



## MEMORANDUM

**DATE:** August 2021

**FROM:** ICLUBcentral, Inc.

**SUBJECT:** Basis of Securities Transferred to a Partner in a Partial or Full Liquidation of the Partner's Interest in an Investing Partnership.

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Investment clubs using the investment club accounting software developed by ICLUBcentral, Inc., generally qualify to be investment partnerships as defined by 26 U.S. Code § 731(c)(3).

As such, securities held by an investment partnership are treated as **property** instead of being treated as cash equivalents. The rules for determining cost basis of transferred property would apply to securities (such as common stock) transferred as part of a partial or complete liquidation of a partnership interest. These rules are stated in 26 U.S. Code § 732.

The investment club accounting programs produced by ICLUBcentral, Inc. are fully compliant with 26 U.S. Code § 732 regarding the determination of the cost basis of transferred property to a partner in a partial or full liquidation of a partner's interest in the partnership. The program has a mechanism to distinguish between partial liquidations and complete liquidations. The program then applies an algorithm to determine the cost basis of each tax lot transferred to the partner receiving the security. A different algorithm is used for partial liquidations as opposed to complete liquidations to comply with the different rules for each situation as specified in the tax code.

The cost basis of each lot of securities received in a **partial liquidation** is the same as the partnership's cost basis in each lot in those securities. The holding period remains the same for each lot, as well.

In general, for a **complete liquidation** of a partner's interest, the tax basis of the transferred securities shall be the cost basis of the partner in the partnership before liquidation and adjusted for any cash received in the liquidation. In the case of complete liquidation, the partner's basis in the partnership is also adjusted for their share of year-to-date income of the partnership. The holding period remains the same for each transferred lot of securities.

The accounting programs produced by ICLUBcentral generate a report to show a liquidating partner their cost basis in each tax lot transferred to them as part of the liquidation. The results of this report were extensively tested before release and have been retested intermittently over the years for accuracy. At no time has an inaccurate result been found since implementation of this feature. We are quite confident the results of this report give accurate cost basis information to the liquidating partner that is fully compliant with U.S. tax code.

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