

Publication 541

Partnerships

Volume 2 of 2



Get forms and other information faster and easier at:

- [IRS.gov](https://www.irs.gov) (English)
- [IRS.gov/Korean](https://www.irs.gov/korean) (한국어)
- [IRS.gov/Spanish](https://www.irs.gov/spanish) (Español)
- [IRS.gov/Russian](https://www.irs.gov/russian) (Русский)
- [IRS.gov/Chinese](https://www.irs.gov/chinese) (中文)
- [IRS.gov/Vietnamese](https://www.irs.gov/vietnamese) (Tiếng Việt)



This page is intentionally left blank

Related person. Related persons, for these purposes, includes all the following.

- An individual and their spouse, ancestors, and lineal descendants.
- An individual and a corporation if the individual directly or indirectly owns 80% or more in value of the outstanding stock of the corporation.
- Two corporations that are members of the same controlled group.
- A grantor and a fiduciary of any trust.
- Fiduciaries of two separate trusts if the same person is a grantor of both trusts.
- A fiduciary and a beneficiary of the same trust.
- A fiduciary and a beneficiary of two separate trusts if the same person is a grantor of both trusts.
- A fiduciary of a trust and a corporation if the trust or the grantor

of the trust directly or indirectly owns 80% or more in value of the outstanding stock of the corporation.

- A person and a tax-exempt educational or charitable organization controlled directly or indirectly by the person or by members of the person's family.
- A corporation and a partnership if the same persons own 80% or more in value of the outstanding stock of the corporation and 80% or more of the capital or profits interest in the partnership.
- Two S corporations or an S corporation and a C corporation if the same persons own 80% or more in value of the outstanding stock of each corporation.
- An executor and a beneficiary of an estate.
- A partnership and a person owning, directly or indirectly, 80% or more of

the capital or profits interest in the partnership.

- Two partnerships if the same persons directly or indirectly own 80% or more of the capital or profits interests.

Property subject to a liability. If property contributed to a partnership by a partner or distributed by the partnership to a partner is subject to a liability, the transferee is treated as having assumed the liability to the extent it doesn't exceed the FMV of the property.

Partner's share of recourse liabilities. A partnership liability is a recourse liability to the extent that any partner or a related person, defined earlier under *Related person*, has an economic risk of loss for that liability. A partner's share of a recourse liability equals their economic risk of loss for that liability. A partner has an economic risk of loss if that partner or a related person would be obligated (whether by agreement or law) to

make a net payment to the creditor or a contribution to the partnership with respect to the liability if the partnership were constructively liquidated. A partner who is the creditor for a liability that would otherwise be a nonrecourse liability of the partnership has an economic risk of loss in that liability.

Constructive liquidation. Generally, in a constructive liquidation, the following events are treated as occurring at the same time.

- All partnership liabilities become payable in full.
- All of the partnership's assets have a value of zero, except for property contributed to secure a liability.
- All property is disposed of by the partnership in a fully taxable transaction for no consideration except relief from liabilities for which the creditor's right to reimbursement is limited solely to one or more assets of the partnership.

- All items of income, gain, loss, or deduction are allocated to the partners.
- The partnership liquidates.

Example. Juan and Teresa form a cash basis general partnership with cash contributions of \$20,000 each. Under the partnership agreement, they share all partnership profits and losses equally. The partnership borrows \$60,000 and purchases depreciable business equipment. This debt is included in the partners' basis in the partnership because incurring it creates an additional \$60,000 of basis in the partnership's depreciable property.

If neither partner has an economic risk of loss in the liability, it is a nonrecourse liability. Each partner's basis would include their share of the liability, \$30,000.

If Teresa is required to pay the creditor if the partnership defaults, she has an economic risk of loss in the liability. Her basis in the

partnership would be \$80,000 (\$20,000 + \$60,000), while Juan's basis would be \$20,000.

Limited partner. A limited partner generally has no obligation to contribute additional capital to the partnership and therefore doesn't have an economic risk of loss in partnership recourse liabilities. Thus, absent some other factor, such as the guarantee of a partnership liability by the limited partner or the limited partner making the loan to the partnership, a limited partner generally doesn't have a share of partnership recourse liabilities.

Partner's share of nonrecourse liabilities.

A partnership liability is a nonrecourse liability if no partner or related person has an economic risk of loss for that liability. A partner's share of nonrecourse liabilities is generally proportionate to their share of partnership profits. However, this rule may not apply if the partnership has taken

deductions attributable to nonrecourse liabilities or the partnership holds property that was contributed by a partner.

More information. For more information on the effect of partnership liabilities, including rules for limited partners and examples, see Regulations sections 1.752-1 through 1.752-5.

Disposition of Partner's Interest

The following discussions explain the treatment of gain or loss from the disposition of an interest in a partnership.

Abandoned or worthless partnership interest. A loss incurred from the abandonment or worthlessness of a partnership interest is an ordinary loss only if both of the following tests are met.

- The transaction is not a sale or exchange.

- The partner has not received an actual or deemed distribution from the partnership.

If the partner receives even a de minimis actual or deemed distribution, the entire loss is generally a capital loss. However, see *Payments for Unrealized Receivables and Inventory Items*, later.

For information on how to report an abandonment loss, see the Instructions for Form 4797. See Revenue Ruling 93-80 for more information on determining if a loss incurred on the abandonment or worthlessness of a partnership interest is a capital or an ordinary loss.

Partnership election to adjust basis of partnership property. Generally, a partnership's basis in its assets is not affected by a transfer of an interest in the partnership, whether by sale or exchange or because of the death of a partner. However, the

partnership can elect to make an optional adjustment to basis in the year of transfer.

Sale, Exchange, or Other Transfer

The sale or exchange of a partner's interest in a partnership usually results in capital gain or loss. However, see *Payments for Unrealized Receivables and Inventory Items*, later, for certain exceptions. Gain or loss is the difference between the amount realized and the adjusted basis of the partner's interest in the partnership. If the selling partner is relieved of any partnership liabilities, that partner must include the liability relief as part of the amount realized for their interest.

Example 1. Kumar became a limited partner in the ABC Partnership by contributing \$10,000 in cash on the formation of the partnership. The adjusted basis of his partnership interest at the end of the current year is \$20,000, which includes his \$15,000 share of partnership liabilities. The

partnership has no unrealized receivables or inventory items. Kumar sells his interest in the partnership for \$10,000 in cash. He had been paid his share of the partnership income for the tax year.

Kumar realizes \$25,000 from the sale of his partnership interest (\$10,000 cash payment + \$15,000 liability relief). He reports \$5,000 (\$25,000 realized – \$20,000 basis) as a capital gain.

Example 2. The facts are the same as in *Example 1*, except that Kumar withdraws from the partnership when the adjusted basis of his interest in the partnership is zero. He is considered to have received a distribution of \$15,000, his relief of liability. He reports a capital gain of \$15,000.

Installment reporting for sale of partnership interest. A partner who sells a partnership interest at a gain may be able to report the sale on the installment method. For

requirements and other information on installment sales, see Pub. 537.

Part of the gain from the installment sale may be allocable to unrealized receivables or inventory items. See *Payments for Unrealized Receivables and Inventory Items* next. The gain allocable to unrealized receivables and inventory items must be reported in the year of sale. The gain allocable to the other assets can be reported under the installment method.

Payments for Unrealized Receivables and Inventory Items

If a partner receives money or property in exchange for any part of a partnership interest, the amount due to their share of the partnership's unrealized receivables or inventory items results in ordinary income or loss. This amount is treated as if it were received for the sale or exchange of property that is not a capital asset.

This treatment applies to the unrealized receivables part of payments to a retiring partner or successor in interest of a deceased partner only if that part is not treated as paid in exchange for partnership property. See *Liquidation at Partner's Retirement or Death*, later.

Unrealized receivables. Unrealized receivables include any rights to payment not already included in income for the following items.

- Goods delivered or to be delivered to the extent the payment would be treated as received for property other than a capital asset.
- Services rendered or to be rendered.

These rights must have arisen under a contract or agreement that existed at the time of sale or distribution, even though the partnership may not be able to enforce payment until a later date. For example, unrealized receivables include accounts

receivable of a cash method partnership and rights to payment for work or goods begun but incomplete at the time of the sale or distribution of the partner's share.

The basis for any unrealized receivables includes all costs or expenses for the receivables that were paid or accrued but not previously taken into account under the partnership's method of accounting.

Other items treated as unrealized receivables. Unrealized receivables include potential gain that would be ordinary income if the following partnership property were sold at its FMV on the date of the payment.

- Mining property for which exploration expenses were deducted.
- Stock in a domestic international sales corporation (DISC).
- Certain farmland for which expenses for soil and water conservation or land clearing were deducted.

- Franchises, trademarks, or trade names.
- Oil, gas, or geothermal property for which intangible drilling and development costs were deducted.
- Stock of certain controlled foreign corporations.
- Market discount bonds and short-term obligations.
- Property subject to recapture of depreciation under sections 1245 and 1250. Depreciation recapture is discussed in chapter 3 of Pub. 544.

Determining gain or loss. The income or loss realized by a partner upon the sale or exchange of its interest in unrealized receivables and inventory items, discussed below, is the amount that would have been allocated to the partner if the partnership had sold all of its property for cash at FMV, in a fully taxable transaction, immediately prior to the partner's transfer of interest in the

partnership. Any gain or loss recognized that is attributable to the unrealized receivables and inventory items will be ordinary gain or loss.

Example. You are a partner in ABC Partnership. The adjusted basis of your partnership interest at the end of the current year is zero. Your share of potential ordinary income from partnership depreciable property is \$5,000. The partnership has no other unrealized receivables or inventory items. You sell your interest in the partnership for \$10,000 in cash and you report the entire amount as a gain because your adjusted basis in the partnership is zero. You report as ordinary income your \$5,000 share of potential ordinary income from the partnership's depreciable property. The remaining \$5,000 gain is a capital gain.

Inventory items. Inventory items are not limited to stock-in-trade of the partnership. They also include the following property.

- Property that would properly be included in the partnership's inventory if on hand at the end of the tax year or that is held primarily for sale to customers in the normal course of business.
- Property that, if sold or exchanged by the partnership, wouldn't be a capital asset or section 1231 property (real or depreciable business property held more than 1 year). For example, accounts receivable acquired for services or from the sale of inventory and unrealized receivables are inventory items.
- Property held by the partnership that would be considered inventory if held by the partner selling the partnership interest or receiving the distribution.

Notification required of partner. If a partner exchanges a partnership interest attributable to unrealized receivables or inventory for money or property, they must

notify the partnership in writing. This must be done within 30 days of the transaction or, if earlier, by January 15 of the calendar year following the calendar year of the exchange. A partner may be subject to a \$50 penalty for each failure to notify the partnership about such a transaction, unless the failure was due to reasonable cause and not willful neglect.

Information return required of partnership. When a partnership is notified of an exchange of partnership interests involving unrealized receivables or inventory items, the partnership must file Form 8308, Report of a Sale or Ex-change of Certain Partnership Interests. Form 8308 is filed with Form 1065 for the tax year that includes the last day of the calendar year in which the exchange took place. If notified of an exchange after filing Form 1065, the partnership must file Form 8308 separately, within 30 days of the notification.

On Form 8308, the partnership provides its telephone number and states the date of the ex-change and the names, addresses, and TINs of the partnership filing the return and the transferee and transferor in the exchange. The partnership must provide a copy of Form 8308 (or a written statement with the same information) to each transferee and transferor by the later of January 31 following the end of the calendar year or 30 days after it receives notice of the ex-change.

The partnership may be subject to a penalty for each failure to timely file Form 8308 and a penalty for each failure to furnish a copy of Form 8308 to a transferor or transferee, unless the failure is due to reasonable cause and not willful neglect. If the failure is intentional, a higher penalty may be imposed. See sections 6722, 6723, and 6724 for details.

Statement required of partner. If a partner sells or exchanges any part of an

interest in a partnership having unrealized receivables or inventory, they must file a statement with their tax return for the year in which the sale or ex-change occurs. The statement must contain the following information.

- The date of the sale or exchange.
- The amount of any gain or loss attributable to the unrealized receivables or inventory.
- The amount of any gain or loss attributable to capital gain or loss on the sale of the partnership interest.

Partner's disposition of distributed unrealized receivables or inventory

items. In general, any gain or loss on a sale or exchange of unrealized receivables or inventory items a partner received in a distribution is an ordinary gain or loss. For this purpose, inventory items do not include real or depreciable business property, even if they are not held more than 1 year.

Example. Oscar, a distributee partner, received his share of accounts receivable when his law firm dissolved. The partnership used the cash method of accounting, so the receivables had a basis of zero. If Oscar later collects the receivables or sells them, the amount he receives will be ordinary income.

Exception for inventory items held more than 5 years. If a distributee partner sells inventory items held for more than 5 years after the distribution, the type of gain or loss depends on how they are being used on the date sold. The gain or loss is capital gain or loss if the property is a capital asset in the partner's hands at the time sold.

Example. Marucia receives, through dissolution of her partnership, inventory that has a basis of \$19,000. Within 5 years, she sells the inventory for \$24,000. The \$5,000 gain is taxed as ordinary income. If she had held the inventory for more than 5 years, her gain would have been capital gain, provided

the inventory was a capital asset in her hands at the time of sale.

Substituted basis property. If a distributee partner disposes of unrealized receivables or inventory items in a nonrecognition transaction, ordinary gain or loss treatment applies to a later disposition of any substituted basis property resulting from the transaction.

Foreign partner's transfer of an interest in a partnership engaged in the conduct of a U.S. trade or business. Section 864(c)(8) requires a foreign partner that transfers part or all of an interest in a partnership engaged in the conduct of a trade or business in the United States (U.S. trade or business) to include in income the effectively connected gain or loss from the transfer. A partnership distribution is considered a transfer when it results in recognition of gain or loss. See Regulations section 1.731-1(a).

In general, any foreign person, any domestic partnership that has a foreign person as a direct partner, and any domestic partnership that has actual knowledge that a foreign person indirectly holds, through one or more partnerships, an interest in the domestic partnership that transfers an interest in a partnership engaged in a U.S. trade or business must notify the partnership of the transfer in writing within 30 days after the transfer. The notification must include:

- The names and addresses of the notifying transferor and the transferee or transferees;
- The U.S. TIN of the notifying transferor and, if known, of the transferee or transferees; and
- The date of the transfer.

This notification requirement does not apply to the transfer of an interest in a publicly traded partnership if the interest is publicly traded on an established securities market or

is readily tradable on a secondary market (or the substantial equivalent thereof). It also does not apply to a notifying transferor that is treated as transferring an interest in the partnership because it received a distribution from the partnership. This notification may be combined with or provided at the same time as the statement required of a partner that sells or exchanges any part of an interest in a partnership having unrealized receivables or inventory, provided that it satisfies the requirements of both sections. For more information, see Regulations section 1.864(c)(8)-2.

To determine the amount of gain or loss described in section 864(c)(8), generally, a foreign transferor must first determine its outside gain or loss on the transfer of a partnership interest. For this purpose, outside gain or loss is determined under all relevant provisions of the Code and regulations thereunder. A foreign transferor may

recognize outside capital gain or loss and outside ordinary gain or loss on the transfer of its partnership interest and must separately apply section 864(c)(8) with respect to its capital gain or loss and its ordinary gain or loss.

The foreign transferor must compare the outside gain or loss amounts with the relevant aggregate deemed sale effectively connected gain or loss that the partnership calculates based on the foreign transferor's distributive share of gain or loss that would have been effectively connected if the partnership had sold all of its assets at FMV. This information will be provided to the notifying transferor on or before the due date (with extensions) for issuing Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc. The foreign transferor only includes in income the lower of the outside amount and the deemed sale effectively connected amount. This

determination is made separately with respect to capital gain or loss and ordinary gain or loss. For example, a foreign transferor would compare its outside ordinary gain to its aggregate deemed sale effectively connected ordinary gain, treating the former as effectively connected gain only to the extent it does not exceed the latter. For more information, see Regulations section 1.864(c)(8)-1.

Liquidation at Partner's Retirement or Death

Payments made by the partnership to a retiring partner or successor in interest of a deceased partner in return for the partner's entire interest in the partnership may have to be allocated between payments in liquidation of the partner's interest in partnership property and other payments. The partnership's payments include an assumption of the partner's share of

partnership liabilities treated as a distribution of money.

For income tax purposes, a retiring partner or successor in interest of a deceased partner is treated as a partner until their interest in the partnership has been completely liquidated.

Liquidating payments. Payments made in liquidation of the interest of a retiring or deceased partner in exchange for their interest in partnership property are considered a distribution, not a distributive share or guaranteed payment that could give rise to a deduction (or its equivalent) for the partnership.

Unrealized receivables and goodwill.

Payments made for the retiring or deceased partner's share of the partnership's unrealized receivables or goodwill are not treated as made in exchange for partnership property if both of the following tests are met.

- Capital is not a material income-producing factor for the partnership. Whether capital is a material income-producing factor is explained under *Partnership Interests Created by Gift*, earlier.
- The retiring or deceased partner was a general partner in the partnership.

However, this rule doesn't apply to payments for goodwill to the extent that the partnership agreement provides for a reasonable payment to a retiring partner for goodwill.

Unrealized receivables include, to the extent not previously includible in income under the method of accounting used by the partnership, any rights (contractual or otherwise) to payment for (1) goods delivered, or to be delivered, to the extent the proceeds therefrom would be treated as amounts received from the sale or exchange of property other than a capital asset; or (2) services rendered, or to be rendered.

Partners' valuation. Generally, the partners' valuation of a partner's interest in partnership property in an arm's-length agreement will be treated as correct. If the valuation reflects only the partner's net interest in the property (total assets less liabilities), it must be adjusted so that both the value of, and the basis for, the partner's interest include the partner's share of partnership liabilities.

Gain or loss on distribution. Upon the receipt of the distribution, the retiring partner or successor in interest of a deceased partner will recognize gain only to the extent that any money (and marketable securities treated as money) distributed is more than the partner's adjusted basis in the partnership. The partner will recognize a loss only if the distribution is in money, unrealized receivables, and inventory items. No loss is recognized if any other property is received. See *Partner's Gain or Loss* under *Partnership Distributions*, earlier.

Other payments. Payments made by the partnership to a retiring partner or successor in interest of a deceased partner that are not made in exchange for an interest in partnership property are treated as distributive shares of partnership income or guaranteed payments. This rule applies regardless of the time over which the payments are to be made. It applies to payments made for the partner's share of unrealized receivables and goodwill not treated as a distribution.

If the amount is based on partnership income, the payment is taxable as a distributive share of partnership income. The payment retains the same character when reported by the recipient that it would have had if reported by the partnership.

If the amount is not based on partnership income, it is treated as a guaranteed payment. The recipient reports guaranteed payments as ordinary income. For additional information

on guaranteed payments, see *Transactions Between Partnership and Partners*, earlier.

These payments are included in income by the recipient for their tax year that includes the end of the partnership tax year for which the payments are a distributive share or in which the partnership is entitled to deduct them as guaranteed payments.

Former partners who continue to make guaranteed periodic payments to satisfy the partnership's liability to a retired partner after the partnership is terminated can deduct the payments as a business expense in the year paid.

Section 1061 Reporting Instructions

The instructions for owner taxpayer filing requirements and pass-through entity filing and reporting requirements are in accordance with Regulations section 1.1061-6. For more information, see T.D. 9945, 2021-5, I.R.B.

627, available at *IRS.gov/irb/2021-5_IRB#TD-9945*, for specific rules and definitions.

Pass-Through Entity Reporting to API Holders

A pass-through entity is required to attach Worksheet A to the API holder's Schedule K-1 for tax returns filed after December 31, 2021, in which a pass-through entity applies the final regulations under T.D. 9945. A pass-through entity means a partnership, trust, estate, S corporation described in Regulations section 1.1061-3(b)(2)(i), or a passive foreign investment company (PFIC) described in Regulations section 1.1061-3(b)(2)(ii). The pass-through entity must provide the information in Worksheet A to each API holder, including owner taxpayer, as an attachment to the Schedule K-1 for the applicable form, noting the proper box and code. For the 2021 Form 1065, it's box 20, code AH. For the 2021 Form 1120-S, U.S. In-

come Tax Return for an S Corporation, it's box 17, code AD. For the 2021 Form 1041, U.S. Income Tax Return for Estate and Trusts, it's box 14, code Z

See Regulations section 1.1061-6(c) for the section 1061 reporting rules of a RIC and a REIT. In the case of RICs and REITs, the information will be furnished in connection with the Form 1099-DIV, Dividends and Distributions.

Regulations section 1.1061-6(d) permits a PFIC with respect to which the shareholder is an API holder who has a qualified electing fund election (as described in section 1295(a)) in effect for the tax year to provide additional information to the shareholder to determine the amount of the shareholder's inclusion that would be included in the Section 1061 Work-sheet A: API 1-Year Distributive Share Amount and API 3-Year Distributive Share Amount. If the PFIC furnishes this information to the share-holder,

the shareholder must retain a copy of this information along with the other information required to be retained under Regulations section 1.1295-1(f)(2)(ii).

A pass-through entity that is not required to and does not choose to apply the final regulations to tax returns filed after December 31, 2021, for a tax year beginning before January 19, 2021, must attach a worksheet to the API holder's Schedule K-1 that contains similar information as Worksheet A, and must disclose whether the information was determined under the proposed regulations or another method.

Calculation and reporting for the API 1-year distributive share amount and 3-year distributive share amount by a pass-through entity

- Section 1061 Worksheet A.

Owner Taxpayer Calculation of Amount Treated as Short-Term Capital Gain Under Section 1061

An owner taxpayer is the person who is subject to federal income tax on the recharacterization amount, and could be an individual, estate, or trust. An owner taxpayer uses information provided by all the pass-through entities in which it holds an API, directly or indirectly, to determine the amount that is recharacterized as short-term capital gain under sections 1061(a) and (d) for a tax year. For tax returns filed after December 31, 2021, in which an owner taxpayer applies the final regulations under T.D. 9945, Work-sheet B must be used to determine the amount of the owner taxpayer's recharacterization amount. Worksheet B, along with Table 1 and Table 2, are to be attached to the owner taxpayer's tax return.

An owner taxpayer that is not required to and does not choose to apply the final regulations

to tax returns filed after December 21, 2021, for a tax year beginning before January 19, 2021, must attach worksheets to its return that contain similar information as Worksheet B, Table 1, and Table 2; and must disclose whether the information was determined under proposed regulations or another method.

Calculation and reporting of recharacterization amount by the owner taxpayer

- Section 1061 Worksheet B.
- Section 1061 Table 1: API 1-Year Disposition Amount.
- Section 1061 Table 2: API 3-Year Disposition Amount.

The Owner Taxpayer Reporting of the Recharacterization Amount on Schedule D (Form 1040) or Schedule D (Form 1041) and on Form 8949

An owner taxpayer reports long- and short-term API gains and losses on Schedule D (Form 1040) or Schedule D (Form 1041) and on Form 8949, Sales and Other Dispositions of Capital Assets, as if section 1061 does not apply. In addition, if the owner taxpayer has a recharacterization amount as computed on line 7 of Work-sheet B, and/or any amounts resulting from the application of section 1061(d) (transfer of an API to a related person) on line 8 of Worksheet B (see Regulations section 1.1061-5(c)), the owner taxpayer will increase the reported short-term capital gain by listing as a transaction identified as "Section 1061 Adjustment" on Form 8949, Part I, line 1, column (a), and entering the amount from line 9 of Worksheet

B as proceeds (column (d) of the Form 8949) and zero as basis (column (e) of the Form 8949). The owner taxpayer will make corresponding entries on Form 8949, Part II, line 1, to reduce the reported long-term capital gain by listing as a transaction identified as "Section 1061 Adjust-ment" in column (a) of the Form 8949 and entering zero as proceeds (column (d) of the Form 8949) and the amount from line 9 of Worksheet B as basis (column (e) of the Form 8949).

The Owner Taxpayer Reporting of Collectibles Gain and Unrecaptured Section 1250 Gain

Pending further guidance, if the owner taxpayer sells an API and recognizes collectibles gain or loss or unrecaptured section 1250 gain, or if a pass-through entity reports that collectibles gain or loss or unrecaptured section 1250 gain is treated as API gain or loss, the owner taxpayer must use

a reasonable method to compute the amount of the inclusion of collectibles gain and/or unrecaptured section 1250 gain in the recharacterization amount that is calculated in Worksheet B. If the owner taxpayer has received an API 1-year distributive share amount and an API 3-year distributive share amount that includes collectibles gain or loss and/or un-recaptured section 1250 gain from a pass-through entity, the owner taxpayer should include those amounts on lines 1 and 4, respectively, of Worksheet B. If the owner taxpayer has received an API 1-year distributive share amount and an API 3-year distributive share amount that includes collectibles gain or loss and/or unrecaptured section 1250 gain from a pass-through entity, the owner taxpayer should include those amounts on lines 1 and 4, respectively, of Worksheet B.

On line 10 of Worksheet B, the owner taxpayer must report the total amount of

collectibles gains for the tax year that the owner tax-payer has with respect to any interest in a pass-through entity (pass-through interests) that it owns. It must also report the amount of collectibles gain that is recharacterized as short-term capital gain under section 1061 and the amount of collectibles gain that is not re-characterized and that is included in the 28% Rate Gain Worksheet (see line 18 of the Schedule D (Form 1040), or line 18c of the Schedule D (Form 1041)). Collectibles gain or loss that is API gain or loss and is included in the calculation of the recharacterization amount, but not recharacterized, must be included in the 28% Rate Gain Worksheet. Collectibles gain or loss with respect to a pass-through interest that is treated as capital interest gain or loss must also be included in the 28% Rate Gain Worksheet.

Similarly, on line 11 of Worksheet B, the owner taxpayer must report the total amount

of unrecaptured section 1250 gain for the tax year that the owner taxpayer has with respect to any pass-through interests that it owns. It must also report the amount of unrecaptured section 1250 gain that is recharacterized as short-term capital gain under section 1061 and the amount of unrecaptured section 1250 gain that is not re-characterized and that is included in the Unrecaptured Section 1250 Gain Worksheet (see line 19 of the Schedule D (Form 1040), or line 18b of the Schedule D (Form 1041)). Unrecaptured section 1250 gain or loss that is API gain or loss and is included in the calculation of the recharacterization amount, but not recharacterized, must be included in the Unrecaptured Section 1250 Gain Worksheet. Unrecaptured section 1250 gain or loss with respect to a pass-through interest that is treated as capital interest gain or loss must also be included in the Unrecaptured Section 1250 Gain Worksheet.

Reporting example for Worksheets A and

B. Owner Taxpayer M, an individual, holds an API in XYZ Partnership and receives a Schedule K-1 with Worksheet A attached from XYZ Partnership for the tax year 2021, that contains a long-term capital gain of \$55,000 in box 9a of the Schedule K-1. Taxpayer M did not dispose of an API in 2021. The following is a summary of Worksheet A that XYZ Partnership attached to Taxpayer M's Schedule K-1: Line 4 has an API 1-year distributive share amount of \$55,000 and line 7 has an API 3-year distributive share amount of \$20,000.

Taxpayer M reports a \$55,000 long-term capital gain from XYZ Partnership on Schedule D (Form 1040), line 12. Taxpayer M chose to follow the final regulations under T.D. 9945 in preparation of their 2021 tax return and pre-pares and attaches Worksheet B to their Form 1040. Worksheet B has a 1-year gain amount on line 3 of \$55,000, a 3-year gain

amount of \$20,000 on line 6, a recharacterization amount on line 7 of \$35,000, and a section 1061 adjustment on line 9 of \$35,000. In addition to reporting the long-term capital gain of \$55,000 on Schedule D (Form 1040), line 12, Taxpayer M reports on Form 8949, Part I, line 1, a short-term capital gain of \$35,000, and on Part II, line 1, a long-term capital loss of (\$35,000). Both Form 8949 items are described in column (a) as "Section 1061 Adjustment."

Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA)

TEFRA is the common acronym used for a set of consolidated examination, processing, and judicial procedures which determine the tax treatment of partnership items at the partnership level for partnerships and LLCs that file as partnerships. TEFRA created the unified partnership audit and litigation procedures

(TEFRA partnership procedures) of sections 6221 through 6234 (prior to the amendments by the BBA). For additional information on TEFRA partnership procedures, see the January 2016 revision of Pub. 541.



The TEFRA partnership audit procedures were repealed and do not apply to tax years beginning after 2017. The Bipartisan Budget Act of 2015 (BBA) is effective for partnership tax years beginning after 2017.

Bipartisan Budget Act of 2015 (BBA)

The BBA created a new centralized partnership audit regime effective for partnership tax years beginning after 2017. The new regime replaces the consolidated audit proceedings under TE-FRA and the electing large partnership provisions. The new audit regime applies to all partnerships unless the partnership is an eligible partnership and

elects out by making a valid election. See the Instructions for Form 1065 and *BBA Centralized Partnership Audit Regime*.

Role of Partnership Representative

Under the centralized partnership audit regime, partnerships are required to designate a partnership representative. The partnership representative will have the sole authority to act on behalf of the partnership under the centralized partnership audit regime. The designated partnership representative is a partner or other person with substantial presence in the United States. If the designated partnership representative is an entity, the partnership must also appoint a designated individual to act on behalf of the entity partnership representative. The partnership must include information regarding the partnership representative and designated individual (if applicable) on Form 1065, Schedule B. For

more information, see the Instructions for Form 1065.

Electing Out of the Centralized Partnership Audit Regime

A partnership can elect out of the centralized partnership audit regime for a tax year if the partnership is an eligible partnership that year. A partnership is an eligible partnership for a tax year if it has 100 or fewer eligible partners. A partner is an eligible partner if it is an individual, a C corporation, a foreign entity that would be treated as a C corporation if it were domestic, an S corporation, or an estate of a deceased partner. The determination as to whether the partnership has 100 or fewer partners is made by adding the number of Schedules K-1 required to be issued by the partnership to the number of Schedules K-1 required to be issued by any partner that is an S corporation to its shareholders for the tax year of the S corporation ending with or within the

partnership tax year. A partnership is not an eligible partnership if it is required to issue a Schedule K-1 to any of the following partners.

- A partnership.
- A trust.
- A foreign entity that would not be treated as a C corporation were it a domestic entity.
- A disregarded entity described in Regulations section 301.7701-2(c)(2)(i).
- An estate of an individual other than a de-ceased partner.
- Any person that holds an interest in the partnership on behalf of another person. See the Instructions for Form 1065 if electing out of the centralized partnership audit regime.

An annual election out of the centralized partnership audit regime must be made on the eligible partnership's timely filed return,

including extensions, for the tax year to which the election applies. The election is made by including the following information on Schedule B-2 (Form 1065) and filing with the tax re-turn.

- The name of each partner.
- The TIN of each partner.
- The federal tax classification for each partner.
- If an S corporation is a partner, provide the names, TINs, and federal tax classification of any shareholder of the S corporation for the tax year of the S corporation ending with or within the partnership's tax year.

This annual election once made may not be revoked without the consent of the IRS. A partnership that elects out of the centralized partnership audit regime must notify each of its partners of the election within 30 days of making the election. By making the election out of the centralized partnership audit

regime, you are affirming that all of the partners in the partnership meet the eligibility requirements under section 6221(b)(1)(C) and you have provided all of the required information with the Form 1065.

Administrative Adjustment Request

Rather than filing an amended return, a partnership that is subject to the centralized partnership audit regime must file an Administrative Adjustment Request (AAR) to change the amount or treatment of one or more partner-ship-related items. If filing electronically, file Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR), with a Form 1065, or Form 1065-X, Amended Return or Administrative Adjustment Request (AAR).

AARs filed under the centralized partnership audit regime. Partnerships subject to the centralized partnership audit regime and

filing an AAR that results in an imputed underpayment and any interest or penalties related to the imputed underpayment should report the imputed underpayment and any related interest and penalties on Form 1065 or 1065-X (as applicable). See the Instructions for Form 1065.

See the instructions for Form 8082 or 1065-X (as applicable) for the following.

- Information pertaining to certain modifications that are allowable for the partnership to include in its calculation of an AAR imputed underpayment.
- Information pertaining to the ability for the partnership to make an election under section 6227(b)(2) to have the adjustments of the AAR taken into account by the re-viewed year partners, rather than the partnership making an imputed underpayment.

Partner amended return filed as part of modification of the imputed underpayment during a BBA examination.

Section 6225(c) allows a BBA partnership under examination to request specific types of modifications of any imputed underpayment proposed by the IRS. One type of modification (under section 6225(c) (2)) that may be requested is when one or more (reviewed year) partners file amended returns for the tax years of the partners which includes the end of the reviewed year of the BBA partnership under examination and for any tax year with respect to which tax attributes are affected. See the Instructions for Form 8980.

How To Sign Documents on Behalf of the Partnership

How To Sign Documents on Behalf of the Partnership

The following are examples of how a partnership representative (PR) should sign documents on behalf of the partnership. The manner in which the PR signs depends on whether the PR is an entity or an individual. If the PR is an entity, the designated individual (DI) signs in their capacity to act on behalf of that entity PR.

Designated Partnership Representative (PR)	Signature as Partnership Representative (PR)	Example
Individual	Individual's signature	John Smith, PR
Entity	Designated individual's (DI) signature	Entity Name, PR, by John Smith, DI

How To Get Tax Help

If you have questions about a tax issue; need help preparing your tax return; or want to down-load free publications, forms, or instructions, go to *IRS.gov* to find resources that can help you right away.

Preparing and filing your tax return. After receiving all your wage and earnings statements (Forms W-2, W-2G, 1099-R, 1099-MISC, 1099-NEC, etc.); unemployment compensation statements (by mail or in a digital format) or other government payment statements (Form 1099-G); and interest, dividend, and retirement statements from banks and investment firms (Forms 1099), you have several options to choose from to prepare and file your tax return. You can prepare the tax return yourself, see if you qualify for free tax preparation, or hire a tax professional to prepare your return.



For 2021, if you received an Economic Impact Payment (EIP), refer to your Notice 1444-C, Your 2021 Economic Impact Payment. If you received Advance Child Tax Credit payments, refer to your Letter 6419.

Free options for tax preparation. Go to *IRS.gov* to see your options for preparing and filing your return online or in your local community, if you qualify, which include the following.

- **Free File.** This program lets you prepare and file your federal individual income tax return for free using brand-name tax-preparation-and-filing software or Free File fillable forms. However, state tax preparation may not be available through Free File. Go to *IRS.gov/FreeFile* to see if you qualify for free online federal tax preparation, e-filing, and direct deposit or payment options.

- **VITA.** The Volunteer Income Tax Assistance (VITA) program offers free tax help to people with low-to-moderate incomes, persons with disabilities, and limited-English-speaking taxpayers who need help preparing their own tax returns. Go to *IRS.gov/VITA*, download the free IRS2Go app, or call 800-906-9887 for information on free tax return preparation.
- **TCE.** The Tax Counseling for the Elderly (TCE) program offers free tax help for all taxpayers, particularly those who are 60 years of age and older. TCE volunteers specialize in answering questions about pensions and retirement-related issues unique to seniors. Go to *IRS.gov/TCE*, download the free IRS2Go app, or call 888-227-7669 for information on free tax return preparation.
- **MilTax.** Members of the U.S. Armed Forces and qualified veterans may use MilTax, a free tax service offered

by the Department of Defense through Military OneSource. For more information, go to *MilitaryOneSource* (*MilitaryOneSource.mil/ MilTax*).

Also, the IRS offers Free Fillable Forms, which can be completed online and then filed electronically regardless of in-come.

Using online tools to help prepare your re-turn. Go to *IRS.gov/Tools* for the following.

- The *Earned Income Tax Credit Assistant* (*IRS.gov/EITCAssistant*) determines if you're eligible for the earned income credit (EIC).
- The *Online EIN Application* (*IRS.gov/EIN*) helps you get an employer identification number (EIN) at no cost.
- The *Tax Withholding Estimator* (*IRS.gov/ W4app*) makes it easier for everyone to pay the correct amount of tax during the year. The

tool is a convenient, online way to check and tailor your withholding. It's more user-friendly for taxpayers, including retirees and self-employed individuals. The features include the following.

- Easy to understand language.
 - The ability to switch between screens, correct previous entries, and skip screens that don't apply.
 - Tips and links to help you determine if you qualify for tax credits and deductions.
 - A progress tracker.
 - A self-employment tax feature.
 - Automatic calculation of taxable social security benefits.
- The *First-Time Homebuyer Credit Account Look-up* (*IRS.gov/HomeBuyer*) tool provides

information on your repayments and account balance.

- The *Sales Tax Deduction Calculator* ([IRS.gov/SalesTax](https://www.irs.gov/SalesTax)) figures the amount you can claim if you itemize deductions on Schedule A (Form 1040).



Getting answers to your tax

questions. On [IRS.gov](https://www.irs.gov), you can get up-to-date information on current events and changes in tax law.

- *IRS.gov/Help*: A variety of tools to help you get answers to some of the most common tax questions.
- *IRS.gov/ITA*: The Interactive Tax Assistant, a tool that will ask you questions and, based on your input, provide answers on a number of tax law topics.
- *IRS.gov/Forms*: Find forms, instructions, and publications. You will find details on 2021 tax changes and hundreds of interactive links to

help you find answers to your questions.

- You may also be able to access tax law information in your electronic filing software.

Need someone to prepare your tax

return? There are various types of tax return preparers, including tax preparers, enrolled agents, certified public accountants (CPAs), attorneys, and many others who don't have professional credentials. If you choose to have someone prepare your tax return, choose that preparer wisely. A paid tax preparer is:

- Primarily responsible for the overall substantive accuracy of your return,
- Required to sign the return, and
- Required to include their preparer tax identification number (PTIN).

Although the tax preparer always signs the return, you're ultimately responsible for providing all the information required for the

preparer to accurately prepare your return. Anyone paid to prepare tax returns for others should have a thorough understanding of tax matters. For more information on how to choose a tax preparer, go to *Tips for Choosing a Tax Preparer* on IRS.gov.

Advance child tax credit payments. From July through December 2021, advance payments were sent automatically to taxpayers with qualifying children who met certain criteria. The advance child tax credit payments were early payments of up to 50% of the estimated child tax credit that taxpayers may properly claim on their 2021 returns. Go to *IRS.gov/AdvCTC* for more information about these payments and how they can affect your taxes.

Coronavirus. Go to *IRS.gov/Coronavirus* for links to information on the impact of the coronavirus, as well as tax relief available for individuals and families, small and large businesses, and tax-exempt organizations.

Employers can register to use Business Services Online. The Social Security Administration (SSA) offers online service at *SSA.gov/ employer* for fast, free, and secure online W-2 filing options to CPAs, accountants, enrolled agents, and individuals who process Form W-2, Wage and Tax Statement, and Form W-2c, Corrected Wage and Tax Statement.

IRS social media. Go to *IRS.gov/SocialMedia* to see the various social media tools the IRS uses to share the latest information on tax changes, scam alerts, initiatives, products, and services. At the IRS, privacy and security are our highest priority. We use these tools to share public information with you. **Don't** post your social security number (SSN) or other confidential information on social media sites. Always protect your identity when using any social networking site.

The following IRS YouTube channels provide short, informative videos on various tax-related topics in English, Spanish, and ASL.

- [Youtube.com/irsvideos](https://www.youtube.com/irsvideos).
- [Youtube.com/irsvideosmultilingua](https://www.youtube.com/irsvideosmultilingua).
- [Youtube.com/irsvideosASL](https://www.youtube.com/irsvideosASL).

Watching IRS videos. The IRS Video portal (*IRSVideos.gov*) contains video and audio presentations for individuals, small businesses, and tax professionals.

Online tax information in other languages. You can find information on *IRS.gov/ MyLanguage* if English isn't your native language.

Free Over-the-Phone Interpreter (OPI) Service. The IRS is committed to serving our multi-lingual customers by offering OPI services. The OPI Service is a federally funded program and is available at Taxpayer Assistance Centers (TACs), other IRS offices, and every VITA/TCE return site. The OPI

Service is accessible in more than 350 languages.

Accessibility Helpline available for taxpayers with disabilities. Taxpayers who need information about accessibility services can call 833-690-0598. The Accessibility Helpline can answer questions related to current and future accessibility products and services available in alternative media formats (for example, braille, large print, audio, etc.).

Getting tax forms and publications. Go to *IRS.gov/Forms* to view, download, or print all of the forms, instructions, and publications you may need. Or, you can go to *IRS.gov/OrderForms* to place an order.

Getting tax publications and instructions in eBook format. You can also download and view popular tax publications and instructions (including the Instructions for Form 1040) on mobile devices as eBooks at *IRS.gov/eBooks*.

Note. IRS eBooks have been tested using Apple's iBooks for iPad. Our eBooks haven't been tested on other dedicated eBook readers, and eBook functionality may not operate as in-tended.

Access your online account (individual taxpayers only). Go to *IRS.gov/Account* to securely access information about your federal tax account.

- View the amount you owe and a break-down by tax year.
- See payment plan details or apply for a new payment plan.
- Make a payment or view 5 years of payment history and any pending or scheduled payments.
- Access your tax records, including key data from your most recent tax return, your EIP amounts, and transcripts.
- View digital copies of select notices from the IRS.

- Approve or reject authorization requests from tax professionals.
- View your address on file or manage your communication preferences.

Tax Pro Account. This tool lets your tax professional submit an authorization request to access your individual taxpayer *IRS online account*. For more information, go to *IRS.gov/TaxProAccount*.

Using direct deposit. The fastest way to receive a tax refund is to file electronically and choose direct deposit, which securely and electronically transfers your refund directly into your financial account. Direct deposit also avoids the possibility that your check could be lost, stolen, or returned undeliverable to the IRS. Eight in 10 taxpayers use direct deposit to receive their re-funds. If you don't have a bank account, go to *IRS.gov/DirectDeposit* for more information on where to find a bank or credit union that can open an account online.

Getting a transcript of your return. The quickest way to get a copy of your tax transcript is to go to *IRS.gov/Transcripts*. Click on either “Get Transcript Online” or “Get Transcript by Mail” to order a free copy of your transcript. If you prefer, you can order your transcript by calling 800-908-9946.

Reporting and resolving your tax-related identity theft issues.

- Tax-related identity theft happens when someone steals your personal information to commit tax fraud. Your taxes can be affected if your SSN is used to file a fraudulent return or to claim a refund or credit.
- The IRS doesn’t initiate contact with taxpayers by email, text messages, telephone calls, or social media channels to request personal or financial information. This includes requests for personal identification numbers (PINs), passwords, or

similar in-formation for credit cards, banks, or other financial accounts.

- Go to *IRS.gov/IdentityTheft*, the IRS Identity Theft Central webpage, for information on identity theft and data security protection for taxpayers, tax professionals, and businesses. If your SSN has been lost or stolen or you suspect you're a victim of tax-related identity theft, you can learn what steps you should take.
- Get an Identity Protection PIN (IP PIN). IP PINs are six-digit numbers assigned to tax-payers to help prevent the misuse of their SSNs on fraudulent federal income tax returns. When you have an IP PIN, it prevents someone else from filing a tax return with your SSN. To learn more, go to *IRS.gov/IPPIN*.

Ways to check on the status of your refund.

- Go to [IRS.gov/Refunds](https://www.irs.gov/Refunds).
- Download the official IRS2Go app to your mobile device to check your refund status.
- Call the automated refund hotline at 800-829-1954.

Note. The IRS can't issue refunds before mid-February 2022 for returns that claimed the EIC or the additional child tax credit (ACTC). This applies to the entire refund, not just the portion associated with these credits.

Making a tax payment. Go to [IRS.gov/Payments](https://www.irs.gov/Payments) for information on how to make a payment using any of the following options.

- *IRS Direct Pay:* Pay your individual tax bill or estimated tax payment directly from your checking or savings account at no cost to you.

- *Debit or Credit Card*: Choose an approved payment processor to pay online or by phone.
- *Electronic Funds Withdrawal*: Schedule a payment when filing your federal taxes using tax return preparation software or through a tax professional.
- *Electronic Federal Tax Payment System*: Best option for businesses. Enrollment is required.
- *Check or Money Order*: Mail your payment to the address listed on the notice or instructions.
- *Cash*: You may be able to pay your taxes with cash at a participating retail store.
- *Same-Day Wire*: You may be able to do same-day wire from your financial institution. Contact your financial institution for availability, cost, and time frames.

Note. The IRS uses the latest encryption technology to ensure that the electronic payments you make online, by phone, or from a mobile device using the IRS2Go app are safe and secure. Paying electronically is quick, easy, and faster than mailing in a check or money order.

What if I can't pay now? Go to *IRS.gov/Payments* for more information about your options.

- Apply for an *online payment agreement (IRS.gov/OPA)* to meet your tax obligation in monthly installments if you can't pay your taxes in full today. Once you complete the online process, you will receive immediate notification of whether your agreement has been approved.
- Use the *Offer in Compromise Pre-Qualifier* to see if you can settle your tax debt for less than the full amount you owe. For more information on

the Offer in Compromise program,
go to *IRS.gov/OIC*.

Filing an amended return. You can now file Form 1040-X electronically with tax filing software to amend 2019 or 2020 Forms 1040 and 1040-SR. To do so, you must have e-filed your original 2019 or 2020 return. Amended returns for all prior years must be mailed. Go to *IRS.gov/Form1040X* for information and up-dates.

Checking the status of your amended return. Go to *IRS.gov/WMAR* to track the status of Form 1040-X amended returns.

Note. It can take up to 3 weeks from the date you filed your amended return for it to show up in our system, and processing it can take up to 16 weeks.

Understanding an IRS notice or letter you've received. Go to *IRS.gov/Notices* to find additional information about responding to an IRS notice or letter.

You can use Schedule LEP, Request for Change in Language Preference, to state a preference to receive notices, letters, or other written communications from the IRS in an alternative language, when these are available. Once your Schedule LEP is processed, the IRS will determine your translation needs and provide you translations when available. If you have a disability requiring notices in an accessible format, see Form 9000.

Contacting your local IRS office. Keep in mind, many questions can be answered on IRS.gov without visiting an IRS TAC. Go to *IRS.gov/LetUsHelp* for the topics people ask about most. If you still need help, IRS TACs provide tax help when a tax issue can't be handled online or by phone. All TACs now provide service by appointment, so you'll know in advance that you can get the service you need without long wait times. Before you visit, go to *IRS.gov/TACLocator* to find the

nearest TAC and to check hours, available services, and appointment options. Or, on the IRS2Go app, under the Stay Connected tab, choose the Contact Us option and click on “Local Offices.”

The Taxpayer Advocate Service (TAS) Is Here To Help You

What Is TAS?

TAS is an ***independent*** organization within the IRS that helps taxpayers and protects taxpayer rights. Their job is to ensure that every taxpayer is treated fairly and that you know and understand your rights under the *Taxpayer Bill of Rights*.

How Can You Learn About Your Taxpayer Rights?

The Taxpayer Bill of Rights describes 10 basic rights that all taxpayers have when dealing with

the IRS. Go to *TaxpayerAdvocate.IRS.gov* to help you understand what these rights mean to you and how they apply. These are ***your*** rights. Know them. Use them.

What Can TAS Do for You?

TAS can help you resolve problems that you can't resolve with the IRS. And their service is free. If you qualify for their assistance, you will be assigned to one advocate who will work with you throughout the process and will do every-thing possible to resolve your issue. TAS can help you if:

- Your problem is causing financial difficulty for you, your family, or your business;
- You face (or your business is facing) an immediate threat of adverse action; or
- You've tried repeatedly to contact the IRS but no one has responded, or the IRS hasn't responded by the date promised.

How Can You Reach TAS?

TAS has offices *in every state, the District of Columbia, and Puerto Rico*. Your local advocate's number is in your local directory and at *TaxpayerAdvocate.IRS.gov/Contact-Us*. You can also call them at 877-777-4778.

How Else Does TAS Help Taxpayers?

TAS works to resolve large-scale problems that affect many taxpayers. If you know of one of these broad issues, report it to them at *IRS.gov/SAMS*.

TAS for Tax Professionals

TAS can provide a variety of information for tax professionals, including tax law updates and guidance, TAS programs, and ways to let TAS know about systemic problems you've seen in your practice.

Low Income Taxpayer Clinics (LITCs)

LITCs are independent from the IRS. LITCs represent individuals whose income is below a

certain level and need to resolve tax problems with the IRS, such as audits, appeals, and tax collection disputes. In addition, LITCs can provide information about taxpayer rights and responsibilities in different languages for individuals who speak English as a second language. Services are offered for free or a small fee for eligible taxpayers. To find an LTC near you, go to *TaxpayerAdvocate.IRS.gov/about-us/Low-Income-Taxpayer-Clinics-LITC* or see IRS Pub. 4134, *Low Income Taxpayer Clinic List*.

Section 1061 Worksheets and Tables

This page is intentionally left blank

Section 1061 Worksheet A: API 1-Year Distributive Share Amount and API 3-Year Distributive Share Amount (Completed by a pass-through entity that has issued an API and attached to the Schedule K-1.)		
Pass-Through Entity Name _____		EIN _____
API Holder _____		SSN or TIN _____
Line	Description	API Gains and (Losses)*
1	Net long-term capital gain (loss) from Schedule K-1 (Form 1065), box 9a; Schedule K-1 (Form 1120-S), box 8a; or Schedule K-1 (Form 1041), box 4a ^(a)	\$
2	Capital gains or (losses) included in line 1 that are not subject to section 1061 under Regulations section 1.1061-4(b)(7)	\$
3	Capital interest gains or (losses) under Regulations section 1.1061-3(c)(2) included in line 1 ^(b)	\$
4	API 1-Year Distributive Share Amount Subtract the sum of lines 2 and 3 from line 1.	\$
5	Amounts included in line 4 that would not be treated as long-term gain or (loss) if 3 years is substituted for 1 year under paragraphs (3) and (4) of section 1222	\$
6	Any Lookthrough Rule adjustment applicable to the disposition of an API by the pass-through entity under Regulations section 1.1061-4(b)(9) ^(c)	\$
7	API 3-Year Distributive Share Amount Gain or (Loss) Subtract the sum of lines 5 and 6 from line 4.	\$
<p>* Gains are entered as positive and losses are entered as negative.</p> <p>^(a) Calculation for collectibles gains or unrecaptured section 1250 gains. If a partnership, S corporation, estate, or trust has collectibles gain or loss or unrecaptured section 1250 gain that is treated as API gain or loss, the pass-through entity must provide the API holder with information to determine whether collectibles gain or unrecaptured section 1250 gain is recharacterized under section 1061. The pass-through entity must provide the API holder with information that enables the API holder to separately determine its API 1-Year Distributive Share Amount and its API 3-Year Distributive Share Amount for its collectibles gain or loss and/or its unrecaptured section 1250 gain. This information should be attached to Worksheet A.</p> <p>^(b) Capital interest gains and losses. See Regulations section 1.1061-3(c)(2) for computation of capital interest gains and losses.</p> <p>^(c) Lookthrough Rule information. See Regulations section 1.1061-4(b)(9) for computation of Lookthrough Rule amount adjustment.</p>		

Section 1061 Worksheet B: Owner Taxpayer Reporting of Recharacterization Amount (The owner taxpayer must complete and attach to their return.)		
Taxpayer Name _____		SSN or TIN _____
Line	Description	Gains and (Losses)*
1	API 1-Year Distributive Share Amount from Worksheet A, line 4, which is attached to Schedule K-1. Combined net amount from all APIs and increased by the API 1-Year Distributive Share Amount of collectibles gain or loss and/or unrecaptured section 1250 gain, if applicable.	\$
2	API 1-Year Disposition Amount from Table 1, line 4. Combined net amount from all APIs.	\$
3	1-Year Gain Amount Add lines 1 and 2. If the sum of line 1 plus line 2 is zero or less, enter zero on line 3 and skip to line 8.	\$
4	API 3-Year Distributive Share Amount from Worksheet A, line 7, which is attached to the Schedule K-1. Combined net amount from all APIs, increased by the amount of API 3-Year Distributive Share Amount of collectibles gain or loss and/or recaptured section 1250 gain, if applicable.	\$
5	API 3-Year Disposition Amount from Table 2, line 4. Combined net amount for all APIs.	\$
6	3-Year Gain Amount Add lines 4 and 5. If the sum of line 4 plus line 5 is zero or less, enter zero.	\$
7	Recharacterization Amount (treat as short-term capital gain) Subtract line 6 from line 3. If zero or less, enter zero.	\$
8	Section 1061(d) Recharacterization Amount (as determined in Regulations section 1.1061-5(c)).	\$
9	Section 1061 Adjustment to Form 8949 Add lines 7 and 8. (This amount is an adjustment to increase short-term capital gain and decrease long-term capital gain amounts on Form 8949, Parts I and II. See The Owner Taxpayer Reporting of the Recharacterization Amount on Schedule D for instructions on how to report adjustments on tax return.)	\$
10**	(a) Total collectibles gain with respect to any interest in a pass-through entity (per Schedule K-1 (Form 1065), box 9b; Schedule K-1 (Form 1120-S), box 8b; Schedule K-1 (Form 1041), box 4b)	\$
	(b) Amount of collectibles gain included in the recharacterization amount	\$
	(c) Amount of collectibles gain entered in the 28% Rate Gain Worksheet (see line 18 of the Schedule D (Form 1040), or line 28c of the Schedule D (Form 1041))	\$
11***	(a) Total unrecaptured section 1250 gain with respect to any interest in a pass-through entity (per Schedule K-1 (Form 1065), box 9c; Schedule K-1 (Form 1120-S), box 8c; Schedule K-1 (Form 1041), box 4c)	\$
	(b) Amount of unrecaptured section 1250 gain included in the recharacterization amount	\$
	(c) Amount of unrecaptured section 1250 gain entered in the Unrecaptured Section 1250 Gain Worksheet (see line 19 of the Schedule D (Form 1040), or line 18b of the Schedule D (Form 1041))	\$
<div>* Gains are entered as positive and losses are entered as negative.</div> <div>** The sum of the amount entered on line 10(b) plus the amount entered on line 10(c) must equal the amount entered on line 10(a) (see The Owner Taxpayer Reporting of Collectibles Gain and Unrecaptured Section 1250 for instructions on how to report adjustments on tax return).</div> <div>*** The sum of the amount entered on line 11(b) plus the amount entered on line 11(c) must equal the amount entered on line 11(a) (see The Owner Taxpayer Reporting of Collectibles Gain and Unrecaptured Section 1250 for instructions on how to report adjustments on tax return).</div>		

Section 1061 Table 1: API 1-Year Disposition Amount

(Separately computed for each API. Required to be attached to the owner taxpayer's tax return.)

Name of Owner Taxpayer _____

SSN/TIN _____

Name of Pass-Through Entity _____

Pass-Through EIN _____

Line	Description	Gains and (Losses)*
1	Long-term capital gains and losses recognized on the disposition by the owner taxpayer, including long-term capital gain computed under the installment method that is taken into account during the tax year of all or a portion of any API held for more than 1 year including a disposition to which the Lookthrough Rule in Regulations section 1.1061-4(b)(9) applies.	\$
2	Long-term capital gain and loss recognized by the owner taxpayer on a disposition with respect to an API during the tax year that is treated under section 731(a) as gain or loss from the sale or exchange of a partnership interest held for more than 1 year.	\$
3	Long-term capital gains and losses recognized by the owner taxpayer on the disposition of distributed API property (taking into account deemed exchanges under section 751(b)) during the tax year that has a holding period of more than 1 year but not more than 3 years to the distributee owner taxpayer on the date of disposition, excluding items described in Regulations section 1.1061-4(b)(7).	\$
4	API 1-Year Distributive Share Amount Combine lines 1 through 3. Enter amount on line 2 of Worksheet B.	\$

* Gains are entered as positive and losses are entered as negative.

Section 1061 Table 2: API 3-Year Disposition Amount (Separately computed for each API. Required to be attached to the owner taxpayer's tax return.)		
Name of Owner Taxpayer _____		SSN/TIN _____
Name of Pass-Through Entity _____		Pass-Through EIN _____
Line	Description	Gains and (Losses)*
1	Long-term capital gains and losses recognized on the disposition by the owner taxpayer, including long-term capital gain computed under the installment method that is taken into account for the tax year of all or a portion of any API held for more than 3 years and to which the Lookthrough Rule in Regulations section 1.1061-4(b)(9) does not apply.	\$
2	Long-term capital gains and losses recognized by an owner taxpayer on the disposition during the tax year of all or a portion of an API that has been held for more than 3 years in a transaction to which the Lookthrough Rule in Regulations section 1.1061-4(b)(9) applies, less any adjustments required under the Lookthrough Rule in Regulations section 1.1061-4(b)(9)(ii).	\$
3	Long-term capital gains and losses recognized on a distribution with respect to an API during the tax year that is treated under section 731(a) as gain or loss from the sale or exchange of a partnership interest held for more than 3 years.	\$
4	API 3-Year Distributive Share Amount Combine lines 1 through 3. Enter amount on line 5 of Worksheet B.	\$
* Gains are entered as positive and losses are entered as negative.		

Index



To help us develop a more useful index, please let us know if you have ideas for index entries. See “Comments and Suggestions” in the “Introduction” for the ways you can reach us.

A

Allocations:

Built-in gain or loss 9

Installment sale 11

Assistance (See Tax help)

B

Bipartisan Budget Act of 2015 (BBA) 15

Built-in gain or loss 9

C

Capital interest 9

Contribution:

Basis of property 9

Built-in gain or loss 9

Distribution of property 9

Net precontribution gain 5

Property 8

Services 9

D

Definition, partnership 2

Determining ownership 8

Distributions:

Gain or loss 5

Partner's debt 5

Partnership 5

Distributive share:

Adjusted basis 10

Guaranteed payments 7

E

Electronic filing 4

F

Form:

8275 8

8308 12

8832 2

8865 9

G

Guaranteed payments 7

H

How to sign documents on behalf of the partnership 15

I

Insurance, self-employed health 7

Inventory items, substantially appreciated 5

L

Liability:

Assumption of 10

Partner's assumed by partnership 10

Partnership's 10

Limited liability company 2

Liquidation:

Constructive 11

Partner's interest 6

Partner's retirement or death 13

Losses:

Sales or exchanges 8

M

Marketable securities 5

P

Partner's:

Basis:

Distributed property 6

Partnership interest 9

Interest:

Alternative rule, adjusted basis 10

Basis 9

Basis adjustments 10

Book value 10

Gift 3, 10

Liquidation of 6, 13

Mandatory basis adjustment 7

Performance of services 3

Sale, exchange, transfer 11

Special basis adjustment 6

Transactions with partnership 7

Partnership:

Abandoned or worthless interest 11

Agreement 4

Basis, contributed property 9

Defined 2

Exclusion from rules 4

Forming 2

Liabilities 10

Terminating 4

Transactions with partner 7

Precontribution gain 5

Profits interest 9

Publications (See Tax help)

S

Section 1061 3, 13

Section 1061 Worksheets and Tables 18

Self-employed health insurance 7

Short period return 4

Substantially appreciated inventory items 5

T

Tax help 15

Tax withholding, foreign partner of firm 2

TEFRA 15

Terminating a partnership 4

U

Unrealized receivables 12