

2022

Instructions for Form 1065

U.S. Return of Partnership Income

Volume 4 of 6



Department of the Treasury
Internal Revenue Service

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The partnership must provide each partner with the Partner's Instructions for Schedule K-1 (Form 1065) or other prepared specific instructions for each item reported on the partner's Schedule K-1.

The partnership must request IRS approval to use other substitute Schedules K-1. To request approval, write to:

Internal Revenue Service
Attention: Substitute Forms Program
1111 Constitution Ave. NW, Room 6554
Washington, DC 20224
substituteforms@irs.gov

Each partner's information must be on a separate sheet of paper. Therefore, separate all continuously printed substitutes before you file them with the IRS.

The partnership may be subject to a penalty if it files Schedules K-1 that don't conform to the specifications discussed in Pub. 1167,

General Rules and Specifications for
Substitute Forms and Schedules.

How Income Is Shared Among Partners

Allocate shares of income, gain, loss, deduction, or credit among the partners according to the partnership agreement for sharing income or loss generally. Partners may agree to allocate specific items in a ratio different from the ratio for sharing income or loss. For instance, if the net income exclusive of specially allocated items is divided evenly among three partners but some special items are allocated 50% to one, 30% to another, and 20% to the third partner, report the specially allocated items on the appropriate line of the applicable partner's Schedule K-1 and the total on the appropriate line of Schedule K, instead of on the numbered lines on page 1 of Form 1065, Form 1125-A, or Schedule D.

If a partner's interest changed during the year (such as the entrance of a new partner, the exit of a partner, an increase to a partner's interest through an additional capital contribution, or a decrease in a partner's interest through a distribution), see section 706(d) and Regulations section 1.706-4 before determining each partner's distributive share of any item of income, gain, loss, and deduction, and other items.

Partnership items are allocated to a partner only for the part of the year in which that person is a member of the partnership.

Generally, for each change in a partner's interest, the partnership will either allocate its items using a proration method or a closing-of-the-books method. Special rules apply to certain partnerships, certain variations, and certain items. See Regulations section 1.706-4 for additional rules and procedures for making elections. In addition, special rules in section 706(d)(2) apply to certain items of partnerships that report their income on the

cash basis, and special rules in section 706(d)(3) apply to tiered partnerships.

Special rules on the allocation of income, gain, loss, and deductions generally apply if a partner contributes property to the partnership and the FMV of that property at the time of contribution differs from the contributing partner's adjusted tax basis.

Under these rules, the partnership must use a reasonable method of making allocations of income, gain, loss, and deductions from the property so that the contributing partner receives the tax burdens and benefits of any built-in gain or loss (that is, precontribution appreciation or diminution of value of the contributed property). See Regulations section 1.704-3 for details on how to make these allocations, including a description of specific allocation methods that are generally reasonable.

See *Dispositions of Contributed Property*, earlier, for special rules on the allocation of income, gain, loss, and deductions on the disposition of property contributed to the partnership by a partner.

If the partnership agreement doesn't provide for the partner's share of income, gain, loss, deduction, or credit, or if the allocation under the agreement doesn't have substantial economic effect, the partner's share is determined according to the partner's interest in the partnership. See Regulations section 1.704-1 for more information.

Specific Instructions (Schedule K-1 Only)

General Information

Generally, the partnership is required to prepare and give a Schedule K-1 to each person who was a partner in the partnership at any time during the year. Schedule K-1

must be provided to each partner on or before the day on which the partnership return is required to be filed.

However, a foreign partnership that has one or more U.S. partners must file Form 1065. But if it meets each of the following four requirements, it isn't required to file or provide Schedules K-1

for foreign partners (unless the foreign partner is a pass-through entity through which a U.S. person holds an interest in the foreign partnership).

- The partnership had no gross income effectively connected with the conduct of a trade or business within the United States during its tax year.
- The partnership isn't a withholding foreign partnership as defined in Regulations section 1.1441-5(c)(2)(i).
- All required Forms 1042 and 1042-S were filed by the partnership or

another withholding agent as required by Regulations sections 1.1461-1(b) and (c).

- The tax liability for each foreign partner for amounts reportable under Regulations sections 1.1461-1(b) and (c) has been fully satisfied by the withholding of tax at the source.

Generally, any person who holds an interest in a partnership as a nominee for another person must furnish to the partnership the name, address, etc., of the other person.

If a married couple each had an interest in the partnership, prepare a separate Schedule K-1 for each of them.

How To Complete Schedule K-1



In order to enable accurate scanning and processing of Schedule(s) K-1, please use a 10-point Helvetica Light Standard font for all entries on Schedules K-1

if the entries are typed or made using a computer.

If the return is for a fiscal year or a short tax year, fill in the tax year space at the top of each Schedule K-1. On each Schedule K-1, enter the information about the partnership and the partner in Parts I and II (items A through N). In Part III, enter the partner's distributive share of each item of income, deduction, and credit and any other information the partner needs to file the partner's tax return, including information needed to prepare state and local tax returns.

Codes. In box 11 and boxes 13 through 15, and 17 through 20, identify each item by entering a code in the column to the left of the entry space for the dollar amount. These codes are identified in these instructions and on the *List of Codes* in the Partner's Instructions for Schedule K-1 (Form 1065).

Attached statements. When attaching statements to Schedule K-1 to report additional information to the partner, indicate there is a statement for the following.

- If an amount can be input on Schedule K-1 but additional information is required, enter an asterisk (*) after the code in the column to the left of the entry space.
- For items that can't be reported as a single dollar amount, enter the code and an asterisk (*) in the column to the left and enter "STMT" in the right column to indicate that the information is provided on an attached statement.
- If the partnership has more coded items than the number of entry boxes (for example, box 11, boxes 13 through 15, or boxes 17 through 20), don't enter a code or dollar amount in the last entry box. Instead, enter an asterisk (*) in the left column and

enter "STMT" in the entry space to the right.

More than one attached statement can be placed on the same sheet of paper. The information included in the statement should be identified in alphanumeric order by box number followed by the letter code (if any), description, and dollar amount for each item. For example: "Box 13, code J—Work opportunity credit—\$1,000." This can be followed with any additional information the partner needs to determine the proper tax treatment of the item.

Section 721(c) partnerships. When the gain deferral method, as described in Regulations section 1.721(c)-3, is being applied, a partnership that is a section 721(c) partnership will attach to the Schedule K-1 provided to a U.S. transferor the information required under Regulations sections 1.721(c)-6(b)(2) and (3). A partnership that is a section 721(c) partnership will also attach to

its Form 1065 a Schedule K-1 for each partner that is a related foreign person with respect to the U.S. transferor. For an indirect partner that is a related foreign person with respect to the U.S. transferor, the Schedule K-1 will only include relevant information with respect to section 721(c) property. See Regulations section 1.721(c)-1 for definitions.

Part I. Information About the Partnership

On each Schedule K-1, enter the name, address, and identifying number of the partnership.

Item C. If the partnership is filing its return electronically, enter "e-file." Otherwise, enter the name of the IRS Service Center where the partnership will file its return. See *Where To File*, earlier.

Part II. Information About the Partner

Complete a Schedule K-1 for each partner. On each Schedule K-1, enter the partner's name, address, identifying number, and distributive share items. See special rules below for partners that are DEs.

Items E and F

For an individual partner, enter the partner's SSN or individual taxpayer identification number (ITIN) rather than the TIN of the DE partner. For all other partners, enter the partner's EIN.

However, if a partner is an IRA, enter the identifying number of the custodian of the IRA. Do not enter the identification number of the person for whom the IRA is maintained. If the partnership reports unrelated business taxable income to such IRA partner, include

the IRA partner's unique EIN on line 20, code AH, along with the amount of such income.

Foreign partners without a U.S. identifying number should be notified by the partnership of the necessity of obtaining a U.S. identifying number. Certain aliens who aren't eligible to obtain SSNs can apply for an ITIN on Form W-7, Application for IRS Individual Taxpayer Identification Number.

If the partner in the partnership is an entity, such as single-member LLC, that is a DE for federal income tax purposes, enter the TIN of the beneficial owner of the DE partner in item E rather than the TIN of the DE partner. The beneficial owner is the taxpayer who owns the DE partner. In item F, enter the name and address of the beneficial owner of the DE partner. See the instructions for item H2 below.

Note. If the partner is an LLC or a trust, the partnership should inquire as to whether the LLC is a DE for federal income tax purposes.

If the LLC or trust is a DE, the partnership must verify that the partner's TIN is the TIN used by the partner's beneficial owner in filing its federal income tax return.

Truncating recipient's TIN on Schedule K-1. The partnership can truncate a partner's identifying number on the Schedule K-1 the partnership sends to the partner. Truncation isn't allowed on the Schedule K-1 the partnership files with the IRS. Also, the partnership cannot truncate its own identification number on any form.

To truncate, where allowed, replace the first five digits of the nine-digit number with asterisks (*) or Xs (for example, an SSN xxx-xx-xxxx would appear as ***-**-xxxx or XXX-XX-xxxx). For more information, see Regulations section 301.6109-4.

Foreign address. If the partner has a foreign address, enter the information in the following order: city or town, state or province, country, and ZIP or foreign postal

code. Follow the country's practice for entering the postal code. Do not abbreviate the country name.

Item G

Complete item G on all Schedules K-1. If a partner holds interests as both a general and limited partner, check both boxes and attach a statement for each activity that shows the amounts allocable to the partner's interest as a limited partner.

Item H1. Domestic/Foreign Partner

Check the foreign partner box if the partner is a nonresident alien individual, foreign partnership, foreign corporation, foreign estate, foreign trust, or foreign government. Otherwise, check the domestic partner box.

Item H2. Disregarded Entity (DE)

If the partner is a DE, check the box and provide the name and TIN of the DE partner. The partnership should make reasonable

attempts to obtain the DE's TIN. If after making reasonable attempts to obtain the DE's TIN such TIN is unavailable or unknown to the partnership, the partnership may report the DE's TIN as unknown. If the DE does not have a TIN, enter "None" in the space for the DE's TIN. For more information about DE reporting, see [IRS.gov/formspubs/clarifications-for-disregarded-entity-reporting-andsection-743b-reporting](https://www.irs.gov/formspubs/clarifications-for-disregarded-entity-reporting-andsection-743b-reporting).

Item I1. What Type of Entity Is This Partner?

State whether the partner is an individual, a corporation, an estate, a trust, a partnership, a DE, an exempt organization, a foreign government, or a nominee (custodian). If the partner is an LLC and has elected to be treated as other than a DE under Regulations section 301.7701-3 for federal income tax purposes, the partnership must enter the LLC's classification for federal income tax

purposes (that is, a corporation or partnership). If any legal owner of the partnership is a DE for federal income tax purposes, report the beneficial owner's entity type in item I1. If the partner is a nominee, use one of the following codes after the word "nominee" to indicate the type of entity the nominee represents: I—Individual; C—Corporation; F—Estate or Trust; P—Partnership; DE—Disregarded Entity; E—Exempt Organization; IRA—Individual Retirement Arrangement; or FGOV—Foreign Government. If the partner is a nominee that acts on behalf of more than one person, use code M—Multiple.

Item J. Partner's Profit, Loss, and Capital

On each line, enter the partner's percentage share of the partnership's profit, loss, and capital as of the beginning and end of the partnership's tax year, as determined under the partnership agreement. If a partner's

interest commences after the beginning of the partnership's tax year, enter in the *Beginning* column the percentages that existed for the partner immediately after admission. If a partner's interest terminates before the end of the partnership's tax year, enter in the *Ending* column the percentages that existed immediately before termination.

On the line for *Capital*, enter the percentage share of the capital that the partner would receive if the partnership was liquidated by the distribution of undivided interests in partnership assets and liabilities. If the partner's capital account is negative or zero, express the percentage ownership of capital as zero.

The partner's percentage share of each category must be expressed as a percentage. The percentage must not be negative. The total percentage interest in each category must total 100% for all partners. To determine whether the total beginning and

ending percentages are 100%, do not include the beginning percentage for a partner that wasn't a partner at the beginning of the partnership's tax year or the ending percentage for a partner that left the partnership before the end of the partnership's tax year. If the partnership agreement doesn't express the partner's share of profit, loss, and capital as fixed percentages, the partnership may use a reasonable method in arriving at each percentage for purposes of completing the items required by item J, as long as such method is consistent with the partnership agreement and is applied consistently from year to year. Maintain records to support the share of profits, share of losses, and share of capital reported for each partner.

Check the box in this item if there was a sale or exchange of all or part of a partnership interest to a new or pre-existing partner during the year, regardless of whether the

partner recognized gain or loss on the transaction(s).

Item K. Partner's Share of Liabilities

Enter each partner's share of nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other recourse liabilities at the end of the year.

Nonrecourse liabilities are those liabilities of the partnership for which no partner (or related person) bears the economic risk of loss. The extent to which a partner bears the economic risk of loss is determined under the rules of Regulations section 1.752-2. Do not include partnership-level qualified nonrecourse financing (defined below) on the line for nonrecourse liabilities.

If the partner terminated their interest in the partnership during the year, enter the share that existed immediately before the total disposition. In all other cases, enter it as of the end of the year.

If the partnership is engaged in two or more different types of at-risk activities, or a combination of at-risk activities and any other activity, attach a statement showing the partner's share of nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other recourse liabilities for each activity. See Pub. 925 to determine if the partnership is engaged in more than one at-risk activity.

The at-risk rules of section 465 generally apply to any activity carried on by the partnership as a trade or business or for the production of income. These rules generally limit the amount of loss and other deductions a partner can claim from any partnership activity to the amount for which that partner is considered at risk. However, for partners who acquired their partnership interests before 1987, the at-risk rules don't apply to losses from an activity of holding real property the partnership placed in service

before 1987. The activity of holding mineral property doesn't qualify for this exception. Identify on an attached statement to Schedule K-1 the amount of any losses that aren't subject to the at-risk rules.

If a partnership is engaged in an activity subject to the limitations of section 465(c)(1) (such as films or videotapes, leasing section 1245 property, farming, or oil and gas property), give each partner their share of the total pre-1976 losses from that activity for which there existed a corresponding amount of nonrecourse liability at the end of each year in which the losses occurred. See Form 6198, At-Risk Limitations, and related instructions for more information.

Qualified nonrecourse financing secured by real property used in an activity of holding real property that is subject to the at-risk rules is treated as an amount at risk. Qualified nonrecourse financing generally includes financing for which no one is

personally liable for repayment that is borrowed for use in an activity of holding real property and that is loaned or guaranteed by a federal, state, or local government or that is borrowed from a qualified person. Qualified persons include any person actively and regularly engaged in the business of lending money, such as a bank or savings and loan association. Qualified persons generally don't include related parties (unless the nonrecourse financing is commercially reasonable and on substantially the same terms as loans involving unrelated persons), the seller of the property, or a person who receives a fee for the partnership's investment in the real property. See section 465(b)(6) for more information on qualified nonrecourse financing.

The partner as well as the partnership must meet the qualified nonrecourse rules.

Therefore, the partnership must enter on an attached statement any other information the

partner needs to determine if the qualified nonrecourse rules are also met at the partner level.

If a partnership (upper-tier) owns a direct interest in other partnerships (lower-tier), then Regulations section 1.752-4(a) requires that the upper-tier partnership allocates to its partners its share of the lower-tier partnership's liabilities (except for any liability of the lower-tier partnership that is owed to the upper-tier partnership). Allocate those lower-tier partnership liabilities to each partner based on whether that liability is a recourse or nonrecourse liability to the partner under the regulations under section 752. The characterization of a liability may change as it moves from a lower-tier partnership to an upper-tier partnership. If Schedule K-1 (Form 1065) includes lower-tier partnership liabilities, check the box in item K. If the total liabilities on all Schedules K-1

(Form 1065) do not equal the total liabilities on Schedule L, attach a reconciliation.

Item L. Partner's Capital Account Analysis

You aren't required to complete item L if the answer to question 4 of Schedule B is "Yes." If you are required to complete this item, also see the instructions for Schedule M-2, later.

Tax basis method. Figure each partner's capital account for the partnership's tax year using the transactional approach, discussed below, for the tax basis method.

How to report partnership events or transactions. If you are uncertain how to report a partnership event or transaction, you should account for the event or transaction in a manner generally consistent with figuring the partner's adjusted tax basis in its partnership interest (without regard to partnership liabilities), taking into account the rules and principles of sections 705, 722, 733,

and 742 and by reporting the amount on the line for other increase (decrease). The partner's ending capital account as reported using the tax basis method in item L might not equal the partner's adjusted tax basis in its partnership interest. Generally, this is because a partner's adjusted tax basis in its partnership interest includes the partner's share of partnership liabilities, as well as partner-specific adjustments. Each partner is responsible for maintaining a record of the adjusted tax basis in its partnership interest.

Beginning capital account. Enter the partner's ending capital account as determined for last year on the line for beginning capital account. If a partner joined the partnership through a contribution to the partnership this year, enter zero as the partner's beginning capital account.

Capital contributed during the year. On the line for capital contributed during the year, enter the amount of cash plus the

adjusted tax basis of all property contributed by the partner to the partnership during the year. The amount you enter on this line should be reduced by any liabilities assumed by the partnership in connection with, or liabilities to which the property is subject immediately before, the contribution. This amount might be negative.

Current year net income (loss). On the line for current year net income (loss), enter the partner's distributive share of partnership income and gain (including tax-exempt income) as figured for tax purposes for the year, minus the partner's distributive share of partnership loss and deductions (including nondeductible, noncapital expenditures) as figured for tax purposes for the year.

Other increase (decrease). On the line for other increase (decrease), enter the sum of all other increases or decreases that affected the partner's capital account for tax purposes during the year and attach a statement

explaining each adjustment. For example, if a new partner acquired its interest in the partnership from another partner in a purchase, exchange, gift, or inheritance, enter an amount for the transferee under other increase that is equal to the transferor partner's ending capital account with respect to the interest transferred immediately before the transfer figured using the tax basis method. Other examples of increases include the following.

- The partner's distributive share of the excess of the tax deductions for depletion (other than oil and gas depletion) over the adjusted tax basis of the property subject to depletion.
- The partner's share of any increase to the adjusted tax basis of partnership property under section 734(b).

If a transferor partner disposed of its interest in the partnership by sale, exchange, or gift, or as the result of death, enter the transferor

partner's ending capital account with respect to the interest transferred immediately before the transfer figured using the tax basis method. Other examples of decreases include the following.

- The partner's distributive share of tax deductions for depletion of any partnership oil and gas property, but not exceeding the partner's share of the adjusted tax basis of that property.
- The partner's share of any decrease to the adjusted tax basis of partnership property under section 734(b).

Note. Section 743(b) basis adjustments are not taken into account in calculating a partner's capital account under the tax basis method.

Withdrawals and distributions. On the line for withdrawals and distributions, enter the amount of cash plus the adjusted tax basis of

all property distributed by the partnership to the partner during the year. The amount you enter on this line should be reduced by any liabilities assumed by the partner in connection with, or liabilities to which the property is subject immediately before, the distribution. This amount might be negative.

Ending capital account. The sum of the amounts shown on the lines in item L above the line for ending capital account must equal the amount reported on the line for ending capital account. A partner's ending capital account determined under the tax basis method may be negative if the sum of a partner's losses and distributions exceeds the sum of the partner's contributions and share of income.

Publicly traded partnerships (PTPs). In the case of a sale or exchange of an interest in a PTP, you may determine a transferee partner's beginning capital account by adjusting the partner's beginning capital

account to reflect the transferee partner's purchase price of the interest rather than entering the transferor partner's ending capital account. In making the adjustments, you may use information required to be reported to you under Regulations section 1.6031(c)-1T, and publicly available trading price information.

Item M. Did the Partner Contribute Property With a Built-in Gain or Loss?

Check the appropriate box to indicate whether the partner contributed property with a built-in gain or loss during the tax year. If the “Yes” box is checked, attach a statement that contains the following information.

- A description of each property the partner contributed.
- The date the property was contributed.
- The amount of the property's built-in gain or loss.

Exception. If a partner contributes more than 10 properties with either a built-in gain or built-in loss on any date during the tax year, the partnership isn't required to provide the required information separately for each property contributed for that date. Instead, the partnership can report the (a) number of properties contributed on that date, (b) total amount of built-in gain, and (c) total amount of built-in loss. Do not net the built-in gains and built-in losses; instead, show the total built-in gain and total built-in loss for all properties contributed on that date.

A property's built-in gain is the amount by which the FMV of the property exceeds its adjusted tax basis at the time the property is contributed to the partnership. A property's built-in loss is the amount by which the FMV of the property is less than its adjusted tax basis at the time the property is contributed to the partnership. Partnerships are required to keep track of this information (see

Regulations section 1.704-3). This information is also needed for purposes of allocating partnership items to partners because income, gain, loss, and deductions related to property contributed to the partnership by a partner must be shared among the partners so as to take account of the variation between the basis of the property to the partnership and its FMV at the time of contribution. If the partnership distributes any property (other than built-in gain property) to a partner that has contributed built-in gain property to the partnership within the last 7 years, it will need this information for the attached statement required in the instructions for line 19b of Schedule K for distributions subject to section 737 (code B). If the partnership distributes contributed property with a built-in gain or loss to any partner other than the partner that contributed the property and the date of the distribution is within 7 years of the date the property was contributed to the

partnership, it will need this information for the attached statement required by the instructions for line 20c of Schedule K for the precontribution gain (loss) (code W).

Item N. Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

For item N, the partnership should report the partner's share of net unrecognized section 704(c) gains or losses, both at the beginning and at the end of the partnership's tax year. Solely for purposes of completing item N, the section 704(c) gain or loss is the partner's share of the net (net means aggregate or sum) of all unrecognized section 704(c) gain or loss in partnership property, including section 704(c) gain or loss arising from revaluations of partnership property. See Notice 2019-66 for more information.

Specific Instructions (Schedules K and K-1, Part III, Except as Noted)

These instructions refer to the lines on Schedule K and the boxes on Schedule K-1.

Special Allocations

An item is specially allocated if it is allocated to a partner in a ratio different from the ratio for sharing income or loss generally.

Report specially allocated ordinary gain (loss) on Schedule K, line 11, and in box 11 of Schedule K-1. Report other specially allocated items in the applicable boxes of the partner's

Schedule K-1, with the total amount on the applicable line of Schedule K. See *How Income Is Shared Among Partners*, earlier.

Example. A partnership has a long-term capital gain that is specially allocated to a partner and a net long-term capital gain

reported on line 15 of Schedule D (Form 1065) that must be reported on line 9a of Schedule K. Because specially allocated gains or losses aren't reported on Schedule D, the partnership must report both the net long-term capital gain from Schedule D and the specially allocated gain on line 9a of Schedule K. Box 9a of the Schedule K-1 for the partner must include both the specially allocated gain and the partner's distributive share of the net long-term capital gain from Schedule D.

Income (Loss)

Line 1. Ordinary Business Income (Loss)

Enter the amount from page 1, line 22. Enter the income (loss) without reference to (a) the basis of the partners' interests in the partnership, (b) the partners' at-risk limitations, or (c) the passive activity limitations. These limitations, if applicable, are determined at the partner level.

Line 1 should not include rental activity income (loss) or portfolio income (loss).

Schedule K-1. Enter each partner's distributive share of ordinary business income (loss) in box 1 of Schedule K-1. Identify on statements attached to Schedule K-1 any additional information the partner needs to correctly apply the passive activity limitations. For example, if the partnership has more than one trade or business activity, identify on an attached statement to Schedule K-1 the amount from each separate activity. See Passive Activity Reporting Requirements, earlier.

Line 2. Net Rental Real Estate Income (Loss)

Enter the net income (loss) from rental real estate activities of the partnership from Form 8825. Attach this form to Form 1065.

Schedule K-1. Enter each partner's distributive share of net rental real estate income (loss) in box 2 of Schedule K-1. Identify on statements attached to Schedule K-1 any additional information the partner needs to correctly apply the passive activity limitations. For example, if the partnership has more than one rental real estate activity, identify the amount attributable to each activity. Also, for example, identify certain items from any rental real estate activities that may be subject to the recharacterization rules. See Passive Activity Reporting Requirements, earlier.

Line 3. Other Net Rental Income (Loss)

Enter on line 3a gross income from rental activities other than those reported on Form 8825. Include on line 3a gain (loss) from line 17 of Form 4797 that is attributable to the sale, exchange, or involuntary conversion of

an asset used in a rental activity other than a rental real estate activity.

Enter on line 3b the deductible expenses of the activity. Attach a statement of these expenses to Form 1065.

Enter on line 3c the net income (loss).

See Rental Activities, earlier, and Pub. 925 for more information on rental activities.

Schedule K-1. Enter each partner's distributive share of net income (loss) from rental activities other than rental real estate activities in box 3 of Schedule K-1. Identify on statements attached to Schedule K-1 any additional information the partner needs to correctly apply the passive activity limitations. For example, if the partnership has more than one rental activity reported in box 3, identify on an attached statement to Schedule K-1 the amount from each activity. See Passive Activity Reporting Requirements, earlier.

Line 4. Guaranteed Payments to Partners

Guaranteed payments are payments made by a partnership to a partner that are determined without regard to the partnership's income. Some examples of guaranteed payments to partners include:

- Payments for salaries, health insurance, and interest deducted by the partnership and reported on Form 1065, page 1, line 10; Form 8825; or Schedule K, line 3b;
- Compensation deferred under a section 409A nonqualified deferred compensation plan that doesn't meet the requirements of section 409A reported on line 20c of Schedule K; and
- Payments the partnership must capitalize. See the instructions for Form 1065, line 10.

Generally, amounts reported on line 4a as guaranteed payment for services and line 4b as guaranteed payment for the use of capital aren't considered to be related to a passive activity. For example, guaranteed payments for personal services paid to a partner would not be passive activity income. Likewise, guaranteed payments for capital are treated as interest for purposes of section 469 and are generally not passive activity income.



A partnership must treat and report a transfer of partnership property to a partner in satisfaction of a guaranteed payment as a sale or exchange, and not a distribution. See Rev. Rul. 2007-40, 2007-25 I.R.B. 1426, for more details.

Schedule K-1. Enter each partner's guaranteed payments for services in box 4a and guaranteed payments for use of capital in box 4b of Schedule K-1. Report each partner's total guaranteed payments in box 4c of Schedule K-1.

Portfolio Income

See Portfolio Income, earlier, for a definition of portfolio income.

Do not reduce portfolio income by deductions allocated to it.

Report such deductions (other than interest expense) on line 13d of

Schedule K. Report each partner's distributive share of deductions (other than interest) allocable to portfolio income in box 13 of Schedule K-1 using code I or L.

Interest expense allocable to portfolio income is generally investment interest expense reported on line 13b of Schedule K. Report each partner's distributive share of interest expense allocable to portfolio income in box 13 of Schedule K-1 using code H.

Line 5. Interest Income

Enter only taxable portfolio interest on this line. Taxable interest is interest from all

sources except interest exempt from tax and interest on tax-free covenant bonds. Include interest income from the credit to holders of tax credit bonds. See the instructions for Other credits (code P) under Line 15f. Other Credits, later, and the Instructions for Form 8912 for details.

Schedule K-1. Enter each partner's distributive share of interest income in box 5 of Schedule K-1. If the partnership is reporting interest income from clean renewable energy bonds, attach a statement to Schedule K-1 that shows each partner's distributive share of interest income from this credit. Partners need this information to properly adjust the basis of their interest in the partnership.

Line 6a. Ordinary Dividends

Enter only taxable ordinary dividends on line 6a, including any qualified dividends reported on line 6b. Do not include any dividend

equivalents reported on line 6c, or, to the extent attributable to previously taxed earnings and profits (PTEP) in annual PTEP accounts of the partnership, any distributions received by the partnership from foreign corporations.

Note. The amount determined by the partnership based on its annual PTEP accounts in determining the amount on line 6a does not include the amount by which distributions are attributable to PTEP in annual PTEP accounts of a direct or indirect partner.

Schedule K-1. Enter each partner's distributive share of ordinary dividends in box 6a of Schedule K-1.

Line 6b. Qualified Dividends

Enter qualified dividends on line 6b. Except as provided below, qualified dividends are dividends received from domestic corporations and qualified foreign

corporations. Do not include any distributions received by the partnership from foreign corporations to the extent that they are attributable to PTEP in annual PTEP accounts of the partnership.

Note. The amount determined by the partnership based on its annual PTEP accounts in determining the amount on line 6b does not include the amount by which distributions are attributable to PTEP in annual PTEP accounts of a direct or indirect partner. **Exceptions.** The following dividends aren't qualified dividends.

- Dividends the partnership received on any share of stock held for less than 61 days during the 121-day period that began 60 days before the ex-dividend date. When determining the number of days the partnership held the stock, don't count certain days during which the partnership's risk of loss was diminished. The ex-dividend

date is the first date following the declaration of a dividend on which the purchaser of a stock isn't entitled to receive the next dividend payment.

When counting the number of days the partnership held the stock, include the day the partnership disposed of the stock but not the day the partnership acquired it.

- Dividends attributable to periods totaling more than 366 days that the partnership received on any share of preferred stock held for less than 91 days during the 181-day period that began 90 days before the ex-dividend date. When determining the number of days the partnership held the stock, do not count certain days during which the partnership's risk of loss was diminished. Preferred dividends attributable to periods totaling less

than 367 days are subject to the 61-day holding period rule above.

- Dividends that relate to payments that the partnership is obligated to make because of short sales or positions in substantially similar or related property.
- Dividends paid by a RIC that aren't treated as qualified dividend income under section 854.
- Dividends paid by a REIT that aren't treated as qualified dividend income under section 857(c).
- Dividends from a corporation which first became a surrogate foreign corporation (as defined in section 7874(a)(2)(B) after December 22, 2017) other than a foreign corporation that is treated as a domestic corporation under section 7874(b). See section 1(h)(11)(C)(iii)(II).

See Pub. 550 for more details.

Qualified foreign corporation. A foreign corporation is a qualified foreign corporation if it is:

1. Incorporated in a possession of the United States, or
2. Eligible for benefits of a comprehensive income tax treaty with the United States that the Secretary determines is satisfactory for this purpose and that includes an exchange of information program. See Notice 2011-64, 2011-37 I.R.B. 231, for details.

If the foreign corporation doesn't meet either (1) or (2) above, then it may be treated as a qualified foreign corporation for any dividend paid by the corporation if the stock associated with the dividend paid is readily tradable on an established securities market in the United States.

However, qualified dividends don't include dividends paid by an entity that was a PFIC (defined in section 1297) in either the tax year of the distribution or the preceding tax year.

See Notice 2004-71, 2004-45 I.R.B. 793, for more details.

Schedule K-1. Enter each partner's distributive share of qualified dividends in box 6b of Schedule K-1.

Attach a statement to the Schedule K-1 identifying the dividends included in box 6a or box 6b that are eligible for the deduction for dividends received under section 243(a), (b), or (c); section 245; or section 245A; or are hybrid dividends as defined in section 245A(e) (4).



If any amounts from line 6b are from foreign sources, see the instructions for Schedules K-2 and K-3 for additional information.

Line 6c. Dividend Equivalents

Information on dividend equivalents, as described in section 871(m), is provided for persons that are not U.S. persons, who are generally required to treat dividend equivalents as U.S.-source dividends, and domestic partnerships with partners who may need this information. Enter the amount of dividend equivalents as defined in section 871(m). See Regulations section 1.871-15 for additional information. For purposes of line 6c, include all amounts that would be included as a dividend equivalent if the amount were paid to a person subject to tax under section 871 or 881, even if the partner is a U.S. person.

Line 7. Royalties

Enter the royalties received by the partnership.

Schedule K-1. Enter each partner's distributive share of royalties in box 7 of Schedule K-1.

Line 8. Net Short-Term Capital Gain (Loss)

Enter the gain (loss) that is portfolio income (loss) from Schedule D (Form 1065), line 7.

Schedule K-1. Enter each partner's distributive share of net short-term capital gain (loss) in box 8 of Schedule K-1.

Line 9a. Net Long-Term Capital Gain (Loss)

Enter the gain or loss that is portfolio income (loss) from Schedule D (Form 1065), line 15.

Schedule K-1. Enter each partner's distributive share of net long-term capital gain (loss) in box 9a of Schedule K-1.



If any gain or loss from line 7 or 15 of Schedule D is from the disposition of nondepreciable personal property used in a trade or business, it may not be treated as portfolio income. Instead, report it on line 11 of Schedule K and report each partner's distributive share in box 11 of Schedule K-1 using code I.

Line 9b. Collectibles (28%) Gain (Loss)

Figure the amount attributable to collectibles from the amount reported on Schedule D (Form 1065), line 15. A collectibles gain (loss) is any long-term gain or deductible long-term loss from the sale or exchange of a collectible that is a capital asset.

Collectibles include works of art, rugs, antiques, metal (such as gold, silver, or platinum bullion), gems, stamps, coins, alcoholic beverages, and certain other tangible property.

Also, include gain (but not loss) from the sale or exchange of an interest in a partnership or trust held for more than 1 year and attributable to unrealized appreciation of collectibles. For details, see Regulations section 1.1(h)-1. Also attach the statement required under Regulations section 1.1(h)-1(e).

Schedule K-1. Report each partner's distributive share of the collectibles (28%) gain (loss) in box 9b of Schedule K-1.

Line 9c. Unrecaptured Section 1250 Gain

The three types of unrecaptured section 1250 gain must be reported separately on an attached statement to Form 1065.

From the sale or exchange of the partnership's business assets. Figure this amount in Part III of Form 4797 for each section 1250 property (except property for which gain is reported using the installment

method on Form 6252) for which you had an entry in Part I of Form 4797. Subtract line 26g of Form 4797 from the smaller of line 22 or line 24. Figure the total of these amounts for all section 1250 properties. Generally, the result is the partnership's unrecaptured section 1250 gain. However, if the partnership is reporting gain on the installment method for a section 1250 property held more than 1 year, see the next paragraph.

The total unrecaptured section 1250 gain for an installment sale of section 1250 property held more than 1 year is figured in a manner similar to that used in the preceding paragraph. However, the total unrecaptured section 1250 gain must be allocated to the installment payments received from the sale. To do so, the partnership must generally treat the gain allocable to each installment payment as unrecaptured section 1250 gain until all such gain has been used in full.

Figure the unrecaptured section 1250 gain for installment payments received during the tax year as the smaller of (a) the amount from line 26 or line 37 of Form 6252 (whichever applies), or (b) the total unrecaptured section 1250 gain for the sale reduced by all gain reported in prior years (excluding section 1250 ordinary income recapture).



If the partnership chose not to treat all of the gain from payments received after May 6, 1997, and before August 24, 1999, as unrecaptured section 1250 gain, use only the amount the partnership chose to treat as unrecaptured section 1250 gain for those payments to reduce the total unrecaptured section 1250 gain remaining to be reported for the sale. See Regulations section 1.453-12.

From the sale or exchange of an interest in a partnership. Also report as a separate amount any gain from the sale or exchange of an interest in a partnership attributable to

unrecaptured section 1250 gain. See Regulations section 1.1(h)-1 and attach the statement required under Regulations section 1.1(h)-1(e).

From an estate, trust, REIT, or RIC. If the partnership received a Schedule K-1 or Form 1099-DIV from an estate, a trust, a REIT, or a RIC reporting “unrecaptured section 1250 gain,” do not add it to the partnership's own unrecaptured section 1250 gain. Instead, report it as a separate amount. For example, if the partnership received a Form 1099-DIV from a REIT with unrecaptured section 1250 gain, report it as “Unrecaptured section 1250 gain from a REIT.”

Schedule K-1. Report each partner's distributive share of unrecaptured section 1250 gain from the sale or exchange of the business assets in box 9c of Schedule K-1. If the partnership is reporting unrecaptured section 1250 gain from an estate, a trust, a REIT, or a RIC, or from the partnership's sale

or exchange of an interest in another partnership (as explained above), enter "STMT" in box 9c and an asterisk (*) in the left column of the box, and attach a statement that separately identifies the amount of unrecaptured section 1250 gain from the following.

- The sale or exchange of the partnership's business assets.
- The sale or exchange of an interest in another partnership.
- An estate, a trust, a REIT, or a RIC.



If any amounts from line 9c are from foreign sources, see the instructions for Schedules K-2 and K-3 for additional information.

Line 10. Net Section 1231 Gain (Loss)

Enter the net section 1231 gain (loss) from Form 4797, line 7.

Do not include net gain or loss from involuntary conversions due to casualty or theft. Report net gain or loss from involuntary conversions due to casualty or theft on line 11 of Schedule K (box 11, code B, of Schedule K-1). See the instructions for line 11 on how to report net gain (loss) due to a casualty or theft.

Schedule K-1. Report each partner's distributive share of net section 1231 gain (loss) in box 10 of Schedule K-1. If the partnership has more than one rental, trade, or business activity, identify on an attached statement to Schedule K-1 the amount of section 1231 gain (loss) from each separate activity. See Passive Activity Reporting Requirements, earlier.



*If any amounts from line 10 are from foreign sources, see the instructions for Schedules K-2 and K-3 for additional **CAUTION** information.*

Line 11. Other Income (Loss)

Enter any other item of income or loss not included on lines 1 through 10. On the line to the left of the entry space for line 11, identify the type of income. If there is more than one type of income, attach a statement to Form 1065 that separately identifies each type and amount of income for each of the following categories. The codes needed for Schedule K-1 reporting are provided for each category.

Other portfolio income (loss) (code A).

Portfolio income not reported on lines 5 through 10.

Report and identify other portfolio income or loss on an attached statement for line 11.

For example, income reported to the partnership from a REMIC, in which the partnership is a residual interest holder, would be reported on an attached statement for line 11. If the partnership holds a residual interest in a REMIC, report on the attached

statement for box 11 of Schedule K-1 the partner's share of the following.

- Taxable income (net loss) from the REMIC (line 1b of Schedules Q (Form 1066)).
- Excess inclusion (line 2c of Schedules Q (Form 1066)).
- Section 212 expenses (line 3b of Schedules Q (Form 1066)). Do not report these section 212 expense deductions related to portfolio income on Schedules K and K-1.

Because Schedule Q (Form 1066) is a quarterly statement, the partnership must follow the Schedule Q instructions to figure the amounts to report to partners for the partnership's tax year.

Involuntary conversions (code B). Net gain (loss) from involuntary conversions due to casualty or theft. The amount for this line

is shown on Form 4684, Casualties and Thefts, line 38a, 38b, or 39.

Each partner's share must be entered on Schedule K-1. Give each partner a schedule that shows the amounts to be reported on the partner's Form 4684, line 34, columns (b)(i), (b)(ii), and (c).

If there was a gain (loss) from a casualty or theft to property not used in a trade or business or for income-producing purposes, notify the partner. The partnership should not complete Form 4684 for this type of casualty or theft. Instead, each partner will complete their own Form 4684.

Section 1256 contracts and straddles (code C). Report any net gain or loss from section 1256 contracts from Form 6781, Gains and Losses From Section 1256 Contracts and Straddles.

Mining exploration costs recapture (code D). Provide the information partners need to recapture certain mining exploration expenditures. See Regulations section 1.617-3.

Cancellation of debt (code E). If cancellation of debt is reported to the partnership on Form 1099-C, report each partner's distributive share in box 11 using code E. Amounts related to forgiven PPP loans are disregarded for purposes of this question.



Include the amount of income the partnership must recognize for a transfer of a partnership interest in satisfaction of a partnership debt when the debt relieved exceeds the FMV of the partnership interest. See section 108(e)(8) for more information.

Section 743(b) positive income adjustments (code F). For partnerships other than PTPs, report the partner's share of net positive income resulting from all section

743(b) adjustments. For purposes of code F, net positive income from all section 743(b) adjustments means the excess of all section 743(b) adjustments allocated to the partner that increase the partner's taxable income over all section 743(b) adjustments that decrease the partner's taxable income. Attach a statement to 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.

Reserved for future use (code G).

Section 951(a) income inclusions (code H). If the partnership is a domestic partnership, enter any section 951(a) income inclusions of the domestic partnership. A domestic partnership may only have section 951(a) income inclusions with respect to a

foreign corporation and a tax year of the foreign corporation that begins before January 25, 2022, if the domestic partnership (i) does not apply Regulations section 1.958-1(d)(1) through (3) to such tax year to be treated as not owning stock of the foreign corporation within the meaning of section 958(a) for purposes of section 951, and (ii) is a U.S. shareholder of the foreign corporation during such tax year. A domestic partnership does not have section 951(a) income inclusions with respect to a foreign corporation for tax years of the foreign corporation that begin on or after January 25, 2022, under Regulations section 1.958-1(d)(1). Additionally, if the partnership, domestic or foreign, has a distributive share of section 951(a) income inclusions of a lower-tier partnership, enter the partnership's distributive share of the section 951(a) income inclusions. If the partnership does not have a section 951(a) income inclusion with respect to a foreign corporation stock of

which it owns within the meaning of section 958(a) and without regard to Regulations section 1.958-1(d), see Schedule K-2, Part VI, for reporting of information with respect to section 951(a) income inclusions of certain partners with respect to the foreign corporation. Attach a statement to the Schedule K-1 identifying the section 951(a) income inclusions attributable to the sale or exchange by a CFC of stock in another foreign corporation described in section 964(e)(4) or attributable to hybrid dividends of tiered corporations under section 245A(e)(2).

Other income (loss) (code I). Include any other type of income, such as the following.

- The partner's distributive share of the partnership's gain or loss attributable to the sale or exchange of qualified preferred stock of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). On an

attached statement, show (a) the gain or loss attributable to the sale or exchange of the qualified preferred stock, (b) the date the stock was acquired by the partnership, and (c) the date the stock was sold or exchanged by the partnership. See Rev. Proc. 2008-64, 2008-47 I.R.B. 1195, for more information.

- Recoveries of tax benefit items (section 111).
- Gambling gains and losses subject to the limitations in section 165(d). Indicate on an attached statement whether or not the partnership is in the trade or business of gambling.
- Disposition of an interest in oil, gas, geothermal, or other mineral properties. Report the following information on an attached statement to Schedule K-1.

- (a) Description of the property.
- (b) The partner's share of the amount realized on the sale, exchange, or involuntary conversion of each property (FMV of the property for any other disposition, such as a distribution).
- (c) The partner's share of the partnership's adjusted basis in the property (except for oil or gas properties).
- (d) Total intangible drilling costs, development costs, and mining exploration costs (section 59(e) expenditures) passed through to the partner for the property.

See Regulations section 1.1254-5 for more information.

- Gains from the disposition of farm recapture property (see Form 4797)

and other items to which section 1252 applies.

- Any income, gain, or loss to the partnership under section 751(b).
When a partnership makes a distribution and the partnership holds section 751 property, if any partner has any gain or loss under section 751(b), the partnership must report the net of all such gains or losses.
- Specially allocated ordinary gain (loss).
- Any gain or loss from line 7 or 15 of Schedule D (Form 1065) that isn't portfolio income (for example, gain or loss from the disposition of nondepreciable personal property used in a trade or business).
- Gain from the sale or exchange of qualified small business (QSB) stock (as defined in the Instructions for

Schedule D) that is eligible for the section 1202 exclusion. The section 1202 exclusion applies only to QSB stock held by the partnership for more than 5 years. Corporate partners aren't eligible for the section 1202 exclusion.

Additional limitations apply at the partner level. Report each partner's share of section 1202 gain on Schedule K-1. Each partner will determine if they qualify for the section 1202 exclusion. Report on an attached statement to Schedule K-1 for each sale or exchange (a) the name of the corporation that issued the QSB stock, (b) the partner's share of the partnership's adjusted basis and sales price of the QSB stock, and (c) the dates the QSB stock was bought and sold.

- Gain eligible for section 1045 rollover (replacement stock purchased by the partnership). Include only gain from the sale or exchange of QSB stock (as

defined in the Instructions for Schedule D) that was deferred by the partnership under section 1045 and reported on Form 8949 and/or Schedule D. See the Instructions for Schedule D, and the Instructions for Form 8949 for more details. The partnership makes the election for section 1045 rollover on a timely filed (including extensions) return for the year in which the sale occurred. Corporate partners aren't eligible for the section 1045 rollover. Additional limitations apply at the partner level. Each partner will determine if they qualify for the rollover. Report on an attached statement to Schedule K-1 for each sale or exchange (a) the name of the corporation that issued the QSB stock, (b) the partner's share of the partnership's adjusted basis and sales price of the QSB stock, (c) the dates the QSB stock was bought and

sold, (d) the partner's distributive share of gain from the sale of the QSB stock, and (e) the partner's distributive share of the gain that was deferred by the partnership under section 1045. Only report these amounts on Schedule K-1; don't include on line 11 of Schedule K.

- Gain eligible for section 1045 rollover (replacement stock not purchased by the partnership). Include only gain from the sale or exchange of QSB stock (as defined in the Instructions for Schedule D) the partnership held for more than 6 months but that wasn't deferred by the partnership under section 1045. See the Instructions for Schedule D for more details. A partner (other than a corporation) may be eligible to defer their distributive share of this gain under section 1045 if the partner

purchases other QSB stock during the 60-day period that began on the date the QSB stock was sold by the partnership. Additional limitations apply at the partner level. Report on an attached statement to Schedule K-1 for each sale or exchange (a) the name of the corporation that issued the QSB stock, (b) the partner's share of the partnership's adjusted basis and sales price of the QSB stock, (c) the dates the QSB stock was bought and sold, and (d) the partner's distributive share of gain from the sale of the QSB stock.

For more information, see Regulations section 1.1045-1. Only report these amounts on Schedule K-1; don't include on line 11 of Schedule K.

Distribution of replacement QSB stock to a partner that reduces the interest of another partner in replacement QSB

stock. A partner must recognize gain upon a distribution of replacement QSB stock to another partner that reduces the partner's share of the replacement QSB stock held by a partnership. The amount of gain that the partner must recognize is based on the amount of gain that the partner would recognize upon a sale of the distributed replacement QSB stock for its FMV on the date of the distribution, not to exceed the amount that the partner previously deferred under section 1045 related to the distributed replacement QSB stock. If the partnership distributed a partner's share of replacement QSB stock to another partner, the partnership must give the partner whose share of the replacement QSB stock is reduced (a) the name of the corporation that issued the replacement QSB stock, (b) the date the replacement QSB stock was distributed to

another partner or partners, and (c) the partner's share of the partnership's adjusted basis and FMV of the replacement QSB stock on such date.

Schedule K-1. Enter each partner's distributive share of the other income categories listed earlier in box 11 of Schedule K-1. Enter the applicable code A, B, C, D, E, F, H, or I (as shown earlier).

If you are reporting each partner's distributive share of only one type of income under code I, enter the code with an asterisk (I*) and the dollar amount in the entry space in box 11 and attach a statement that shows "Box 11, Code I" and the type of income. If you are reporting multiple types of income under code I, enter the code with an asterisk (I*) and enter "STMT" in the entry space in box 11 and attach a statement that shows "Box 11, Code I" and the dollar amount of each type of income.

If the partnership has more than one trade or business or rental activity (for codes B through F, H, and I), identify on an attached statement to Schedule K-1 the amount from each separate activity. See Passive Activity Reporting Requirements, earlier.

Deductions

Line 12. Section 179 Deduction

A partnership can elect to expense part or all of the cost of certain property the partnership purchased during the tax year for use in its trade or business (including certain rental activities, if the renting of the property is the partnership's trade or business). See Pub. 946 for a definition of what kind of property qualifies for the section 179 expense deduction and the Instructions for Form 4562 for limitations on the amount of the section 179 expense deduction.

Complete Part I of Form 4562 to figure the partnership's section 179 expense deduction. The partnership doesn't take the deduction itself but instead passes it through to the partners. Attach Form 4562 to Form 1065 and show the total section 179 expense deduction on Schedule K, line 12.

The partnership must reduce the basis of the asset by the amount of the section 179 expense elected by the partnership, even if a portion of that amount cannot be passed through to its partners that year and must be carried forward because of limitations at the partnership level. Do not reduce the partnership's basis in section 179 property to reflect any portion of the section 179 expense that is allocable to a partner that is a trust or estate.

Identify on an attached statement to Schedules K and K-1 the cost of section 179 property placed in service during the year that is a qualified enterprise zone property.

See the Instructions for Form 4562 for more details.

See the instructions for line 20c of Schedule K for sales or other dispositions of property for which a section 179 deduction has passed through to partners and for the recapture rules if the business use of the property dropped to 50% or less.

Schedule K-1. Report each partner's distributive share of the section 179 expense deduction in box 12 of Schedule K-1. If the partnership has more than one trade or business activity, identify on an attached statement to Schedule K-1 the amount of section 179 deduction from each separate activity. See Passive Activity Reporting Requirements, earlier.

Do not complete box 12 of Schedule K-1 for any partner that is an estate or a trust; estates and trusts aren't eligible for the section 179 expense deduction.

Line 13a. Contributions

No deduction is allowed for any contribution of \$250 or more unless the partnership obtains a written acknowledgment from the charitable organization that shows the amount of cash contributed, describes any property contributed, and gives an estimate of the value of any goods or services provided in return for the contribution. The acknowledgment must be obtained by the due date (including extensions) of the partnership return or, if earlier, the date the partnership files its return. Do not attach the acknowledgment to the partnership return, but keep it with the partnership's records. These rules apply in addition to the filing requirements for Form 8283, Noncash Charitable Contributions, described below.

Cash contributions of any amount must be supported by a dated bank record or receipt.

Enter charitable contributions made during the tax year. Attach a statement to Form 1065 that separately identifies the partnership's contributions for each of the following categories. See *Limits on Deductions* in Pub. 526, Charitable Contributions, for information on adjusted gross income (AGI) limitations on deductions for charitable contributions.

The codes needed for Schedule K-1 reporting are provided for each category.

Cash contributions (60%) (code A).

Enter cash contributions subject to the 60% AGI limitation. Don't include in the amount reported using code A the cash contributions reported using code G.

Cash contributions (30%) (code B).

Enter cash contributions subject to the 30% AGI limitation.

Noncash contributions (50%) (code C).

Enter noncash contributions subject to the 50% AGI limitation.

Qualified conservation contributions. The AGI limit for qualified conservation contributions under section 170(h) is 50%. The carryover period is 15 years. See section 170(b) and Notice 2007-50, 2007-25 I.R.B. 1430, for details. Report qualified conservation contributions with a 50% AGI limitation in box 13 of Schedule K-1 using code C. Do not include in the amount reported using code C the conservation contributions of property used in agriculture or livestock production reported on Schedule K-1 using code G.

Charitable contributions of food

inventory. Attach a statement to Schedule K-1 that shows the following.

- The partner's distributive share of the amount of the charitable contributions made under section 170(e)(3) for

qualified inventory that was donated to charitable organizations for the care of the ill, needy, and infants. The food must meet all the quality and labeling standards imposed by federal, state, and local laws and regulations. The amount of the charitable contribution for donated food inventory is the lesser of (a) the basis of the donated food plus one-half of the appreciation (gain if the donated food was sold at FMV on the date of the gift), or (b) twice the amount of basis of the donated food. A partnership that doesn't account for inventories and isn't required to capitalize indirect costs under section 263A may elect to treat the basis of the donated food as equal to 25% of the FMV of the food.

- See section 170(e)(3)(C) for more details.

- The partner's distributive share of the net income for the tax year from the partnership's trades or businesses that made the contribution of food inventory.



Don't include the amount of food inventory contributions in the amount reported in box 13 using code C. These contributions must be reported separately on an attached statement because partners must separately determine the limitations on the deduction.

Noncash contributions (30%) (code D).

Enter noncash contributions subject to the 30% AGI limitation.

Capital gain property to a 50% limit organization (30%) (code E). Enter capital gain property contributions subject to the 30% AGI limitation.

Capital gain property (20%) (code F).

Enter capital gain property contributions subject to the 20% AGI limitation.

Contributions of property. See *Contributions of Property* in Pub. 526, and Pub. 561, *Determining the Value of Donated Property*, for information on noncash contributions and contributions of capital gain property. If the deduction claimed for noncash contributions exceeds \$500, complete Form 8283 and attach it to Form 1065.

If the partnership made a qualified conservation contribution under section 170(h), also include the FMV of the underlying property before and after the donation, as well as the type of legal interest contributed, and describe the conservation purpose furthered by the donation. Give a copy of this information to each partner.

Nondeductible contributions. Certain contributions made to an organization conducting lobbying activities are not deductible. See section 170(f)(9) for more details. Also, see *Contributions You Can't Deduct* in Pub. 526 for more examples of nondeductible contributions.

Contributions (100%) (code G). Use code G to report the contributions below and, on an attached statement, provide the following information.

Qualified conservation contributions of property used in agriculture or livestock production. Enter qualified conservation contributions of property used in agriculture or livestock production. The contribution must be subject to a restriction that the property remain available for such production. See section 170(b)(1)(E)(iv) for details.

If the partnership is a qualified farmer or rancher (as defined in section 170(b)(1)(E)(v)), show each partner's

distributive share of qualified conservation contributions of property used in agriculture or livestock production. Partners will have to separately determine whether they qualify for the 50% or 100% AGI limitation for these contributions. Do not include the amounts reported on the attached statement using code G in the amount reported on Schedule K-1 for qualified conservation contributions using code C.

Schedule K-1. Report each partner's distributive share of charitable contributions in box 13 of Schedule K-1 using codes A through F for each of the contribution categories shown above. For code G items, report them by entering code G with an asterisk (G*) and entering "STMT" in the dollar amount entry space for box 13 and attach a statement that shows "Box 13, Code G" and the dollar amount of each type of deduction. The partnership must attach a copy of its Form 8283 to the Schedule K-1 of

each partner receiving a distributive share of the contribution deduction shown in Section A or Section B of its Form 8283.

Line 13b. Investment Interest Expense (Code H)

Include on this line the interest properly allocable to debt on property held for investment purposes. Property held for investment includes property that produces income (unless derived in the ordinary course of a trade or business) from interest, dividends, annuities, or royalties; and gains from the disposition of property that produces those types of income or is held for investment.

Investment interest expense doesn't include interest expense allocable to a passive activity.

Investment income and investment expenses other than interest are reported on lines 20a and 20b, respectively. This information is

needed by partners to determine the investment interest expense limitation (see Form 4952 for details).

Schedule K-1. Report each partner's distributive share of investment interest expense in box 13 of Schedule K-1 using code H.

Lines 13c(1) and 13c(2). Section 59(e)(2) Expenditures (Code J)

Generally, section 59(e) allows each partner to make an election to deduct their distributive share of the partnership's otherwise deductible qualified expenditures ratably over 10 years (3 years for circulation expenditures). The deduction is taken beginning with the tax year in which the expenditures were made (or for intangible drilling and development costs, over the 60-month period beginning with the month in which such costs were paid or incurred).

The term “qualified expenditures” includes only the following types of expenditures paid or incurred during the tax year.

- Circulation expenditures.
- Research and experimental expenditures.
- Intangible drilling and development costs.
- Mining exploration and development costs.

If a partner makes the election, these items aren't treated as alternative minimum tax (AMT) tax preference items. Because the partners are generally allowed to make this election, the partnership cannot deduct these amounts or include them as AMT items on Schedule K-1. Instead, the partnership passes through the information the partners need to figure their separate deductions. On line 13c(1), enter the type of expenditures claimed on line 13c(2). Enter on line 13c(2)

the qualified expenditures paid or incurred during the tax year for which an election under section 59(e) may apply. Enter this amount for all partners whether or not any partner makes an election under section 59(e).

On an attached statement, identify the property for which the expenditures were paid or incurred. If the expenditures were for intangible drilling costs or development costs for oil and gas properties, identify the month(s) in which the expenditures were paid or incurred. If there is more than one type of expenditure or more than one property, provide the amounts (and the months paid or incurred if required) for each type of expenditure separately for each property.

Schedule K-1. Report each partner's distributive share of section 59(e) expenditures in box 13 of Schedule K-1 using code J. Identify the following on an attached statement: (a) the type of expenditure; (b)

the property for which the expenditures are paid or incurred; and (c) for oil and gas properties only, the month in which intangible drilling costs and development costs were paid or incurred. If there is more than one type of expenditure or the expenditures are for more than one property, provide each partner's distributive share of the amounts (and the months paid or incurred for oil and gas properties) for each type of expenditure separately for each property.

Line 13d. Other Deductions

Enter deductions not included on lines 12, 13a, 13b, 13c(2), and 21. On the line to the left of the entry space for this line, identify the type of deduction. If there is more than one type of deduction, attach a statement to Form 1065 that separately identifies the type and amount of each deduction for the following categories. The codes needed for Schedule K-1 reporting are provided for each category.