INTERNAL REVENUE SERVICE

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IRS Offers Tips for Accurate Schedule K-1 Reporting

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WASHINGTON — The Internal Revenue Service today provided tips to businesses, individuals and tax professionals to avoid errors involving Schedules K-1.

Income, deductions and credits from partnerships, S corporations, estates and trusts are reported to investors on Schedules K-1. Correct information on the forms by issuers and reporting of the income by recipients is important because the IRS matches the data to other tax returns to ensure accurate reporting.

A recent study found that many unnecessary notices issued to taxpayers could have been avoided if Schedule K-1 entity information was accurate when the forms were filed and if offsets against income reported on Schedule K-1 were reported correctly.

Businesses, individuals and return preparers can avoid unnecessary questions and correspondence by following these instructions:

- For flow-through entities issuing Schedules K-1 — Ensure entity information on Schedules K-1 properly identifies the taxpayer (or other entity) responsible for reporting the Schedule K-1 income.

- For recipients of Schedules K-1 — Avoid netting or combining income against losses or expenses not reported on Form 8582, Passive Activity Loss Limitations. Refer to the instructions for Form 8582 on how to properly report passive activity losses. Ordinary business income should be reported separately from related deductions, such as unreimbursed partnership expenses or the Section 179 expense deduction. Refer to the Schedule E instructions for information on properly accounting for deductions related to Schedule K-1 income.

  For example, unreimbursed partnership expenses from nonpassive activities should be entered on a separate line in column (h) of Schedule E's line 28 and labeled "UPE" in column (a) of the same line. Do not combine these expenses or net them against any other amounts from the partnership.

To reduce errors, the IRS also encourages electronic filing of Schedules K-1 and other tax forms.