis (application of facts, organization, continuity and technical integrity), the majority of submissions indicated an understanding of the subject matter and ability to relate the facts to the concepts, as well as an ability to communicate those findings in a rational and straightforward manner.

**Considering Factors other than Tax Benefits**

All but one student in the first year advised taking the §83(b)(1) election in order to save taxes. None considered non-tax issues, such as the time value of money or the advantage of deferring the tax liability; however one student did suggest passing on the election due to cash-flow constraints. In the second year, students were encouraged to consider non-tax reasons why or why not the parties would chose a §83(b)(1) election. As a result, many students in the second year considered concerns such as cash-flow constraints, as well as the risk that the arrangement might fail or that the value of the business might not increase as anticipated. Such concerns were appropriate and well-placed.

**Student Demographics**

The majority of students in both years were seniors in a four-year accounting program. Of the 24 students in the first year, all but seven were in their final semester before graduation, five would graduate the following semester or later, and two were recent graduates returning to fill state CPA (150 credit) requirements. Similar statistics would apply to the 24 students in the second year. All of the students in each year had taken an introduction to taxation (primarily personal taxation) course and all but three in each year had successfully completed the university’s corporate taxation course. Grades earned on the assignment in both years indicate that those without the corporate taxation course were not at any quantifiable disadvantage compared to those who had completed the course.

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10 This student was a returning (“non-traditional”) student who entertained the very pragmatic concern that if Omar made the §83(b) election, he might not have the liquidity to pay the tax bill currently, and for that reason he may wish to wait until he receives the stream of distributions from the partnership.

11 Course prerequisites indicate that successful completion of Introduction to Taxation is required for registration in this course.
Some exceeded Expectations

Several memoranda exceeded expectations and received extra credit accordingly. The application of law to the fact pattern, including calculation of potential tax liability, was exemplary in these papers, and the logical progression of ideas in these papers was concise and well-reasoned. These papers demonstrated the skill of professionals above the staff level, and were submitted by students who had otherwise excelled in the course. In the first year there were five in this category, including two students with industry experience. In the second year there were seven in this category, including two students with industry experience.

Shortcomings in memoranda could be easily remedied.

Shortcomings could be easily remedied by allowing revision, (something which was implemented for the second year) although it was not practical the first year due to time constraints. Allowing time for student revision during the second semester produced the benefits of enhanced organization and continuity of the memoranda.

Many shortcomings in second-year memoranda were in fact remedied.

Eight papers, representing twelve students (50% of the class) were resubmitted for grading. Interestingly, three of the resubmissions, representing four students, were papers which had originally earned a score of 80 or better. The average increase in score for all resubmissions was approximately 14.5 points, bringing the average score for the class from 81.7 to 88.0 for that assignment.

CONCLUSION

This tax return assignment is a successful introduction to tax research for accounting seniors, providing an opportunity for students to apply fundamental tax concepts and to demonstrate analysis and critical thinking skills in solving problems which are needed in actual tax practice.

AUTHOR INFORMATION

Monique Durant, JD, CPA, LLM is a tax attorney and CPA with several years of Big Four and private industry experience. She is currently an Associate Professor at Central Connecticut State University where she teaches tax courses including Taxation of Business Pass-Through Entities.

REFERENCES

STUDENTS' CASE STUDY

Caravan Traders: A Tax Research Project for Pass-through Business Entities

You are a tax manager at Bull & Bear, LLP, a CPA firm devoted primarily to serving closely-held companies, such as Caravan Traders, one of your best clients. Caravan Traders is a cash-basis general partnership in the business of retailing fine oriental rugs in Fairfield County and is presently owned by Bill and Steve Caravan, two brothers who each own 50% of the partnership capital and share profits and losses equally.

As of December 31, 2009 Caravan Traders assets have total fair market value of $1,800,000, comprised of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>FMV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$85,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>215,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>850,000</td>
</tr>
<tr>
<td>Land and Building</td>
<td>650,000</td>
</tr>
</tbody>
</table>

Land and Building were inherited from Bill and Steve’s father in 1997 and at that time were worth $425,000. Bill and Steve wish to have Omar Debashi join the partnership as an equal partner because Omar is very familiar with the Persian rug business and has contacts in the industry that provide the best quality rugs. To entice Omar to join the firm, Bill and Steve have offered Omar a one-third capital interest. The agreement would be that if Omar leaves the Caravan Traders within three years, for any reason, Omar, or any transferee of Omar, must forfeit his partnership interest.

According to their current business plan, Bill and Steve estimate that in three years, on December 31, 2012, partnership assets will have a total fair market value of $3,000,000:

<table>
<thead>
<tr>
<th>Description</th>
<th>FMV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$125,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>450,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Land and Building</td>
<td>925,000</td>
</tr>
</tbody>
</table>

Part 1: As their tax advisor, Bill and Steve come to you with the following questions:

A. What are the tax implications to the partnership as a result of this arrangement?
B. What are the tax implications to Bill and Steve personally as a result of this arrangement?
C. What changes would occur to the tax basis of certain partnership-held assets?
D. Will Omar’s services qualify as ordinary and necessary business expenses?
E. Discuss the timing for each of these issues.

Part 2: Additionally, Bill and Steve want to assure themselves that Omar understands the tax implications to him and therefore ask the following questions:

A. What options does Omar have regarding recognition of receipt of the partnership interest?
B. Based on the figures from the business plan, would you recommend that Omar allow a deemed §83(b) election, or would you recommend that he make an election under §83(c)(4) (that §83(b)(1) should not apply)? How does he go about making such an election? What is the timing for such an election? Can such election be revoked, and under what circumstances?
C. Will Omar be able to transfer his partnership interest at any point during the next three years?

Assignment:

A. Prepare a tax memorandum answering each of the issues stated above:
   1. Use the format: Facts; Issues; Conclusion; and Discussion.
   2. The memorandum should be no longer than seven (7) single-spaced pages.
   3. Use fonts Times New Roman 10 or Arial Narrow 11.
   4. Cite liberally.

B. Prepare excel spreadsheets to be attached to the memorandum which present the following:
   1. December 31, 2009 Balance Sheet for Caravan Traders, including columns for Books (FMV), Tax Basis, and Partners' Outside Basis.
   2. December 31, 2012 Projected Balance Sheet presenting the same information as in (a).
   3. Using the balance sheets prepared in (1) and (2), show changes to the tax basis of assets, gain or loss recognized by the partnership and changes in the outside bases of Bill and Steve for each of the following scenarios:
      a. Omar allows a deemed §83(b) election, and
      b. Omar makes an election under §83(c)(4).
CASE SOLUTION

Caravan Traders: A Tax Research Project for Pass-Through Business Entities

Part 1: As their tax advisor, Bill and Steve come to you with the following questions:

A. What are the tax implications to the partnership as a result of this arrangement?
   1. When a partnership transfers a capital interest for services, the partnership is treated as transferring an undivided interest in each of its assets to the new service partner in a taxable transaction and must recognize any gain or loss inherent in the transferred portion of each asset. [Regs. §1.83-6(b); McDougal v. Commissioner, 62 T.C. 720 (1974)].
   2. The service partner is treated as re-transferring the assets back to the partnership in a tax-free §721 exchange.
   3. **Result**: Change of adjusted tax basis (usually a step-up) of partnership’s assets (inside basis), as discussed at (iii) below.\(^{12}\)
   4. Generally the partnership may take a §162 business expense deduction for services rendered by the service partner, discussed at (iv) below.

B. What are the tax implications to Bill and Steve personally as a result of this arrangement?
   1. Any gain recognized by the partnership should be allocated among all the partners other than the incoming service partner. [IRC §706(d)]
   2. An expense deduction (see (i)(c) above) will flow through to the existing partners, which may be accomplished by special allocation under §704(b).
   3. **Result**: Gain recognized by existing partners on the transfer of partnership interest. If Omar makes an IRC 83(b) election, there shall be a total taxable gain of $146,667 or $73,333 per partner in the current tax year. This will arise from the step-up in basis of the transfer of partnership interest to Omar Debashi. Of the total gain, $75,000 shall be classified as long-term capital gain from the partial constructive sale of Land and Building, and $71,667 shall be ordinary income from the partial constructive sale of Accounts Receivable.
   4. Additionally, there is change in partners’ basis in partnership interest (outside basis). Currently, the outside basis of Bill and Steve’s partnership interest is $680,000. With the admission of Omar Debashi, such basis will be adjusted downwards to $453,000 (after the step-up in basis of $73,333 to each partner and $300,000 transfer from each partner to Omar).

C. What changes would occur to the tax basis of certain partnership-held assets?
   1. The partnership is treated as if it transfers an undivided interest in each of its assets to the service partner and the service partner conveys his interest in the assets for an interest in the partnership. The partnership recognizes gain or loss in the exchange of its property for services to the extent of the difference between the value and basis of the interest in each transferred asset. The character of the gain or loss depends upon the character of the assets in the partnership. Since the service partner’s basis in the assets when re-contributed equals their fair market value, the partnership’s basis is adjusted correspondingly. [Regs. §183-6(b); Regs. §1.721-1(b)(1); IRC §§723, 724,735]
   2. **Result**: Currently the total adjusted basis of partnership-held assets (inside basis) is $1,360,000. If Omar makes the deemed IRC 83(b) election now, the new stepped-up basis of partnership-held assets shall be $1,506,667, to reflect the transfer of 1/3 undivided interest of partnership assets to Omar Debashi.

D. Will Omar’s services qualify as ordinary and necessary business expenses?
   1. If a capital interest is transferred in exchange for services, the partnership may take a §162 business expense deduction for the amount of ordinary income that is includible in the service partner’s income in the taxable year that the income is recognized unless the nature of the services

\(^{12}\) See Excel worksheet.
requires the partnership to amortize (in the case of nondeductible organization expenses) or capitalize (in the case of services related to the acquisition or construction of an asset) the expense. [IRC §83(h), Regs §§1.83-6(a)(4); 1.721-1(b)(2); 1.707-1(c)]

2. Any allowable deduction will be allocated to the existing partners and not to the new partner. This can be done by special allocation under IRC §704(b).

3. **Result:** A deduction will be allowed for services rendered by service partner Omar Debashi. The partnership will be able to deduct the amount of $600,000, representing the fair market value of the capital interest received by Omar, as a §162 business expense for services rendered to the partnership. Consequently the original partners, Bill and Steve Caravan, shall deduct $600,000 ($300,000 each) under §704 (mentioned above at (ii)(b)) against ordinary income.

E. Discuss the timing for each of these issues.

1. If the service partner’s legal rights in his capital interest were not subject to any restriction, the partner must recognize compensation income in the year the interest is received.

2. However, as in this case, if the interest is subject to a *substantial risk of forfeiture* so that the partner’s rights in the interest are non-vested, IRC §83(c)(4) permits deferral of the recognition of income until the risk of forfeiture lapses if an election to do so is made within thirty (30) days.

3. **Result:** With an IRC §83(c)(4) election, the timing of these issues will occur when the risk of forfeiture lapses in three years. With a deemed IRC 83(b) election (whereby no IRC §83(c)(4) election is made within thirty (30) days), income is recognized for the year that the capital interest is received (e.g., the current taxable year).

Part 2: Additionally, Bill and Steve want to assure themselves that Omar understand the tax implications to him, and therefore ask the following questions:

A. What options does Omar have regarding recognition of receipt of the partnership interest?

1. A partner receiving a capital interest in a partnership in exchange for services performed for the partnership has gross income under IRC §§61 and 83(a) when the interest is either transferable or no longer subject to a substantial risk of forfeiture. If the interest is restricted or forfeitable, the service partner reports its receipt as compensation in the year it becomes transferable or the risk of forfeiture lapses. [IRC §83; Regs. 1.721-1(b)(1)]

2. The amount of compensation income is equal to the fair market value of the capital interest when it is included in income less any amount paid by the partner. [IRC §83; Regs. 1.721-1(b)(1)]

3. Newly enacted IRC §83(c)(4) provides that, unless the service partner elects out under that code section within thirty (30) days, the service partner will be deemed to have made an IRC §83(b) election to recognize income at the time he receives a partnership interest, notwithstanding a substantial risk of forfeiture. Unless the election is made, the new service partner reports the value of the interest at the time of receipt. If the interest is later forfeited, the electing partner cannot claim a loss deduction for the amount of income he reported at the time of the election. [IRC §83(b); Regs. §1.83-2(a)]

4. **Result:** Recognition of service partner’s ordinary income. If Omar makes a deemed IRC 83(b) election, he will recognize taxable ordinary income of $600,000 in the current year in exchange for the capital and profits interest in the partnership.

5. If Omar makes the IRC §83(c)(4) election to postpone recognition of income until substantial risk of forfeiture lapses, the current business plan indicates that in three years, he will recognize taxable ordinary income of $1,000,000.

13 See the excel worksheet enclosed, whereby the two scenarios are shown: (a) without the IRC 83(c)(4) election, and (b) with such election.

14 This new code section further complicates understanding of an already difficult provision. Essentially, the service partner must, within thirty (30) days of transfer, make an election under IRC §83(c)(4) to postpone taxation until risk of forfeiture lapses. Otherwise, fair market value of the interest on date of transfer is includable in the service partner’s current income.
B. Based on the figures from the business plan, would you recommend that Omar make a deemed §83(b) election?

1. Absent other factors, the election is generally advisable if the partnership interest is expected to substantially appreciate in value. By including the value of the interest at its current lower value, the service partner defers recognition of the anticipated appreciation until such time as he disposes of his partnership interest, at which time he would recognize the gain as capital gain. With the IRC §83(c)(4) election, the partner reports the increase in value of his interest as ordinary income when the restriction or risk of forfeiture lapses. By allowing a deemed IRC §83(b) election, however, the partner accelerates the time at which he is taxable on the current value of the interest.

2. Result: Each student must arrive at a reasonable decision after synthesis of the facts and circumstances. Most students arrive at the conclusion that the deemed IRC §83(b) election should be made, but arriving at a business recommendation based upon sustainable reasoning is more important than the conclusion at which the student arrives.

3. How does Omar go about making an IRC §83(c)(4) election?
   a. The election is made by filing one copy of a written statement with the internal revenue officer with whom the person who performed the services files his return. [Regs. §1.83-2]
   b. In addition, one copy of such statement shall be submitted with his income tax return for the taxable year in which the property was transferred. [Regs. §1.83-2]
   c. Result: If Omar chooses to make the IRC §83(c)(4) election, he should file a statement with the IRS filing office where he normally files his return, and should attach a copy of the statement with his federal tax return for the year in which he receives the partnership interest.

4. What is the timing for such an election?
   a. The election must be made within 30 days after the date of transfer, and may be filed prior to the date of transfer. [Regs. §1.83-2(b), (f)]
   b. Result: If Omar Debashi elects to make the IRC §83(c)(4) election, such election must be make no later than 30 days following the date of his admission to the partnership.

5. Can such election be revoked, and under what circumstances?
   a. The election cannot be revoked without the IRS’s permission. [Regs. §1.83-2(b), (f)]

C. Will Omar be able to transfer his partnership interest at any point during the next three years?

6. Omar will be unable to transfer his partnership interest until such time as the substantial risk of forfeiture lapses, whether or not he makes a deemed §83(b) election. [§83(c)(2)]

An excel spreadsheet of the calculations as they pertain to Caravan Traders follows:
## Caravan Traders:
**A Tax Research Project for Pass-Through Business Entities**

**Worksheet 1 – Deemed §83(b) Election**

### Balance Sheet

**December 31, 2009**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Books</th>
<th>Basis</th>
<th>Bill</th>
<th>Steve</th>
<th>Books</th>
<th>Old Basis</th>
<th>Interest</th>
<th>Basis</th>
<th>Steve</th>
<th>Bill</th>
<th>Steve</th>
<th>Omar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>85,000</td>
<td>85,000</td>
<td>85,000</td>
<td>56,667</td>
<td>28,333</td>
<td>85,000</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>215,000</td>
<td>-</td>
<td>215,000</td>
<td>-</td>
<td>71,667</td>
<td>71,667</td>
<td>71,667</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>850,000</td>
<td>850,000</td>
<td>850,000</td>
<td>566,667</td>
<td>3</td>
<td>850,000</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land and Building</td>
<td>650,000</td>
<td>425,000</td>
<td>650,000</td>
<td>283,333</td>
<td>7</td>
<td>500,000</td>
<td>75,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,800,00</td>
<td>1,360,00</td>
<td>1,800,00</td>
<td>600,00</td>
<td>1,506,66</td>
<td>0</td>
<td>7</td>
<td>146,667</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Liabilities and Equity

| Liabilities          | - | - | 680,00 | - |       |       | 526,66 |
| Bill Caravan, Capital| 900,000| 680,000| 0     | 600,000| 453,333| 453,333| 73,333 |
| Steve Caravan, Capital| 900,000| 680,000| 0     | 600,000| 453,333| 453,333| 73,333 |
| Omar Debashi, Capital| 900,000| 680,000| 0     | 600,000| 453,333| 453,333| 73,333 |
|                      | 1,800,00| 1,360,00| 680,00| 680,00 | 1,800,00| 600,00 | 1,506,66| 526,66 |
|                      | 0     | 0     | 0     | 0     | 0     | 906,667| 0   | 146,667| 6   | 6    | 0    |

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57
## Balance Sheet

<table>
<thead>
<tr>
<th>Assets</th>
<th>Inside</th>
<th>Outside Basis</th>
<th>Bill's &amp; Steve's</th>
<th>Omar's</th>
<th>New Gain to Bill &amp; Omar's</th>
<th>Outside Basis</th>
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