2022
Instructions for Form 1065
U.S. Return of Partnership Income

Volume 5 of 6

Department of the Treasury
Internal Revenue Service

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Deductions—royalty income (code I). Enter deductions related to royalty income.

Schedule K-1. Report each partner's distributive share of deductions related to royalty income.

Excess business interest expense (code K). If the partnership is required to file Form 8990, it may determine it has excess business interest expense. If so, enter the amount from Form 8990, Part II, line 32, for excess business interest expense.

Schedule K-1. Provide the information the partners need to figure excess business interest expense. In box 13, report the partner's distributive share of excess business interest expense. If the partnership reports excess business interest expense, the partner is required to file Form 8990. The partner will enter the amount on Form 8990, Schedule A, line 43(c). See the Instructions for Form 8990 for additional information.

Deductions—portfolio income (other) (code L). Enter any other deductions related to portfolio income.

No deduction is allowed under section 212 for expenses allocable to a convention, seminar, or similar meeting. Because these expenses aren't deductible by partners, the partnership doesn't report these expenses on line 13d of Schedule K. The expenses are nondeductible and are reported as such on line 18c of Schedule K and in box 18 of Schedule K-1 using code C.

Schedule K-1. In box 13, report the partner's distributive share of deductions related to portfolio income that are reported on line 13d of Schedule K using code I (for deductions related to royalty income) or L (for other deductions related to portfolio income).

Amounts paid for medical insurance (code M). Enter amounts paid during the tax year for insurance that constitutes medical care for the partner (including the partner's spouse, dependents, and children under age 27 who aren't dependents).

Educational assistance benefits (code N). Enter amounts paid during the tax year for educational assistance benefits paid to a partner.

Dependent care benefits (code O). Enter amounts paid during the tax year for dependent care benefits paid on behalf of each partner.

Preproductive period expenses (code P). If the partnership is required to use an accrual method of accounting under section 447 or is prohibited from using the cash method under 448(a)(3), it must capitalize these expenses. If the partnership is permitted to use the cash method, enter the amount of preproductive period expenses that qualify under section 263A(d). An election not to capitalize these expenses must be made at the partner level. See *Uniform Capitalization Rules* in Pub. 225.

Reserved for future use (code Q).

Pensions and IRAs (code R). Enter the payments for a partner to an IRA, a qualified plan, or a SEP or SIMPLE IRA plan. If a qualified plan is a defined benefit plan, a partner's distributive share of payments is determined in the same manner as the partner's distributive share of partnership taxable income. For a defined benefit plan, attach to the Schedule K-1 for each partner a statement showing the amount of benefit accrued for the tax year.

Reforestation expense deduction (code S). The partnership can elect to deduct a limited amount of its reforestation expenditures paid or incurred during the tax year. The amount the partnership can elect to deduct is limited to $10,000 for each qualified timber property. See section 194(c) for a definition of reforestation expenditures and qualified timber property. The partnership must amortize over 84 months any amount not deducted. See the instructions for line 20, earlier. See Notice 2006-47, 2006-20 I.R.B. 892, for details on making the election.

Schedule K-1. Enter the partner's distributive share of the allowable reforestation expenses in box 13 of Schedule K-1 using code S and attach a statement that provides a description of the qualified timber property. If the partnership is electing to deduct amounts from more than one qualified timber property, provide a description and the amount for each property.

Codes T through U. These codes are reserved for future use.

Section 743(b) negative income adjustments (code V). For partnerships other than PTPs, report the partner’s share of net negative income resulting from all section 743(b) adjustments. For purposes of code V, net negative income from all section 743(b) adjustments means the excess of all section 743(b) adjustments allocated to the partner that decrease partner taxable income over all section 743(b) adjustments that increase partner taxable income. Attach a statement on line 20, code U, showing each section 743(b) basis adjustment making up the total and identify the assets to which it relates. The partnership may group these 743(b) basis adjustments by asset category or description in cases where multiple assets are affected. See the instructions for line 20, code U.

Other deductions (code W). Include any other deductions, such as the following.

- Amounts paid by the partnership that would be allowed as itemized deductions on any of the partners' income tax returns if they were paid directly by a partner for the same purpose. These amounts include, but aren't limited to, expenses under section 212 for the production of income other than from the partnership's trade or business.

However, do not enter expenses related to portfolio income or investment interest expense reported on line 13b of Schedule K on this line.

- Any penalty on early withdrawal of savings not reported on line 13b because the partnership withdrew its time savings deposit before its maturity.
- Soil and water conservation expenditures, and endangered species recovery expenditures (section 175).
- Expenditures paid or incurred for the removal of architectural and transportation barriers to the elderly and disabled that the partnership has elected to treat as a current expense. See section 190.
- Film, television, and theatrical production expenses. The partnership can elect to deduct certain costs of a

qualified film, television, or live theatrical production commencing before January 1, 2026 (after December 31, 2015, and before January 1, 2026, for a live theatrical production), limited to $15 million of the aggregate production cost of the production. There is a higher dollar limitation for productions in certain areas. Provide a description of the film, television, or theatrical production on an attached statement. If the partnership makes the election for more than one film, television, or theatrical production, attach a statement to Schedule K-1 that shows each partner's distributive share of the qualified expenditures separately for each production. The deduction is subject to recapture under section 1245 if the election is voluntarily revoked or the production fails to meet the requirements for the deduction.

See section 181 and the related regulations for details.

- Interest expense allocated to debt-financed distributions. See Notice 89-35, 1989-1 C.B. 675, or Pub. 535 for more information.
- Interest paid or accrued on debt properly allocable to each general partner's share of a working interest in any oil or gas property (if the partner's liability isn't limited). General partners that didn't materially participate in the oil or gas activity treat this interest as investment interest; for other general partners, it is trade or business interest.
- Contributions to a capital construction fund. See Pub. 595.
- Deductions—portfolio (formerly deductible by individuals under section 67 subject to the 2% AGI floor). For

partners other than individuals, amounts that are clearly and directly allocable to portfolio income (other than investment interest expense and section 212 expenses from a REMIC) can be deducted on those partners' income tax returns.

Schedule K-1. Enter each partner's distributive share of the deduction categories listed earlier in box 13 of Schedule K-1 or provide the information required on an attached statement for the deduction. Enter the applicable code I, K, L, M, N, O, P, R, S, V, or W (as shown earlier).

If you are reporting only one type of deduction under code W, enter code W with an asterisk (W*) and the dollar amount in the entry space in box 13 and attach a statement that shows the box number, code, and type of deduction. If you are reporting multiple types of deductions under code W, enter the code with an asterisk (W*), enter "STMT" in the dollar amount entry space in box 13, and attach a statement that shows the box number, code, and dollar amount of each type of deduction.

If the partnership has more than one trade or business activity, identify on an attached statement to Schedule K-1 the amount for each separate activity. See *Passive Activity Reporting Requirements*, earlier.

Reserved for future use (code X).

Self-Employment

TIP *If the partnership is an options dealer or a commodities dealer, see section 1402(i) before completing lines 14a, 14b, and 14c, to determine the amount of any adjustment that may have to be made to the amounts shown on the Worksheet for Figuring Net Earnings (Loss) From Self-Employment. If the partnership is engaged solely in the operation of a group investment program, earnings from the operation* *generally aren't self-employment earnings for either general or limited partners.*

General partners. General partners' net earnings (loss) from self-employment do not include the following.

- Dividends on any shares of stock and interest on any bonds, debentures, notes, etc., unless the dividends or interest are received in the course of a trade or business, such as a dealer in stocks or securities or interest on notes or accounts receivable.
- Rentals from real estate, except rentals of real estate held for sale to customers in the course of a trade or business as a real estate
- dealer or payments for rooms or space when significant services are provided.
- Royalty income, except royalty income received in the course of a trade or business.

Worksheet for Figuring Net Earnings (Loss) From Self-Employment

1a	Ordinary business income (loss) (Schedule K, line 1)	1a			
b	Net income (loss) from certain rental real estate activities (see instructions)	1b			
c	Other net rental income (loss) (Schedule K, line 3c)	1c			
d	Net loss from Form 4797, Part II, line 17, included on line 1a, above. Enter as a positive amount	1d			
e	Combine lines 1a through 1d	1e			
2	Net gain from Form 4797, Part II, line 17, included on line 1a, above	2			
3a	Subtract line 2 from line 1e. If line 1e is a loss, increase the loss on line 1e by the amount on line 2	3a			
b	Part of line 3a allocated to *Limited partners*, estates, trusts, corporations, exempt organizations, and IRAs	3b			
c	Subtract line 3b from line 3a. If line 3a is a loss, reduce the loss on line 3a by the amount on line 3b. Include each general partner's share of line 3c in box 14 of Schedule K-1 using code A			3c	
4a	Guaranteed payments to partners (Schedule K, line 4c) derived from a trade or business as defined in section 1402(c) (see instructions)	4a			
b	Part of line 4a allocated to limited partners for other than services and to estates, trusts, corporations, exempt organizations, and IRAs	4b			
c	Subtract line 4b from line 4a. Include each general partner's share and each limited partner's share of line 4c in box 14 of Schedule K-1 using code A			4c	
5	Net earnings (loss) from self-employment. Combine lines 3c and 4c. Enter here and on Schedule K, line 14a			5	

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See the Instructions for Schedule SE (Form 1040) for more information.

Limited partners. Generally, a limited partner's share of partnership income (loss) isn't included in net earnings (loss) from self-employment. Limited partners treat as self-employment earnings only guaranteed payments for services they actually rendered to, or on behalf of, the partnership to the extent that those payments are payment for those services.

However, whether a partner qualifies as a limited partner for purposes of self-employment tax depends upon whether the partner meets the definition of a limited partner under section 1402(a)(13).

Line 14a. Net Earnings (Loss) From Self-Employment (Code A)

Use the Worksheet for Figuring Net Earnings (Loss) From Self-Employment in these instructions.

Schedule K. Enter on line 14a the amount from line 5 of the worksheet.

Schedule K-1. Do not complete this line for any partner that is an estate, a trust, a corporation, an exempt organization, or an IRA.

Enter in box 14 of Schedule K-1 each individual general partner's share of the combined amounts shown on lines 3c and 4c of the worksheet; and each individual limited partner’s share of the amount shown on line 4c of the worksheet, using code A.

Line 14b. Gross Farming or Fishing Income (Code B)

Enter on line 14b the partnership's gross farming or fishing income from self-employment. Individual partners need this amount to figure net earnings from self-employment under the farm optional method in Part II of Schedule SE (Form 1040). Enter each individual partner's distributive share in box 14 of Schedule K-1 using code B.

Line 14c. Gross Nonfarm Income (Code C)

Enter on line 14c the partnership's gross nonfarm income from self-employment. Individual partners need this amount to figure net earnings from self-employment under the nonfarm optional method in Part II of Schedule SE (Form 1040). Enter each individual partner's share in box 14 of Schedule K-1 using code C.

Worksheet Instructions

Line 1b. Include on line 1b any part of the net income (loss) from rental real estate activities from Schedule K, line 2, that is from:

1. Rentals of real estate held for sale to customers in the course of a trade or business as a real estate dealer, or

2. Rentals for which services were rendered to the occupants (other than services usually or customarily rendered for the rental of space for occupancy only). The supplying of maid service is such a service, but the furnishing of heat and light; the cleaning of public entrances, exits, stairways, and lobbies; and trash collection, etc., aren't considered services rendered to the occupants.

Line 3c. The distributive share of limited partners is not earnings from self-employment and is not reported on this line.

Lines 3b and 4b. Allocate the amounts on these lines in the same way Form 1065, page 1, line 22, is allocated to these particular partners.

Line 4a. Include in the amount on line 4a any guaranteed payments to partners reported on Schedule K, line 4c, and in box 4c of Schedule K-1, and derived from a trade or business as defined in section 1402(c). Also include other ordinary business income and expense items (other than expense items subject to separate limitations at the partner level, such as the section 179 expense deduction) reported on Schedules K and K-1 that are used to figure self-employment earnings under section 1402.

Line 4c. Guaranteed payments to general partners and limited partners for services provided to the partnership are net earnings from self-employment and are reported on this line.

Credits

TIP *Do not attach Form 3800, General Business Credit, to Form 1065.*

Low-Income Housing Credit

Section 42 provides a credit that can be claimed by owners of low-income residential rental buildings. To qualify for this credit, the partnership must file Form 8609, Low-Income Housing Credit Allocation and Certification, separately with the IRS. Do not attach

Form 8609 to Form 1065. Complete and attach Form 8609-A, Annual Statement for Low-Income Housing Credit, and Form 8586, Low-Income Housing Credit, to Form 1065.

Line 15a. Low-Income Housing Credit (Section 42(j)(5)) (Code C)

Enter on line 15a the total low-income housing credit for property which a partnership is to be treated under section 42(j)(5) as the taxpayer to which the low-income housing credit was allowed.

If the partnership invested in another partnership to which the provisions of section 42(j)(5) apply, report on line 15a the credit reported to the partnership in box 15 of Schedule K-1 (Form 1065), code C.

Schedule K-1. Report in box 15 of Schedule K-1 each partner's distributive share of the low-income housing credit reported on line 15a of Schedule K. Use code C to report credits attributable to buildings placed in service after 2007. If the partnership has credits from more than one rental activity, identify on an attached statement to Schedule K-1 the amount for each separate activity. See *Passive Activity Reporting Requirements*, earlier.

Line 15b. Low-Income Housing Credit (Other) (Code D)

Enter on line 15b any low-income housing credit not reported on line 15a. This includes any credit reported to the partnership in box 15 of Schedule K-1 using code D.

Schedule K-1. Report in box 15 of Schedule K-1 each partner's distributive share of the low-income housing credit reported on line 15b of Schedule K. Use code D to report credits attributable to buildings placed in service after 2007. If the partnership has credits from more than one rental activity, identify on an attached statement to Schedule K-1 the amount for each separate activity. See *Passive Activity Reporting Requirements*, earlier.

Line 15c. Qualified Rehabilitation Expenditures (Rental Real Estate) (Code E)

Enter on line 15c the total qualified rehabilitation expenditures related to rental real estate activities of the partnership. See the Instructions for Form 3468 for details on qualified rehabilitation expenditures.

Schedule K-1. Report each partner's distributive share of qualified rehabilitation expenditures related to rental real estate activities in box 15 of Schedule K-1 using code E. Attach a statement to Schedule K-1 that provides the information and the partner's distributive share of the amounts the partner will need to complete lines 11b through 11g of Form 3468. See the Instructions for Form 3468 for details. If the partnership has expenditures from more than one rental real estate activity, identify on an attached statement to Schedule K-1 the amount for each separate activity. See *Passive Activity Reporting Requirements*, earlier.

Qualified rehabilitation expenditures for property not related to rental real estate activities must be reported in box 20 using code D.

Line 15d. Other Rental Real Estate Credits (Code F)

Enter on line 15d any other credit (other than credits reported on lines 15a through 15c) related to rental real estate activities. On the dotted line to the left of the entry space for line 15d, identify the type of credit. If there is more than one type of credit, attach a statement to Form 1065 that identifies the type and amount for each credit. These credits may include any type of credit listed in the instructions for line 15f.

Schedule K-1. Report in box 15 of Schedule K-1 each partner's distributive share of other rental real estate credits using code F. If you are reporting each partner's distributive share of only one type of rental real estate credit under code F, enter the code with an asterisk (F*) and the dollar amount in the entry space in box 15 and attach a statement that shows “Box 15, Code F” and type of credit. If you are reporting multiple types of rental real estate credits under code F, enter the code with an asterisk (F*) and enter “STMT” in the entry space in box 15 and attach a statement that shows “Box 15, Code F” and the types and dollar amounts of the credits. If the partnership has credits from more than one rental real estate activity, identify on the attached statement the amount of each type of credit for each separate activity. See *Passive Activity Reporting Requirements*, earlier.

Line 15e. Other Rental Credits (Code G)

Enter on line 15e any other credit (other than credits reported on lines 15a through 15d) related to rental activities. On the dotted line to the left of the entry space for line 15e, identify the type of credit. If there is more than one type of credit, attach a statement to Form 1065 that identifies the type and amount for each credit. These credits may include any type of credit listed in the instructions for line 15f.

Schedule K-1. Report in box 15 of Schedule K-1 each partner's distributive share of other rental credits using code G. If you are reporting each partner's distributive share of only one type of rental credit under code G, enter the code with an asterisk (G*) and the dollar amount in the entry space in box 15 and attach a statement that shows “Box 15, Code G” and type of credit. If you are reporting multiple types of rental credits under code G, enter the code with an asterisk (G*) and enter “STMT” in the entry space in box 15 and attach a statement that shows “Box 15, Code G” and the types and dollar amounts of the credits. If the partnership has credits from more than one rental activity, identify on the attached statement the amount of each type of credit for each separate activity. See *Passive Activity Reporting Requirements*, earlier.

Line 15f. Other Credits

Enter on line 15f any other credit, except credits or expenditures shown or listed for lines 15a through 15e. If any of these credits are attributable to rental activities, enter the amount on line 15d or 15e. On the dotted line to the left of the entry space for line 15f, identify the type of credit. If there is more than one type of credit or if there are any credits subject to recapture, attach a statement to Form 1065 that separately identifies each type and amount of credit and credit recapture information for the following categories. The codes needed for box 15 of Schedule K-1 are provided in the headings of the following categories.

Undistributed capital gains credit (code H). This credit represents taxes paid on undistributed capital gains by a RIC or a REIT. As a shareholder of a RIC or a REIT, the partnership will receive notice of the amount of tax paid on undistributed capital gains on Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains.

Biofuel producer credit (code I). Complete Form 6478, if applicable, to figure the credit. Attach it to Form 1065. Include any amount shown on line 2 of Form 6478 in the partnership's income on line 7. See section 40(f) for an election the partnership can make to not have the credit apply.

Work opportunity credit (code J). Complete Form 5884 to figure the credit. Attach it to Form 1065.

Disabled access credit (code K). Complete Form 8826 to figure the credit. Attach it to Form 1065.

Empowerment zone employment credit (code L). Complete Form 8844 to figure the credit. Attach it to Form 1065.

Credit for increasing research activities (code M). Complete Form 6765 to figure the credit. Attach it to Form 1065.

Note. The partnership should provide the information necessary for the partner to determine whether the partnership is an eligible small business under section 38(c)(5)(A). If the partner and the partnership meet the requirements of section

38(c)(5)(A), the research credit may be treated as a specified credit.

Credit for employer social security and Medicare taxes paid on certain employee tips (code N). Complete Form 8846 to figure the credit. Attach it to Form 1065.

Backup withholding (code O). This credit is for backup withholding on dividends, interest, and other types of income of the partnership.

Other credits (code P). Attach a statement to Form 1065 that identifies the types and amounts of any other credits not reported elsewhere, such as the following.

- New markets credit. Complete Form 8874 to figure the credit. Attach it to Form 1065.
- Qualified railroad track maintenance credit. Complete Form 8900 to figure the credit, and attach it to Form 1065.

- Unused investment credit from the qualifying advanced coal project credit, qualifying gasification project credit, qualifying advanced energy project credit, and advanced manufacturing investment credit allocated from cooperatives.
- Unused investment credit from the rehabilitation credit or energy credit allocated from cooperatives.
- Renewable electricity production credit. See Rev. Proc. 2007-65, as modified by Announcement 2009-69 and Announcement 2007-112, for a safe harbor method for allocating the credit for wind energy production. Complete Form 8835 to figure the credit. Attach a statement to Form 1065 and Schedule K-1 showing the allocation of the credit for production during the 4-year period beginning on the date the facility was placed in

service and for production after that period. Attach Form 8835 to Form 1065.

- Indian employment credit. Complete Form 8845 to figure the credit, and attach it to Form 1065.
- Orphan drug credit. Complete Form 8820 to figure the credit, and attach it to Form 1065.
- Credit for small employer pension plan startup costs and auto-enrollment. Complete Form 8881 to figure the credit, and attach it to Form 1065.
- Credit for employer-provided childcare facilities and services. Complete Form 8882 to figure the credit, and attach it to Form 1065.
- Biodiesel, renewable diesel, or sustainable aviation fuels credit. Complete Form 8864, if applicable, to figure the credit, and attach it to Form

1065. If this credit includes the small agri-biodiesel producer credit, identify on a statement attached to Schedule K-1 (a) each partner's distributive share of the small agri-biodiesel producer credit included in the total credit allocated to the partner, (b) the number of gallons for which the partnership claimed the small agri-biodiesel producer credit, and (c) the partnership's productive capacity for agri-biodiesel.

- Low sulfur diesel fuel production credit. Complete Form 8896 to figure the credit, and attach it to Form 1065.
- Credit for oil and gas production from marginal wells (Form 8904).
- Distilled spirits credit (Form 8906).
- Energy efficient home credit (Form 8908).

- Alternative motor vehicle credit (Form 8910).
- Alternative fuel vehicle refueling property credit (Form 8911).
- Clean renewable energy bond credit (Form 8912). The amount of this credit (excluding any credits from other partnerships, estates, and trusts) must also be reported as interest income on line 5 of Schedule K.
- **New** clean renewable energy bond credit (Form 8912). The amount of this credit (excluding any credits from other partnerships, estates, and trusts) must also be reported as interest income on line 5 of Schedule K. In addition, the amount of this credit must also be reported as a cash distribution on line 19a of Schedule K.

- Qualified energy conservation bond credit (Form 8912). The amount of this credit (excluding any credits from other partnerships, estates, and trusts) must also be reported as interest income on line 5 of Schedule K. In addition, the amount of this credit must also be reported as a cash distribution on line 19a of Schedule K.
- Qualified zone academy bond credit (Form 8912). The amount of this credit (excluding any credits from other partnerships, estates, and trusts) must also be reported as interest income on line 5 of Schedule K. In addition, the amount of this credit must also be reported as a cash distribution on line 19a of Schedule K.
- Qualified school construction bond credit (Form 8912). The amount of this credit (excluding any credits from other partnerships, estates, and

trusts) must also be reported as interest income on line 5 of Schedule K. In addition, the amount of this credit must also be reported as a cash distribution on line 19a of Schedule K.

- Build America bond credit (Form 8912). The amount of this credit (excluding any credits from other partnerships, estates, and trusts) must also be reported as interest income on line 5 of Schedule K. In addition, the amount of this credit must also be reported as a cash distribution on line 19a of Schedule K.
- Mine rescue team training credit (Form 8923).
- Credit for employer differential wage payments (Form 8932).
- Carbon oxide sequestration credit (Form 8933, Part V, line 14).

- Carbon oxide sequestration credit recapture (Form 8933, Part V, line 16). Enter as a negative number.
- Qualified plug-in electric drive motor vehicle credit (including qualified two-wheeled plug-in electric vehicles and new clean vehicles).
- Credit for small employer health insurance premiums (Form 8941).
- Employee retention credit for employers affected by qualified disasters (Form 5884-A).
- Employer credit for paid family and medical leave (Form 8994).
- Qualified commercial clean vehicle credit for vehicles acquired after 2022 (Form 8936-A).

Schedule K-1. Enter in box 15 of Schedule K-1 each partner's distributive share of the credits listed above. See additional Schedule

K-1 reporting information provided in the instructions above. Enter the applicable code, H through P, in the column to the left of the dollar amount entry space.

If you are reporting each partner's distributive share of only one type of credit under code P, enter the code with an asterisk (P*) and the dollar amount in the entry space in box 15 and attach a statement that shows “Box 15, Code P” and type of credit. If you are reporting multiple types of credits under code P, enter the code with an asterisk (P*) and enter “STMT” in the entry space in box 15 and attach a statement that shows “Box 15, Code P” and the types and dollar amounts of the credits. If the partnership has credits from more than one activity, identify on an attached statement to Schedule K-1 the amount of each type of credit for each separate activity. See *Passive Activity Reporting Requirements*, earlier.

International Transactions

Line 16. International Transactions

If the partnership had items of international tax relevance, see the instructions for Schedule K-2 (Form 1065) to determine if you need to attach Schedule K-2 and K-3. If you satisfy the domestic filing exception to filing Schedule K-3, you must provide notification to the partner either through an attachment to the Schedule K-1, or separately prior to filing the Form 1065. If you satisfy an exception to filing Schedule K-2, you may also attach a statement to the Form 1065 that states “Qualified for exception to filing Schedule K-2.”

Alternative Minimum Tax (AMT) Items

Lines 17a through 17f must be completed for all partners.

Enter items of income and deductions that are adjustments or tax preference items for the AMT. See Form 6251, Alternative Minimum Tax—Individuals; or Schedule I (Form 1041), Alternative Minimum Tax—Estates and Trusts, to determine the amounts to enter and for other information.

Do not include as a tax preference item any qualified expenditures to which an election under section 59(e) may apply. Instead, report these expenditures on line 13c(2). Because these expenditures are subject to an election by each partner, the partnership cannot figure the amount of any tax preference related to them. Instead, the partnership must pass through to each partner in box 13, code J, of Schedule K-1 the information needed to figure the deduction.

Schedule K-1. Report each partner's distributive share of amounts reported on lines 17a through 17f (concerning AMT) in box 17 of Schedule K-1 using codes A through

F, respectively. If the partnership is reporting items of income or deduction for oil, gas, and geothermal properties, you may be required to identify these items on a statement attached to Schedule K-1 (see the instructions for *Oil, Gas, and Geothermal Properties Gross Income and Deductions*, later, for details). Also see the requirement for an attached statement in the instructions for line 17f.

Line 17a. Post-1986 Depreciation Adjustment (Code A)

Figure the adjustment for line 17a based only on tangible property placed in service after 1986 (and tangible property placed in service after July 31, 1986, and before 1987 for which the partnership elected to use the General Depreciation System). Do not make an adjustment for motion picture films, videotapes, sound recordings, certain public utility property (as defined in section 168(f)(2)), property depreciated under the unit-of-production method (or any other method not expressed in a term of years), qualified Indian reservation property, property eligible for a special depreciation allowance, qualified revitalization expenditures, or the section 179 expense deduction.

For property placed in service before 1999, refigure depreciation for the AMT as follows (using the same convention used for the regular tax).

- For section 1250 property (generally, residential rental and nonresidential real property), use the straight line method over 40 years.
- For tangible property (other than section 1250 property) depreciated using the straight line method for the regular tax, use the straight line method over the property's class life. Use 12 years if the property has no class life.

- For any other tangible property, use the 150% declining balance method, switching to the straight line method the first tax year it gives a larger deduction, over the property's AMT class life. Use 12 years if the property has no class life.

TIP *See Pub. 946 for a table of class lives.*

For property (except section 1250 property) placed in service after 1998, refigure depreciation for the AMT only for property depreciated for the regular tax using the 200% declining balance method. For the AMT, use the 150% declining balance method, switching to the straight line method the first tax year it gives a larger deduction, and the same convention and recovery period used for the regular tax. For section 1250 property, refigure depreciation for the AMT using the straight line method, and the same convention and recovery period used for regular tax.

Figure the adjustment by subtracting the AMT deduction for depreciation from the regular tax deduction and enter the result on line 17a. If the AMT deduction is more than the regular tax deduction, enter the difference as a negative amount. Depreciation capitalized to inventory must also be refigured using the AMT rules. Include on this line the current year adjustment to income, if any, resulting from the difference.

Line 17b. Adjusted Gain or Loss (Code B)

If the partnership disposed of any tangible property placed in service after 1986 (or after July 31, 1986, if an election was made to use the General Depreciation System), or if it disposed of a certified pollution control facility placed in service after 1986, refigure the gain or loss from the disposition using the adjusted basis for the AMT. The property's adjusted basis for the AMT is its cost or other basis minus all depreciation or amortization deductions allowed or allowable for the AMT during the current tax year and previous tax years. Enter on this line the difference between the regular tax gain (loss) and the AMT gain (loss). If the AMT gain is less than the regular tax gain, or the AMT loss is more than the regular tax loss, or there is an AMT loss and a regular tax gain, enter the difference as a negative amount.

If any part of the adjustment is allocable to net short-term capital gain (loss), net long-term capital gain (loss), or net section 1231 gain (loss), attach a statement that identifies the amount of the adjustment allocable to each type of gain or loss.

For a net long-term capital gain (loss), also identify the amount of the adjustment that is collectibles (28%) gain (loss).

For a net section 1231 gain (loss), also identify the amount of adjustment that is unrecaptured section 1250 gain.

Line 17c. Depletion (Other Than Oil and Gas) (Code C)

Do not include any depletion on oil and gas wells. The partners must figure their oil and gas depletion deductions and preference items separately under section 613A.

Refigure the depletion deduction under section 611 for mines, wells (other than oil and gas wells), and other natural deposits for the AMT. Percentage depletion is limited to 50% of the taxable income from the property as figured under section 613(a), using only income and deductions for the AMT. Also, the deduction is limited to the property's adjusted basis at the end of the year as figured for the AMT. Figure this limit separately for each property. When refiguring the property's adjusted basis, take into account any AMT adjustments made this year or in previous years that affect basis (other than the current year's depletion).

Enter the difference between the regular tax and AMT deduction. If the AMT deduction is greater, enter the difference as a negative amount.

Oil, Gas, and Geothermal Properties—Gross Income and Deductions

Generally, the amounts to be entered on lines 17d and 17e are only the income and deductions for oil, gas, and geothermal properties that are used to figure the partnership's ordinary income (loss) (line 22 of Form 1065).

If there are any items of income or deductions for oil, gas, and geothermal properties included in the amounts that are required to be passed through separately to the partners on Schedule K-1 (items not reported in box 1 of Schedule K-1), give each partner a statement that shows, for the box in which the income or deduction is included, the amount of income or deductions included in the total amount for that box. Do not include any of these direct pass-through amounts on line 17d or 17e.

Figure the amounts for lines 17d and 17e separately for oil and gas properties that aren't geothermal deposits and for all properties that are geothermal deposits.

Give each partner a statement that shows the separate amounts included in the computation of the amounts on lines 17d and 17e of Schedule K.

Line 17d. Oil, Gas, and Geothermal Properties—Gross Income (Code D)

Enter the total amount of gross income (within the meaning of section 613(a)) from all oil, gas, and geothermal properties received or accrued during the tax year and included on page 1 of Form 1065.

Line 17e. Oil, Gas, and Geothermal Properties—Deductions (Code E)

Enter any deductions allowed for the AMT that are allocable to oil, gas, and geothermal properties.

Line 17f. Other AMT Items (Code F)

Attach a statement to Form 1065 and Schedule K-1 that shows other items not shown on lines 17a through 17e that are adjustments or tax preference items or that the partner needs to complete Form 6251 or Schedule I (Form 1041). See these forms and their instructions to determine the amount to enter. Other AMT items include the following.

- Accelerated depreciation of real property under pre-1987 rules.
- Accelerated depreciation of leased personal property under pre-1987 rules.

- Long-term contracts entered into after February 28, 1986. Except for certain home construction contracts, the taxable income from these contracts must be figured using the percentage of completion method of accounting for the AMT.
- Losses from tax shelter farm activities. No loss from any tax shelter farm activity is allowed for the AMT.
- Any information needed by certain corporate partners to figure corporate AMT for tax years beginning after 2022, under section 55.

Schedule K-1. If you are reporting each partner's distributive share of only one type of AMT item under code F, enter the code with an asterisk (F*) and the dollar amount in the entry space in box 17 and attach a statement that shows the type of AMT item. If you are reporting multiple types of AMT items under code F, enter the code with an asterisk

(F*) and enter “STMT” in the entry space in box 17 and attach a statement that shows the dollar amount of each type of AMT item.

Other Information

Line 18a. Tax-Exempt Interest Income

Enter on line 18a tax-exempt interest income, including any exempt-interest dividends received from a mutual fund or other RIC.

Line 18b. Other Tax-Exempt Income

Enter on line 18b all income of the partnership exempt from tax other than tax-exempt interest.

PPP loan forgiveness reporting. Report tax-exempt income resulting from the forgiveness of a PPP loan on this line. Attach a statement to Form 1065 for each tax year in which the partnership is applying the provisions of Rev. Proc. 2021-48, section 3.01(1), (2), or (3). The statement should include the following information for each PPP loan.

- The partnership’s name, address, and EIN.
- Which section(s) of Rev. Proc. 2021-48 the partnership is applying: 3.01(1), (2), and/or (3).
- The amount of tax-exempt income from forgiveness of the PPP loan that the partnership is treating as received or accrued during the year.
- Whether forgiveness of the PPP loan has been granted as of the date the return is filed.

A partnership that did not report tax-exempt income from a PPP loan on its 2020 return may file an amended return or AAR to apply the applicable provisions of Rev. Proc. 2021-48. A partnership that reported tax-exempt income from a PPP loan on its 2020 return, the timing of which corresponds to section

3.01(1), (2), or (3) of Rev. Proc. 2021-48, does not need to file an amended return or AAR solely to attach the statement that is described in the preceding paragraph.

As explained in section 3.03 of Rev. Proc. 2021-48, if a partnership treats tax-exempt income resulting from a PPP loan as received or accrued prior to when forgiveness of the PPP loan is granted, and the amount of forgiveness granted is less than the amount of tax-exempt income that was previously treated as received or accrued, the partnership must make appropriate required adjustments on an amended return or AAR, as applicable, for the tax year in which the partnership treated the tax-exempt income as received or accrued. The partnership should attach a statement to that amended return or AAR that includes the following information.

- The partnership's name, address, and EIN.

- A statement that the partnership is making adjustments in accordance with section 3.03 of Rev. Proc. 2021-48.
- The tax year in which tax-exempt income was originally reported, the amount of tax-exempt income that was originally reported in that tax year, and the amount of tax-exempt income being adjusted on the amended return or AAR, as applicable.

Line 18c. Nondeductible Expenses

Enter on line 18c nondeductible expenses paid or incurred by the partnership.

Do not include separately stated deductions shown elsewhere on Schedules K and K-1, capital expenditures, or items the deduction for which is deferred to a later tax year.

Schedule K-1. Report in box 18 of Schedule K-1 each partner's distributive share of amounts reported on lines 18a, 18b, and 18c of Schedule K (concerning items affecting partners' bases) using codes A through C, respectively. Attach a statement to Schedule K-1 for the amounts included on line 18b that are exempt by reason of section 892, and describe the nature of the income.

Line 19a. Distributions of Cash and Marketable Securities (Code A)

If the amount on line 19a includes marketable securities treated as money, state separately on an attached statement to Schedules K and K-1 (a) the partnership's adjusted basis of those securities immediately before the distribution, and (b) the FMV of those securities on the date of distribution (excluding the distributee partner's share of the gain on the securities distributed to that partner).

Line 19b. Distributions of Other Property

Enter on line 19b the total distributions to each partner of property not included on line 19a. In box 19 of Schedule K-1, distributions of section 737 property will be reported separately from other property. The codes used when reporting amounts from line 19b in box 19 of Schedule K-1 appear in the headings for the categories.

Distributions subject to section 737 (code B). If a partner contributed section 704(c) built-in gain property within the last 7 years and the partnership made a distribution of property to that partner **other than** the previously contributed built-in gain property, attach a statement to the distributee partner's Schedule K-1 that provides the following information.

- The FMV of the distributed property (other than money).

- The amount of money received in the distribution.
- The net precontribution gain of the partner. This is the net gain (if any) that would have been recognized by the distributee partner under section 704(c)(1)(B) if all the following property had been distributed by the partnership to another partner. This property includes all property contributed by the distributee partner during the 7 years prior to the distribution and that is still held by the partnership at the time of the distribution (see section 737).

For more information, see *Recognition of Precontribution Gain on Certain Partnership Distributions*, earlier.

Other property (code C). Include all distributions of property not included on line 19a that aren't section 737 property. In figuring the amount of the distribution, use the adjusted basis of the property to the partnership immediately before the distribution. In addition, attach a statement showing the adjusted basis and FMV of each property distributed.

Schedule K-1. Report in box 19 each partner's distributive share of the amount on line 19a using code A. If a statement is attached, enter an asterisk after the code (A*) and “STMT” in the entry space, and attach the required statement. For line 19b, report distributions subject to section 737 in box 19 using code B with an asterisk (B*) and “STMT” in the entry space, and attach the required statement. For distributions of other property, report each partner's distributive share of the amount in box 19 using code C with an asterisk (C*) and “STMT” in the entry space, and attach the required statement.

Lines 20a and 20b. Investment Income and Expenses (Codes A and B)

Enter on line 20a the investment income included on lines 5, 6a, 7, and 11 of Schedule K. Do not include other portfolio gains or losses on this line.

Investment income includes gross income from property held for investment, the excess of net gain attributable to the disposition of property held for investment over net capital gain from the disposition of property held for investment, any net capital gain from the disposition of property held for investment that each partner elects to include in investment income under section 163(d)(4)(B) (iii), and any qualified dividend income that the partner elects to include in investment income. Generally, investment income and investment expenses don't include any income or expenses from a passive activity. See Regulations section 1.469-2(f)(10) for exceptions.

Property subject to a net lease isn't treated as investment property because it is subject to the passive loss rules. Do not reduce investment income by losses from passive activities.

Enter investment expenses on line 20b. Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income. See the Instructions for Form 4952 for more information.

Schedule K-1. Report each partner's distributive share of amounts reported on lines 20a and 20b (investment income and expenses) in box 20 of Schedule K-1 using codes A and B, respectively.

If there are other items of investment income or expense included in the amounts that are required to be passed through separately to the partners on Schedule K-1, such as net short-term capital gain or loss, net long-term capital gain or loss, and other portfolio gains or losses, give each partner a statement identifying these amounts.

Line 20c. Other Items and Amounts

Report the following information on a statement attached to Form 1065. On Schedule K-1, enter the appropriate code in box 20 for each information item followed by an asterisk in the left-hand column of the entry space (for example, “C*”). In the right-hand column, enter “STMT.” The codes are provided in the headings of the following information categories.

Fuel tax credit information (code C). Report the number of gallons of each fuel sold or used during the tax year for a nontaxable use qualifying for the credit for taxes paid on fuel, type of use, and the applicable credit per gallon. See Form 4136, Credit for Federal Tax Paid on Fuels, for details.

Qualified rehabilitation expenditures (other than rental real estate) (code D). Enter total qualified rehabilitation expenditures from activities other than rental real estate activities. See the Instructions for Form 3468 for details on qualified rehabilitation expenditures.

Note. Report qualified rehabilitation expenditures related to rental real estate activities on line 15c.

Schedule K-1. Report each partner's distributive share of qualified rehabilitation expenditures related to activities other than rental real estate activities in box 20 of Schedule K-1 using code D. Attach a statement to Schedule K-1 that provides the information and the partner's distributive share of the amounts the partner will need to complete lines 11b through 11g of Form 3468. See the Instructions for Form 3468 for details. If the partnership has expenditures from more than one activity, identify on a statement attached to Schedule K-1 the amount for each separate activity. See *Passive Activity Reporting Requirements*, earlier.

Basis of energy property (code E). See the Instructions for Form 3468 for details on basis of energy property. In box 20 of Schedule K-1, enter code E followed by an asterisk (E*) and enter “STMT” in the entry space for the dollar amount. Attach a statement to Schedule K-1 that provides the information and the partner's distributive share of the amounts the partner will need to figure the amounts to report on lines 12a–12c, 12e, 12f, 12h, 12i, 12k, 12l, 12q, 12r, 12t, 12u, 12w, 12y, 12z, and 12bb–12hh of Form 3468. See the Instructions for Form 3468 for details.

Recapture of low-income housing credit (codes F and G). If recapture of part or all of the low-income housing credit is required because (a) the prior year qualified basis of a building decreased, or (b) the partnership disposed of a building or part of its interest in a building, see Form 8611, Recapture of Low-Income Housing Credit. Complete lines 1 through 7 of Form 8611 to determine the amount of credit to recapture. Use code F on Schedule K-1 to report recapture of the low-income housing credit from a section 42(j)(5) partnership. Use code G to report recapture of any other low-income housing credit. See the instructions for lines 15a and 15b, earlier, for more information.

If a partner's ownership interest in a building decreased because of a transaction at the partner level, the partnership must provide the necessary information to the partner to enable the partner to figure the recapture.

The disposal of a building or an interest therein will generate a credit recapture unless it is reasonably expected that the building will continue to be operated as a qualified low-income building for the remainder of the building's compliance period.

See Form 8586, Form 8611, and section 42 for more information.

Recapture of investment credit (code H). Complete and attach Form 4255, Recapture of Investment Credit, when investment credit property is disposed of, or it no longer qualifies for the credit, before the end of the recapture period or the useful life applicable to the property. State the type of property at the top of Form 4255, and complete lines 2, 3, 4, 10, and 11, whether or not any partner is subject to recapture of the credit.

Attach to each Schedule K-1 a separate statement providing the information the partnership is required to show on Form

4255, but list only the partner's distributive share of the cost of the property subject to recapture. Also indicate the lines of Form 4255 on which the partners should report these amounts.

Recapture of other credits (code I). On an attached statement to Schedule K-1, provide any information partners will need to report recapture of credits (other than recapture of low-income housing and investment credit reported on Schedule K-1 using codes F, G, and H). Examples of credits reported using code I when subject to recapture include the following.

- The new markets credit. See Form 8874 and Form 8874-B, Notice of Recapture Event for New Markets Credit, for details.
- The Indian employment credit. See section 45A(d) for details.

- The credit for employer-provided childcare facilities and services. See section 45F(d).
- The alternative motor vehicle credit. See section 30B(h)(8).
- The alternative fuel vehicle refueling property credit. See section 30C(e)(5).
- The new qualified plug-in electric drive motor vehicle credit. See section 30D(f)(5).

Look-back interest—completed long-term contracts (code J).

If the partnership is closely held (defined in section 460(b)(4)(C)) and it entered into any long-term contracts after February 28, 1986, that are accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method, it must attach a statement to Form 1065 showing the information required in items (a) and (b) of the instructions for lines 1 and 3 of Part II of Form 8697. It must also report the amounts for Part II, lines 1 and 3, to its partners. See the Instructions for Form 8697 for more information.

Look-back interest—income forecast method (code K). If the partnership is closely held (defined in section 460(b)(4)(C)) and it depreciated certain property placed in service after September 13, 1995, under the income forecast method, it must attach to Form 1065 the information specified in the instructions for Form 8866, line 2, for the 3rd and 10th tax years beginning after the tax year the property was placed in service. It must also report the line 2 amounts to its partners. See the Instructions for Form 8866 for more details.

Dispositions of property with section 179 deductions (code L). This represents gain or loss on the sale, exchange, or other disposition of property for which a section 179 deduction has been passed through to partners. The partnership must provide all the following information related to such dispositions (see the instructions for line 6, earlier).

- Description of the property.
- Date the property was acquired and placed in service.
- Date of the sale or other disposition of the property.
- The partner's share of the gross sales price or amount realized.
- The partner's share of the cost or other basis plus expense of sale (reduced as explained in the instructions for Form 4797, line 21).
- The partner's share of the depreciation allowed or allowable, determined as described in the instructions for Form

4797, line 22, but excluding the section 179 deduction.

- The partner's share of the section 179 deduction (if any) passed through for the property and the partnership's tax year(s) in which the amount was passed through.
- If the disposition is due to a casualty or theft, a statement indicating so, and any additional information needed by the partner.
- For an installment sale, any information the partner needs to complete Form 6252. The partnership must also separately report the partner's share of all payments received for the property in future tax years. (Installment payments received for sales made in prior tax years should be reported in the same manner used in prior tax years.) See

the instructions for Form 6252 for details.

Recapture of section 179 deduction (code M). This amount represents recapture of the section 179 deduction if business use of the property dropped to 50% or less before the end of the recapture period. If the business use of any property (placed in service after 1986) for which a section 179 deduction was passed through to partners dropped to 50% or less (for a reason other than disposition), the partnership must provide all the following information.

- The partner's distributive share of the original basis and depreciation allowed or allowable (not including the section 179 deduction).
- The partner's distributive share of the section 179 deduction (if any) passed through for the property and the partnership's tax year(s) in which the amount was passed through.

See Regulations section 1.179-1(e) for details.

Business interest expense (code N). The partnership must determine the amount of deductible business interest expense included on other lines on the Schedule K. Attach a statement to Schedule K providing the allocation of the deductible business interest expense included on other lines of Schedule K. Excess business interest expense is not deductible business interest expense; therefore, do not include it in this reported amount for tax years beginning after November 12, 2020.

Schedule K-1. For tax years beginning after November 12, 2020, enter the partner's amount of deductible business interest expense for inclusion in the separate loss class for computing any basis limitation (defined in section 704(d) and Regulations section 1.163(j)-6(h)). Also attach a statement to Schedule K-1 providing the allocation of the business interest expense already deducted by the partnership on other lines of Schedule K-1 by line number. Do not include excess business interest expense reported in box 13, code K.

Section 453(l)(3) information (code O). Supply any information needed by a partner to figure the interest due under section 453(l)(3). If the partnership elected to report the dispositions of certain timeshares and residential lots on the installment method, each partner's tax liability must be increased by the partner's distributive share of the interest on tax attributable to the installment payments received during the tax year.

Section 453A(c) information (code P). Supply any information needed by a partner to figure the interest due under section 453A(c). This information must include the following from each Form 6252 where the selling price, including mortgages and other debts, is greater than $150,000.

1. Description of property.
2. Date acquired.
3. Date property sold.
4. Selling price, including mortgages and other debts (not including interest, whether stated or unstated), less mortgages, debts, and other liabilities the buyer assumed or took the property subject to.
5. Gross profit.
6. Gross profit percentage.
7. Contract price less (4) above, plus payments received during the year, not including interest, whether stated or unstated.
8. Payments received in prior years, not including interest whether stated or unstated. If this is the initial year of the sale, add as an additional part of the payments received during the year the amount of the liabilities assumed that exceeds the combination of the property's adjusted basis,

commissions, and other costs related to the sale, and any income recapture relating to the transaction on Form 4797. This excess is considered a current year payment other than cash.

9. Installment sale income.
10. Character of the income—capital or ordinary.
11. Partner's share of the deferred obligation. See computation below.

Schedule K-1 deferred obligation computation. For each Form 6252 where line 5 is greater than $150,000, figure the Schedule K-1 deferred obligation as follows.

- Item 4 from the list above, less the sum of items 7 and 8. This equals the Schedule K deferred obligation.

- Multiply the Schedule K deferred obligation by each partner’s profit percentage. This equals each partner’s share of the deferred obligation.

If an obligation arising from the disposition of property to which section 453A applies is outstanding at the close of the year, each partner's tax liability must be increased by the tax due under section 453A(c) on the partner's distributive share of the tax deferred under the installment method.

Section 1260(b) information (code Q). Supply any information needed by a partner to figure the interest due under section 1260(b). If the partnership had gain from certain constructive ownership transactions, each partner's tax liability must be increased by the partner's distributive share of interest due on any deferral of gain recognition. See section 1260(b) for details, including how to figure the interest.

Interest allocable to production expenditures (code R). Supply any information needed by a partner to properly capitalize interest as required by section 263A(f). See *Section 263A uniform capitalization rules*, earlier, for more information.

CCF nonqualified withdrawal (code S). Report nonqualified withdrawals by the partnership from a capital construction fund to partners. See Pub. 595.

Depletion information—oil and gas (code T). Report gross income and other information relating to oil and gas well properties to partners to allow them to figure the depletion deduction for oil and gas well properties. Allocate to each partner a proportionate share of the adjusted basis of each partnership oil or gas property. See section 613A(c)(7)(D) for details.

The partnership cannot deduct depletion on oil and gas wells. Each partner must determine the allowable amount to report on their return. See Pub. 535 for more information.

Section 743(b) basis adjustment (code U). Report the total section 743(b) adjustment net of any cost recovery as a single amount for all asset categories for each partner. In addition, attach a statement to the Schedule K-1 for this code showing the amount of each remaining section 743(b) basis, net of cost recovery by asset category. A reasonable grouping by asset category may be used, but such grouping should not be less detailed than the asset categories listed on the Form 1065, Schedule L, balance sheet. See *IRS.gov/forms-pubs/clarifications-for-disregarded-entity-reportingand-section-743b-reporting* for more information.

Unrelated business taxable income (code V). Report any information a partner that is a tax-exempt organization may need to figure its share of unrelated business taxable income under section 512(a)(1) (but excluding any modifications required by paragraphs (8) through (15) of section 512(b)). Partners are required to notify the partnership of their tax-exempt status. See Form 990-T, Exempt Organization Business Income Tax Return; and Pub. 598, Tax on Unrelated Business Income of Exempt Organizations, for more information.

If the partner is an IRA, include the IRA partner's unique EIN on line 20, code AH.

Precontribution gain (loss) (code W). If the partnership distributed any section 704(c) property to any partner **other than** the contributing partner, and the date of the distribution was within 7 years of the date the section 704(c) property was contributed to the partnership, the distribution must be treated as if it were a sale by the contributing partner taking place on the date of the distribution. Section 704(c) property is property that had an FMV that was either greater or less than the contributing partner's adjusted basis at the time the property was contributed to the partnership. See *Dispositions of Contributed Property*, earlier, for more information. If the partnership made such a distribution during its tax year, attach a statement to the contributing partner's Schedule K-1 that provides the following information.

- The amount of the gain or loss that would have been allocated to the contributing partner if the partnership had sold the section 704(c) property at its FMV at the time of the distribution. See section 704(c) (1)(B) for details.
- The character of the gain or loss that would have resulted if the partnership

had sold the section 704(c) property to the distributee partner.

Enter code W in box 20 of Schedule K-1 with an asterisk (W*) and enter “STMT,” and attach the required statement.

Reserved for future use (code X).

Net investment income (code Y). Use code Y to report any information that may be relevant for partners to figure their net investment income tax when the information isn't otherwise identifiable elsewhere on Schedule K-1. Attach a statement that shows a description and dollar amount of each relevant item.

Examples of items reported using code Y may include the following.

- Net rental real estate income reported on Form 1065, Schedule K, line 2, and other net rental income reported on Form 1065, Schedule K, line 3c, derived from a section 212 for-profit activity (and not from a section 162 trade or business).

- Gains and losses from dispositions of assets attributable to a section 212 for-profit activity (and not from a section 162 trade or business).
- Gain reported on the installment sale basis (or attributable to a private annuity) that is attributable to the disposition of property held in a trade or business.
- Gain or loss from the disposition of a partnership interest, but only if such partnership was engaged, directly or indirectly, in one or more trades or businesses, and at least one of those trades or businesses wasn't trading in financial instruments or commodities.
- The partner’s distributive share of interest income, or interest expense, which is attributable to a loan between

the partnership and the partner (self-charged interest).

- If the partnership received a Schedule K-1 (Form 1065), the detail and amounts reported to the partnership on code Y.
- If the partnership received a Schedule K-1 (Form 1041), the amount of the adjustment reported.
- Guaranteed payments (reported on Form 1065, Schedule K, line 4b) unrelated to services, such as for the use of capital or attributable to section 736(a)(2) payments for unrealized receivables or goodwill.
- In the case of a common trust fund, any items of income or loss that may be taken into account in figuring the participant’s net investment income (other than qualified dividends, and

short-term and long-term capital gains).

In addition, Regulations section 1.1411-10 provides special rules for stock of CFCs and PFICs owned by the partnership. If the partnership owns directly or indirectly stock of a CFC or PFIC, then additional reporting may be required under code Y.

CFCs and QEFs. In the case of stock of CFCs and QEFs directly or indirectly owned by the partnership, the partnership must provide the name and EIN (if one has been issued) for each CFC and QEF the stock of which is owned by the partnership for which an election under Regulations section 1.1411-10(g) is **not** in effect and for which the partnership isn't engaged in a trade or business described in section 1411(c)(2). For each of these entities, the partnership must provide the following information on an entity-by-entity basis (to the extent such information isn't otherwise identifiable elsewhere on Schedule K-3).

- Section 951(a) inclusions.
- Section 1293(a)(1)(A) inclusions.
- Section 1293(a)(1)(B) inclusions.
- Section 959(d) distributions subject to section 1411.
- Section 1293(c) distributions subject to section 1411.
- Amount of gain or loss derived from dispositions of the stock of CFCs and QEFs that is taken into account for section 1411 purposes.
- Amounts that are derived from the disposition of the stock of CFCs and QEFs and included in income as a dividend under section 1248 for section 1411 purposes.

In the case of stock of CFCs and QEFs directly or indirectly owned by the partnership for which an election under Regulations section 1.1411-10(g) is in effect, the partnership must provide the following information (to the extent such information isn't otherwise identifiable elsewhere on Schedule K-3) on either an aggregate basis or an entity-by-entity basis.

- Section 951(a) inclusions.
- Section 1293(a)(1)(A) inclusions.
- Section 1293(a)(1)(B) inclusions.

In the case of stock of CFCs and QEFs directly or indirectly owned by the partnership with respect to which the partnership is engaged in a trade or business described in section 1411(c)(2), the partnership must provide the following information (to the extent such information isn't otherwise identifiable elsewhere on Schedule K-3) on either an aggregate or an entity-by-entity basis, or the partnership may aggregate this information with other income derived by the partnership that is net investment income under section 1411(c)(1)(A)(ii).

- Section 951(a) inclusions.
- Section 1293(a)(1)(A) inclusions.
- Section 1293(a)(1)(B) inclusions.

Section 1296 mark-to-market PFICs. In the case of stock of PFICs directly or indirectly owned by the partnership for which an election under section 1296 is in effect, the partnership must provide the following information (to the extent such information isn't otherwise identifiable elsewhere on Schedule K-3) on either an aggregate basis or an entity-by-entity basis (except as provided below).

- Amounts included in income under section 1296(a)(1).

- Amounts deducted from income under section 1296(a)(2).

In the case of PFIC stock owned directly or indirectly by the partnership for which an election under section 1296 is in effect and with respect to which the partnership is engaged in a trade or business described in section 1411(c)(2), the partnership may aggregate this information with other income derived by the partnership that is net investment income under section 1411(c)(1)(A)(ii).

Section 1291 funds. In the case of stock of PFICs directly or indirectly owned by the partnership with respect to which direct or indirect partners are subject to section 1291, the partnership must provide the following information (to the extent such information isn't otherwise identifiable elsewhere on Schedule K-3) on an entity-by-entity basis.

- Excess distributions made by a PFIC for which a partner is subject to section 1291.
- Gains derived from the disposition of stock of a PFIC for which a partner is subject to section 1291.

Section 199A information (code Z). The qualified business income (QBI) deduction may be taken by eligible taxpayers, including individuals and some trusts and estates. The deduction is determined at the partner level. Partnerships are required to report information necessary for their partners to figure the deduction. Use code Z with an asterisk (Z*) on each partner's Schedule K-1 and enter "STMT" in the entry space to indicate that the information is provided on an attached statement that separately identifies the partner's distributive share of:

1. Qualified items of income, gain, deduction, and loss;

2. W-2 wages;
3. Unadjusted basis immediately after acquisition (UBIA) of qualified property;
4. Qualified PTP items; and
5. Qualified REIT dividends.

The partnership must make an initial determination of which items are qualified items of income, gain, deduction, and loss at its level and report to each partner its distributive share of all items that may be qualified items at the partner level. These items must be separately stated where necessary for the partner to figure the deduction. See *Determining the partnership's QBI or qualified PTP items*, later. The partner must then determine whether each item is includible in QBI.

In addition, the partnership must also report whether any of its trades or businesses are specified service trades or businesses (SSTBs) and identify on the statement any trades or businesses that are aggregated. The partnership must also report all QBI information reported to it by any entity in which the partnership has an ownership interest.

Note. The partnership must report each partner's share of qualified items of income, gain, deduction, and loss from a PTP so that partners can determine their qualified PTP income. However, the W-2 wages and UBIA of qualified property from the PTP should not be reported because partners cannot use that information in figuring their QBI deduction.

Partnerships should use Statement A—QBI Pass-Through Entity Reporting, later, or a substantially similar statement, to report information for each partner's distributive share from each trade or business, including QBI items, W-2 wages, UBIA of qualified property, qualified PTP items, and qualified REIT dividends by attaching the completed statement(s) to each partner’s Schedule K-1. The partnership should also use Statement A to report each partner’s distributive share of QBI items, W-2 wages, UBIA of qualified property, qualified PTP items, and qualified REIT dividends reported to the partnership by another entity.

Partnerships should use Statement B—QBI Pass-Through Entity Aggregation Election(s), later, or a substantially similar statement, to report aggregated trades or businesses and provide supporting information to partners on each Schedule K-1.

Partnerships should use Statement C—QBI Pass-Through Entity Reporting—Patrons of Specified Agricultural and Horticultural Cooperatives, later, or a substantially similar statement, to report the distributive share of QBI and W-2 wages allocable to qualified payments from a specified agricultural or horticultural cooperative for each trade or business. This statement should also be used to report each partner’s share of section 199A(g) deduction reported to the partnership by the specified cooperative.

Determining the partnership’s qualified trades or businesses. The partnership’s qualified trades or businesses include its section 162 trades or businesses, except for SSTBs, or the trade or business of providing services as an employee. A section 162 trade or business generally includes any activity if the partnership’s primary purpose for engaging in the activity is for income or profit and the partnership is involved in the activity with continuity and regularity. For more information on what qualifies as a trade or business for purposes of section 199A, see the Instructions for Form 8995, Qualified Business Income Deduction Simplified Computation, or the Instructions for Form 8995-A, Qualified Business Income Deduction.