

# 2022

## Shareholder's Instructions for Schedule K-1 (Form 1120-S)

### Shareholder's Share of Income, Deductions, Credits, etc. (For Shareholder's Use Only)

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Volume 1 of 2



Department of the Treasury  
Internal Revenue Service



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## Future Developments

For the latest information about developments related to Schedule K-1 (Form 1120-S) and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form1120S](https://www.irs.gov/Form1120S).

## Reminder

**Form 7203.** Form 7203 and its separate instructions are developed to replace the Worksheet for Figuring a Shareholder's Stock

and Debt Basis. See the Instructions for Form 7203 for details.

## **General Instructions**

### **Purpose of Schedule K-1**

The corporation uses Schedule K-1 to report your share of the corporation's income, deductions, credits, and other items. Keep it for your records. Don't file it with your tax return unless backup withholding is reported in box 13 using code O. (See the instructions for *Code O. Backup withholding*, later.) The corporation files a copy of Schedule K-1 with the IRS.

For your protection, Schedule K-1 may show only the last four digits of your identifying number (social security number (SSN), employer identification number (EIN), or individual taxpayer identification number (ITIN)). However, the corporation has

reported your complete identifying number to the IRS.

You may be liable for tax on your share of the corporation's income, whether or not distributed. Include your share on your tax return if a return is required. Use these instructions to help you report the items shown on Schedule K-1 on your tax return.

Your share of S corporation income isn't self-employment income and it isn't subject to self-employment tax.



*The amount of loss and deduction you may claim on your tax return may be less than the amount reported on Schedule K-1. It is the shareholder's responsibility to consider and apply any applicable limitations. See Limitations on Losses, Deductions, and Credits, later, for more information.*

Schedule K-1 doesn't show actual dividend distributions the corporation made to you. The corporation must report such amounts totaling \$10 or more for the calendar year on Form 1099-DIV, Dividends and Distributions.

## **Inconsistent Treatment of Items**

Generally, you must report corporate items shown on your Schedule K-1 (and any attached statements) the same way that the corporation treated the items on its return.

If the treatment on your original or amended return is inconsistent with the corporation's treatment, or if the corporation hasn't filed a return, file Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR), with your original or amended return to identify and explain any inconsistency (or to note that a corporate return hasn't been filed).

If you are required to file Form 8082 but don't do so, you may be subject to the accuracy-related penalty. This penalty is in addition to any tax that results from making your amount or treatment of the item consistent with that shown on the corporation's return. Any deficiency that results from making the amounts consistent may be assessed immediately.

## **Errors**

If you believe the corporation has made an error on your Schedule K-1, notify the corporation and ask for a corrected Schedule K-1. Don't change any items on your copy of Schedule K-1. Be sure that the corporation sends a copy of the corrected Schedule K-1 to the IRS. If you are unable to reach an agreement with the corporation regarding the inconsistency, file Form 8082.

# **Decedent's Schedule K-1**

If you are the executor of an estate and you have received a decedent's Schedule K-1, then you have the responsibility to notify the S corporation of the name and tax identification number (TIN) of the decedent's estate if the S corporation stock is part of a decedent's estate. This is information that the S corporation must have to properly determine its eligibility to maintain status as a subchapter S corporation. If a decedent died in a prior year and the S corporation continues to send the decedent a Schedule K1 after being notified of the decedent's death, then you should request that the S corporation send a corrected Schedule K-1. If you receive an interest in an S corporation by reason of a former shareholder's death, you must provide the S corporation with your name and TIN. For treatment of S corporation income upon the death of a shareholder, see

Pub. 559, Survivors, Executors, and Administrators.

## **Sale of S Corporation Stock**

Gain or loss from the disposition of your S corporation stock may be net investment income under section 1411 and could be subject to the net investment income tax. See Form 8960, Net Investment Income Tax—Individuals, Estates, and Trusts, and its instructions for information about how to figure and report the tax.

## **International Boycotts**

Every corporation that had operations in, or related to, a boycotting country, company, or a national of a boycotting country must file Form 5713, International Boycott Report.

If the corporation cooperated with an international boycott, it must give you a copy of its Form 5713. You must file your own Form 5713 to report the corporation's

activities and any other boycott operations that you may have. You may lose certain tax benefits if the corporation participated in, or cooperated with, an international boycott. See Form 5713 and its instructions for details.

## **Elections**

Generally, the corporation decides how to figure taxable income from its operations. However, certain elections are made by you separately on your income tax return and not by the corporation. These elections are made under the following code sections.

- Section 59(e) (deduction of certain qualified expenditures ratably over the period of time specified in that section). For details, see the instructions for code J in box 12.
- Section 263A(d) (preproductive expenses). See the instructions for code M in box 12.

- Section 617 (deduction and recapture of certain mining exploration expenditures).
- Section 901 (foreign tax credit).

## **Additional Information**

For more information on the treatment of S corporation income, deductions, credits, and other items, see Pub. 535, Business Expenses; Pub. 550, Investment Income and Expenses; and Pub. 925, Passive Activity and At-Risk Rules.

To get forms and publications, see the instructions for your tax return or visit the IRS website at [IRS.gov](https://www.irs.gov).

## **Limitations on Losses, Deductions, and Credits**

There are potential limitations on corporate losses that you can deduct on your return. These limitations and the order in which you

must apply them are as follows: the basis limitations, the at-risk limitations, the passive activity limitations, and the excess business loss limitations. These limitations are discussed below.

Other limitations may apply to specific deductions (for example, the section 179 expense deduction). Specific limitations generally apply before at-risk and passive loss limitations.

## **Basis Limitations**

Generally, the deduction for your share of aggregate losses and deductions reported on Schedule K-1 is limited to the basis of your stock and loans from you to the corporation. For details and exceptions, see section 1366(d). The basis of your stock is generally figured at the end of the corporation's tax year. Any losses and deductions not allowed this year because of the basis limit can be carried forward indefinitely and deducted in a

later year subject to the basis limit for that year.

You are responsible for keeping the information needed to figure the basis of your stock in the corporation. Schedule K-1 provides information to help you figure your stock basis at the end of each corporate tax year. The basis of your stock (generally, its cost) is adjusted annually as follows and, except as noted, in the order listed. In addition, basis may be adjusted under other provisions of the Internal Revenue Code. You should generally use Form 7203, S Corporation Shareholder Stock and Debt Basis Limitations, to figure your aggregate stock and debt basis.

1. Basis is increased by (a) all income (including tax-exempt income) reported on Schedule K-1, and (b) the excess of the deduction for depletion (other than oil and gas depletion) over

the basis of the property subject to depletion.



*You must report on your return (if you are required to file one) any amount required to be included in gross income for it to increase your basis.*

2. Basis is decreased (but not below zero) by (a) property distributions (including cash) made by the corporation reported on Schedule K-1, box 16, code D, minus (b) the amount of such distributions in excess of the basis in your stock.
3. Basis is decreased (but not below zero) by (a) nondeductible expenses, and (b) the depletion deduction for any oil and gas property held by the corporation, but only to the extent your share of the property's adjusted basis exceeds that deduction.

4. Basis is decreased (but not below zero) by all losses and deductions reported on Schedule K-1.

You may elect to decrease your basis under (4) prior to decreasing your basis under (3). If you make this election, any amount described under (3) that exceeds the basis of your stock and debt owed to you by the corporation is treated as an amount described under (3) for the following tax year.

To make the election, attach a statement to your timely filed original or amended return that states you agree to the carryover rule of Regulations section 1.1367-1(g) and the name of the S corporation to which the rule applies. Once made, the election applies to the year for which it is made and all future tax years for that S corporation, unless the IRS agrees to revoke your election.

The basis of each share of stock is increased or decreased (but not below zero) based on its pro rata share of the above adjustments.

If the total decreases in basis attributable to a share exceed that share's basis, the excess reduces (but not below zero) the remaining bases of all other shares of stock in proportion to the remaining basis of each of those shares.

**Basis of loans.** The basis of your loans to the corporation is generally the balance the corporation owes you, adjusted for any reductions and restorations of loan basis (see the instructions for box 16, code E). Any amounts described in (3) and (4), earlier, not used to offset amounts in (1), earlier, or to reduce your stock basis, are used to reduce your loan basis (to the extent of such basis prior to such reduction).



*When determining your basis in loans to the corporation, remember that:*

- Distributions don't reduce loan basis, and

- Loans that a shareholder guarantees or co-signs aren't part of a shareholder's loan basis. Shareholders only obtain basis from acting as a guarantor or in a similar capacity to the extent the shareholder makes a payment pursuant to the guarantee.

See the Instructions for Form 7203 for more details.

## **At-Risk Limitations**

Generally, if you have (a) a loss or other deduction from any activity carried on as a trade or business or for the production of income by the corporation, and (b) amounts in the activity for which you aren't at risk, you will have to complete Form 6198, At-Risk Limitations, to figure your allowable loss for the activity.

The at-risk rules generally limit the amount of loss and other deductions that you can claim to the amount you could actually lose in the

activity. These losses and deductions include a loss on the disposition of assets and the section 179 expense deduction. However, if you acquired your stock before 1987, the at-risk rules don't apply to losses from an activity of holding real property placed in service before 1987 by the corporation. The activity of holding mineral property doesn't qualify for this exception.

Generally, you aren't at risk for amounts such as the following.

- The basis of your stock in the corporation or the basis of your loans to the corporation if the cash or other property used to purchase the stock or make the loans was from a source (a) covered by nonrecourse indebtedness (except for certain qualified nonrecourse financing, as defined in section 465(b)(6)); (b) protected against loss by a guarantee, stop-loss agreement, or other similar

arrangement; or (c) that is covered by indebtedness from a person who has an interest in the activity or from a person related to a person (except you) having such an interest, other than a creditor.

- Any cash or property contributed to a corporate activity, or your interest in the corporate activity, that is (a) covered by nonrecourse indebtedness (except for certain qualified nonrecourse financing, as defined in section 465(b)(6)); (b) protected against loss by a guarantee, stop-loss agreement, or other similar arrangement; or (c) covered by indebtedness from a person who has an interest in the activity or from a person related to a person (except you) having such an interest, other than a creditor.

Any loss from a section 465 activity not allowed for this tax year will be treated as a deduction allocable to the activity in the next tax year.

Since at-risk limitations apply for each activity, you should get a separate statement of income, expenses, and other items, for each activity from the corporation.

**Note.** Schedule K-1, box 18, will be checked when a statement is attached.

## **Passive Activity Limitations**

Section 469 provides rules that limit the deduction of certain losses and credits. These rules apply to shareholders who:

- Are individuals, estates, or trusts; and
- Have a passive activity loss or credit for the tax year.

Generally, passive activities include:

1. Trade or business activities in which you didn't materially participate, and
2. Activities that meet the definition of rental activities under Temporary Regulations section 1.469-1T(e)(3) and Regulations section 1.469-1(e)(3).

Passive activities don't include the following.

1. Trade or business activities in which you materially participated.
2. Rental real estate activities in which you materially participated if you were a real estate professional for the tax year. You were a **real estate professional** only if you met both of the following conditions.
  - a. More than half of the personal services you performed in trades or businesses were performed in real property trades or

businesses in which you materially participated.

- b. You performed more than 750 hours of services in real property trades or businesses in which you materially participated.

If you are married filing jointly, either you or your spouse must separately meet both (a) and (b) of the above conditions, without taking into account services performed by the other spouse.

A real property trade or business is any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business. Services you performed as an employee aren't treated as performed in a real property trade or business unless you owned more than 5% of the stock (or more than 5% of the capital or profits interest) in the employer.

3. The rental of a dwelling unit any shareholder used for personal purposes during the year for more than the greater of 14 days or 10% of the number of days that the residence was rented at fair rental value.
4. Activities of trading personal property for the account of owners of interests in the activities.

If you have a passive activity loss or credit, use Form 8582, *Passive Activity Loss Limitations*, to figure your allowable passive losses, and Form 8582-CR, *Passive Activity Credit Limitations*, to figure your allowable passive credits. See the instructions for these forms for details.

If the corporation has more than one activity, it will attach a statement to your Schedule K-1 that identifies each activity (trade or business activity, rental real estate activity, rental activity other than rental real estate, portfolio income) and specifies the income

(loss), deductions, and credits from each activity.

**Note.** Schedule K-1, box 19, will be checked when a statement is attached.

**Material participation.** You must determine if you materially participated (a) in each trade or business activity held through the corporation, and (b) if you were a real estate professional (defined earlier), in each rental real estate activity held through the corporation.

Each interest in rental real estate is a separate activity, unless you elect to treat all interests in rental real estate as one activity. For details on making this election, see the Instructions for Schedule E (Form 1040), Supplemental Income and Loss.

All determinations of material participation are based on your participation during the corporation's tax year.

Material participation standards for shareholders who are individuals are listed below. Special rules apply to certain retired or disabled farmers and to the surviving spouses of farmers. See the Instructions for Form 8582 for details.

***Individuals.*** If you are an individual, you materially participated in an activity only if one or more of the following apply.

1. You participated in the activity for more than 500 hours during the tax year.
2. Your participation in the activity for the tax year constituted substantially all the participation in the activity of all individuals (including individuals who aren't owners of interests in the activity).
3. You participated in the activity for more than 100 hours during the tax year, and your participation in the

activity for the tax year wasn't less than the participation in the activity of any other individual (including individuals who weren't owners of interests in the activity) for the tax year.

4. The activity was a significant participation activity for the tax year, and you participated in all significant participation activities (including activities outside the corporation) during the year for more than 500 hours. A significant participation activity is any trade or business activity in which you participated for more than 100 hours during the year and in which you didn't materially participate under any of the material participation tests (other than this test).

5. You materially participated in the activity for any 5 tax years (whether or not consecutive) during the 10 tax years that immediately precede the tax year.
6. The activity was a personal service activity and you materially participated in the activity for any 3 tax years (whether or not consecutive) preceding the tax year. A personal service activity involves the performance of personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other trade or business in which capital isn't a material income-producing factor.
7. Based on all the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis during the tax year.

***Work counted toward material***

***participation.*** Generally, any work that you or your spouse does in connection with an activity held through an S corporation (where you own your stock at the time the work is done) is counted toward material participation. However, work in connection with the activity isn't counted toward material participation if either of the following applies.

1. The work isn't the type of work that owners of the activity would usually do, and one of the principal purposes of the work that you or your spouse does is to avoid the passive loss or credit limitations.
2. You do the work in your capacity as an investor and you aren't directly involved in the day-to-day operations of the activity. Examples of work done as an investor that wouldn't count toward material participation include:

- a. Studying and reviewing financial statements or reports on operations of the activity,
- b. Preparing or compiling summaries or analyses of the finances or operations of the activity for your own use, and
- c. Monitoring the finances or operations of the activity in a nonmanagerial capacity.

***Effect of determination.*** Income (loss), deductions, and credits from an activity are nonpassive if you determine that:

- You materially participated in a trade or business activity of the corporation, or
- You were a real estate professional (defined earlier) in a rental real estate activity of the corporation.

If you determine that you didn't materially participate in a trade or business activity of the corporation or if you have income (loss), deductions, or credits from a rental activity of the corporation (other than a rental real estate activity in which you materially participated as a real estate professional), the amounts from that activity are passive. Report passive income (losses), deductions, and credits as follows.

1. If you have an overall gain (the excess of income over deductions and losses, including any prior year unallowed loss) from a passive activity, report the income, deductions, and losses from the activity as indicated in these instructions.
2. If you have an overall loss (the excess of deductions and losses, including any prior year unallowed loss, over income) or credits from a passive activity, report the income,

deductions, losses, and credits from all passive activities using the Instructions for Form 8582 or Form 8582-CR, to see if your deductions, losses, and credits are limited under the passive activity rules.

**Special allowance for a rental real estate activity.** If you actively participated in a rental real estate activity, you may be able to deduct up to \$25,000 of the loss (or credit equivalent to a \$25,000 deduction) from the activity from nonpassive income. This “special allowance” is an exception to the general rule disallowing losses in excess of income from passive activities. The special allowance isn't available if you were married, file a separate return for the year, and didn't live apart from your spouse at all times during the year.

Only individuals can actively participate in a rental real estate activity. However, a decedent's estate (including a qualified revocable trust for which a section 645

election has been made) is treated as actively participating for its tax years ending less than 2 years after the decedent's death, if the decedent would have satisfied the active participation requirement for the activity for the tax year the decedent died.

You aren't considered to actively participate in a rental real estate activity if, at any time during the tax year, your interest (including your spouse's interest) in the activity was less than 10% (by value) of all interests in the activity.

Active participation is a less stringent requirement than material participation. You may be treated as actively participating if you participated, for example, in making management decisions or arranging for others to provide services (such as repairs) in a significant and bona fide sense. Management decisions that can count as active participation include approving new tenants, deciding rental terms, approving capital or

repair expenditures, and other similar decisions.

***Modified adjusted gross income***

***limitation.*** The maximum special allowance that single individuals and married individuals filing a joint return can qualify for is \$25,000. The maximum is \$12,500 for married individuals who file separate returns and who lived apart at all times during the year. The maximum special allowance for which an estate can qualify is \$25,000 reduced by the special allowance for which the surviving spouse qualifies.

If your modified adjusted gross income (defined below) is \$100,000 or less (\$50,000 or less if married filing separately), your loss is deductible up to the maximum special allowance referred to in the preceding paragraph. If your modified adjusted gross income is more than \$100,000 (more than \$50,000 if married filing separately), the special allowance is limited to 50% of the

difference between \$150,000 (\$75,000 if married filing separately) and your modified adjusted gross income. When modified adjusted gross income is \$150,000 or more (\$75,000 or more if married filing separately), there is no special allowance.

Modified adjusted gross income is your adjusted gross income figured without taking into account the following amounts, if applicable.

- Any passive activity loss.
- Any rental real estate loss allowed under section 469(c)(7) to real estate professionals (defined earlier).
- Any overall loss from a publicly traded partnership.
- Any taxable social security or equivalent railroad retirement benefits.

- Any deductible contributions to an IRA or certain other qualified retirement plans under section 219.
- The student loan interest deduction.
- The deductible part of self-employment taxes.
- The exclusion from income of interest from Series EE or I U.S. Savings Bonds used to pay higher education expenses.
- The exclusion of amounts received under an employer's adoption assistance program.

**Special rules for certain other activities.**

If you have net income (loss), deductions, or credits from any activity to which special rules apply, the corporation will identify the activity and all amounts relating to it on Schedule K-1 or on an attached statement.

If you have net income subject to recharacterization under Temporary Regulations section 1.469-2T(f) and Regulations section 1.469-2(f), report such amounts according to the Instructions for Form 8582.

If you have net income (loss), deductions, or credits from either of the following activities, treat such amounts as nonpassive and report them as indicated in these instructions.

1. The rental of a dwelling unit any shareholder used for personal purposes during the year for more than the greater of 14 days or 10% of the number of days that the residence was rented at fair rental value.
2. Trading personal property for the account of owners of interests in the activity.

**Self-charged interest.** The corporation will report any “self-charged” interest income or expense that resulted from loans between you and the corporation (or between the corporation and another S corporation or partnership if both entities have the same owners with the same proportional interest in each entity). If there was more than one activity, the corporation will provide a statement allocating the interest income or expense with respect to each activity. The self-charged interest rules don't apply to your interest in the S corporation if the corporation made an election under Regulations section 1.469-7(g) to avoid the application of these rules. See the Instructions for Form 8582 for details.

## **Excess Business Loss Limitations**

Losses attributable to your trade or business may be limited, pursuant to section 461(l).

See Form 461, Limitation on Business Losses, and its instructions for more information.

## **Specific Instructions**

### **Part III. Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items**

The amounts shown in boxes 1 through 17 reflect your share of income, loss, deductions, credits, and other items, from corporate business or rental activities without reference to limitations on losses, credits, or other items that may have to be adjusted because of:

1. The adjusted basis of your stock and debt in the corporation,
2. The at-risk limitations,
3. The passive activity limitations, and
4. The excess business loss limitations.

For information on these provisions, see *Limitations on Losses, Deductions, and Credits*, earlier.

Other limitations may apply to specific deductions (for example, the section 179 expense deduction). Generally, specific limitations apply before the at-risk and passive loss limitations.

If you are an individual, and the above limitations don't apply to the amounts shown on your Schedule K-1, take the amounts shown and report them on the appropriate lines of your tax return. If any of the above limitations apply, adjust the amounts on Schedule K-1 before you report them on your return.

When applicable, the passive activity limitations on losses are applied after the limitations on losses for a shareholder's basis in stock and debt and the shareholder's at-risk amount.

If you file your tax return on a calendar year basis, but the corporation files a return for a fiscal year, report the amounts on your tax return for the year in which the corporation's fiscal year ends. For example, if the corporation's tax year ends in February 2023, report the amounts on your 2023 tax return.

If you have losses, deductions, or credits from a prior year that weren't deductible or usable because of certain limitations, such as the basis limitations or the at-risk limitations, take them into account in determining your income, loss, or credits for this year.

However, except for passive activity losses and credits, don't combine the prior year amounts with any amounts shown on this Schedule K-1 to get a net figure to report on your return. Instead, report the amounts on your return on a year-by-year basis.



*If you have amounts other than those shown on Schedule K-1 to report on Schedule E (Form 1040), enter each item separately on Schedule E (Form 1040), line 28.*

**Codes.** In boxes 10, 12, 13, and boxes 15 through 17, the corporation will identify each item by entering a code in the column to the left of the dollar amount entry space. See List of Codes, later.

**Attached statements.** The corporation will enter an asterisk (\*) after the code, if any, in the column to the left of the dollar amount entry space for each item for which it has attached a statement providing additional information. For those informational items that can't be reported as a single dollar amount, the corporation will enter an asterisk in the left column and enter "STMT" in the dollar amount entry space to indicate the information is provided on an attached statement.

## **Income (Loss)**

### **Box 1. Ordinary Business Income (Loss)**

The amount reported in box 1 is your share of the ordinary income (loss) from trade or business activities of the corporation.

Generally, where you report this amount on Form 1040 or 1040-SR depends on whether the amount is from an activity that is a passive activity to you. If you are an individual shareholder filing a 2022 Form 1040 or 1040-SR, find your situation below and report your box 1 income (loss) as instructed after applying the basis and at-risk limitations on losses. See *Limitations on Losses, Deductions, and Credits*, earlier. If the corporation had more than one trade or business activity, it will attach a statement identifying the income or loss from each activity.

1. Report box 1 income (loss) from corporate trade or business activities in which you materially participated on Schedule E (Form 1040), line 28, column (i) or (k).
2. Report box 1 income (loss) from corporate trade or business activities in which you didn't materially participate, as follows.
  - a. If income is reported in box 1, report the income on Schedule E (Form 1040), line 28, column (h).
  - b. If a loss is reported in box 1, follow the Instructions for Form 8582 to figure how much of the loss can be reported on Schedule E (Form 1040), line 28, column (g).

## **Box 2. Net Rental Real Estate Income (Loss)**

Generally, the income (loss) reported in box 2 is a passive activity amount for all shareholders. However, the income (loss) in box 2 isn't from a passive activity if you were a real estate professional (defined earlier) and you materially participated in the activity. If the corporation had more than one rental real estate activity, it will attach a statement identifying the income or loss from each activity.

If you are filing a 2022 Form 1040 or 1040-SR, use the following instructions to determine where to report a box 2 amount after applying the basis and at-risk limitations on losses. See *Limitations on Losses, Deductions, and Credits*, earlier.

1. If you have a loss from a passive activity in box 2 and you meet all the following conditions, report the loss on

Schedule E (Form 1040), line 28,  
column (g).

- a. You actively participated in the corporate rental real estate activities. See *Special allowance for a rental real estate activity*, earlier.
- b. Rental real estate activities with active participation were your only passive activities.
- c. You have no prior year unallowed losses from these activities.
- d. If you are a married person filing separately, you lived apart from your spouse all year.
- e. Your total loss from the rental real estate activities wasn't more than \$25,000 (not more than \$12,500 if married filing separately).

- f. You have no current or prior year unallowed credits from a passive activity.
  - g. Your modified adjusted gross income wasn't more than \$100,000 (not more than \$50,000 if married filing separately and you lived apart from your spouse all year).
2. If you have a loss from a passive activity in box 2 and you don't meet all the conditions in (1) above, follow the Instructions for Form 8582 to figure how much of the loss you can report on Schedule E (Form 1040), line 28, column (g).
  3. If you were a real estate professional and you materially participated in the activity, report box 2 income (loss) on Schedule E (Form 1040), line 28, column (i) or (k).

4. If you have income from a passive activity in box 2, report the income on Schedule E (Form 1040), line 28, column (h).

## **Box 3. Other Net Rental Income (Loss)**

The amount in box 3 is a passive activity amount for all shareholders. If the corporation had more than one rental activity, it will attach a statement identifying the income or loss from each activity. After applying the limitations on losses and deductions, report the income or loss as follows.

1. If box 3 is a loss, follow the Instructions for Form 8582 to figure how much of the loss can be reported on Schedule E (Form 1040), line 28, column (g).

2. If income is reported in box 3, report the income on Schedule E (Form 1040), line 28, column (h).

See Limitations on Losses, Deductions, and Credits, earlier.

## **Portfolio Income**

Portfolio income or loss (shown in boxes 4 through 8b and in box 10, code A) isn't subject to the passive activity limitations. Portfolio income includes income (not derived in the ordinary course of a trade or business) from interest, ordinary dividends, annuities, or royalties, and gain or loss on the sale of property that produces such income or is held for investment.

## **Box 4. Interest Income**

Report interest income on Form 1040 or 1040-SR, line 2b.

## **Box 5a. Ordinary Dividends**

Report ordinary dividends on Form 1040 or 1040-SR, line 3b. The amount in box 5a may be attributable to previously taxed earnings and profits (PTEP) in annual PTEP accounts that you have with respect to a foreign corporation. You will need to determine the amount of the ordinary dividends that are attributable to PTEP in your annual PTEP accounts.

## **Box 5b. Qualified Dividends**

Report any qualified dividends on Form 1040 or 1040-SR, line 3a. The amount in box 5b may be attributable to PTEP in annual PTEP accounts that you have with respect to a foreign corporation. You will need to determine the amount of the qualified dividends that are attributable to PTEP in your annual PTEP accounts.



*Qualified dividends are excluded from investment income, but you may elect to include part or all of these amounts in investment income. See the instructions for line 4g of Form 4952, Investment Interest Expense Deduction, for important information on making this election.*

## **Box 6. Royalties**

Report royalties on Schedule E (Form 1040), line 4.

## **Box 7. Net Short-Term Capital Gain (Loss)**

After applying the limitations on losses and deductions, report the net short-term capital gain (loss) on Schedule D (Form 1040), Capital Gains and Losses, line 5. See *Limitations on Losses, Deductions, and Credits*, earlier.

## **Box 8a. Net Long-Term Capital Gain (Loss)**

After applying the limitations on losses and deductions, report the net long-term capital gain (loss) on Schedule D (Form 1040), line 12. See Limitations on Losses, Deductions, and Credits, earlier.

## **Box 8b. Collectibles (28%) Gain (Loss)**

After applying the limitations on losses and deductions, report collectibles gain or loss on line 4 of the 28% Rate Gain Worksheet—Line 18 in the Instructions for Schedule D (Form 1040). See Limitations on Losses, Deductions, and Credits, earlier.

## **Box 8c. Unrecaptured Section 1250 Gain**

There are three types of unrecaptured section 1250 gain.

Report your share of this unrecaptured gain on the Unrecaptured Section 1250 Gain Worksheet—Line 19 in the Instructions for Schedule D (Form 1040) as follows.

- Report unrecaptured section 1250 gain from the sale or exchange of the corporation's business assets on line 5.
- Report unrecaptured section 1250 gain from the sale or exchange of an interest in a partnership on line 10.
- Report unrecaptured section 1250 gain from an estate, trust, regulated investment company (RIC), or real estate investment trust (REIT) on line 11.

If the corporation reports only unrecaptured section 1250 gain from the sale or exchange of its business assets, it will enter a dollar amount in box 8c. If it reports the other two types of unrecaptured gain, it will provide an attached statement that shows the amount

for each type of unrecaptured section 1250 gain.

## **Box 9. Net Section 1231 Gain (Loss)**

The amount in box 9 is generally passive if it is from a:

- Rental activity, or
- Trade or business activity in which you didn't materially participate.

However, an amount from a rental real estate activity isn't from a passive activity if you were a real estate professional (defined earlier) and you materially participated in the activity.

If the amount is either (a) a loss that isn't from a passive activity, or (b) a gain, report it on Form 4797, Sales of Business Property, line 2, column (g), after applying the basis and at-risk limitations on losses. See

Limitations on Losses, Deductions, and Credits, earlier. Don't complete columns (b) through (f) on line 2 of Form 4797. Instead, enter "From Schedule K-1 (Form 1120-S)" across these columns.

If the amount is a loss from a passive activity, see *Passive Loss Limitations* in the Instructions for Form 4797. After applying the limitations on losses and deductions, report the loss following the Instructions for Form 8582 to figure how much of the loss is allowed on

Form 4797. If the corporation had net section 1231 gain (loss) from more than one activity, it will attach a statement that will identify the section 1231 gain (loss) from each activity.

## Box 10. Other Income (Loss)

See List of Codes, later.



*Losses reported in box 10 may be limited. See Limitations on Losses, Deductions, and Credits, earlier.*

### **Code A. Other portfolio income (loss).**

The corporation will report portfolio income other than interest, ordinary dividend, royalty, and capital gain (loss) income, and attach a statement to tell you what kind of portfolio income is reported.

If the corporation held a residual interest in a real estate mortgage investment conduit (REMIC), it will report on the statement your share of REMIC taxable income (net loss) that you report on Schedule E (Form 1040), line 38, column (d). The statement will also report your share of any "excess inclusion" that you report on Schedule E (Form 1040), line 38, column (c), and your share of section 212

expenses that you report on Schedule E (Form 1040), line 38, column (e).

**Code B. Involuntary conversions.** This is your net loss from involuntary conversions due to casualty or theft. The corporation will give you a statement that shows the amounts to be reported on Form 4684, Casualties and Thefts, line 34, columns (b)(i), (b)(ii), and (c).

If there was a gain (loss) from a casualty or theft to property not used in a trade or business or for income-producing purposes, the corporation will provide you with the information you need to complete Form 4684.

**Code C. Section 1256 contracts and straddles.** The corporation will report any net gain or loss from section 1256 contracts. Report this amount on Form 6781, Gains and Losses From Section 1256 Contracts and Straddles.

### **Code D. Mining exploration costs**

**recapture.** The corporation will give you a statement that shows the information needed to recapture certain mining exploration costs (section 617). See Pub. 535 for details.

### **Code E. Section 951A(a) income**

**inclusions.** If the corporation (and its shareholders, as applicable) has elected under Notice 2020-69 to be treated as an entity for purposes of section 951A, this is your share of the corporation's global intangible low-taxed income amount. Report this amount on Schedule 1 (Form 1040), Additional Income and Adjustments to Income, line 80, or the comparable line of your income tax return, as an addition to any amount of global intangible low-taxed income (GILTI) under section 951A otherwise computed on Form 8992, U.S. Shareholder Calculation of Global Intangible Low-Taxed Income (GILTI).



*This information will be provided in box 10 using code E only if the corporation (and its shareholders, if applicable) has elected to be treated as an entity for purposes of section 951A under Notice 2020-69. If no election has been made under the Notice, see the instructions for Part V of Schedule K-3 (Form 1120-S), Shareholder's Share of Income, Deductions, Credits, etc.—International.*

**Code F. Inclusions of subpart F income.**

The corporation will provide your share of its section 951(a)(1) (A) inclusions. Report this amount on your Form 1040, 1040-SR, or relevant income tax return.

**Code G. Section 951(a)(1)(B) inclusions.**

The corporation will provide your share of its section 951(a)(1) (B) inclusions. Report this amount on your Form 1040, 1040-SR, or relevant income tax return.



*If the corporation has chosen to apply the provisions of Proposed Regulations section 1.958-1(d) for the tax year, no information will be provided in box 10 using codes F or G. Instead, the corporation will provide information needed to figure your section 951(a) inclusions in Part V of Schedule K-3 (Form 1120-S).*

**Code H. Other income (loss).** Amounts with code H are other items of income, gain, or loss not included in boxes 1 through 9 or in box 10 using codes A through G. The corporation should give you a description and the amount of your share for each of these items.

Report loss items that are passive activity amounts to you following the Instructions for Form 8582. Code H items may include the following.

- Income from recoveries of tax benefit items. A tax benefit item is an amount you deducted in a prior tax year that

reduced your income tax. Report this amount on Schedule 1 (Form 1040), line 8z, to the extent it reduced your tax in the prior year.

- Gambling gains and losses.
  1. If the corporation wasn't engaged in the trade or business of gambling, (a) report gambling winnings on Schedule 1 (Form 1040), line 8b, and (b) deduct gambling losses to the extent of winnings on Schedule A (Form 1040), Itemized Deductions, line 16.
  2. If the corporation was engaged in the trade or business of gambling, (a) report gambling winnings on Schedule E (Form 1040), line 28, column (k), and (b) deduct gambling losses (to the extent of winnings) on Schedule E (Form 1040), line 28, column (i).
- Gain (loss) from the disposition of an interest in oil, gas, geothermal, or

other mineral properties. The corporation will attach a statement that provides a description of the property, your share of the amount realized from the disposition, your share of the corporation's adjusted basis in the property (for other than oil or gas properties), and your share of the total intangible drilling costs, development costs, and mining exploration costs (section 59(e) expenditures) passed through for the property. You must figure your gain or loss from the disposition by increasing your share of the adjusted basis by the intangible drilling costs, development costs, or mine exploration costs for the property that you capitalized (that is, costs that you didn't elect to deduct under section 59(e)). Report a loss in Part I of Form 4797. Report a gain in Part III of Form 4797 in accordance with the instructions for line 28. See

Regulations section 1.1254-4 for details.

- Net short-term capital gain (loss) and net long-term capital gain (loss) from Schedule D (Form 1120-S), Capital Gains and Losses and Built-in Gains that isn't portfolio income. An example is gain or loss from the disposition of nondepreciable personal property used in a trade or business activity of the corporation. Report total net short-term gain (loss) on Schedule D (Form 1040), line 5. Report the total net long-term gain (loss) on Schedule D (Form 1040), line 12.
- Gain from the sale or exchange of qualified small business (QSB) stock (as defined in the Instructions for Schedule D (Form 1040)) eligible for the section 1202 exclusion. The corporation should also give you (a) the name of the corporation that

issued the QSB stock, (b) your share of the corporation's adjusted basis and sales price of the QSB stock, and (c) the dates the QSB stock was bought and sold. The following additional limitations apply at the shareholder level.

1. You must have held an interest in the corporation when the corporation acquired the QSB stock and at all times thereafter until the corporation disposed of the QSB stock.
2. Your share of the eligible section 1202 gain can't exceed the amount that would have been allocated to you based on your interest in the corporation at the time the QSB stock was acquired.