

# Instructions for Form 8582

## Passive Activity Loss Limitations

# 2025

---

Volume 2 of 2



Department of the Treasury  
**Internal Revenue Service**

Instructions for Form 8582 (Rev 2025) Catalog Number 47709E  
Department of the Treasury **Internal Revenue Service** [www.irs.gov](http://www.irs.gov)



Visit the Accessibility  
Page on [IRS.gov](http://IRS.gov)

This page intentionally left blank

## Part IV

Individuals and qualifying estates who actively participated in rental real estate activities must include the income or loss from those activities in Part IV to figure the amounts to enter on Part I, lines 1a through 1c, of Form 8582.

Don't enter a prior-year unallowed loss in column (c) of Part IV unless you actively participated in the activity in both the year the loss arose and the current tax year. If you didn't actively participate in both years, enter the prior-year unallowed loss in column (c) of Part V.

**Caution:** Married individuals who file separate returns and lived with their spouses at any time during the tax year don't qualify under the active participation rule and must use Part V instead of Part IV.

**Column (a).** Enter the current year net income from each activity. Enter the total of column (a) on Part I, line 1a, of Form 8582.

**Example.** A Schedule E rental activity has current year profit of \$5,000 and a Form 4797 gain of \$2,000. You enter \$7,000 in column (a).

**Column (b).** Enter the current year net loss for each activity. Don't enter any prior-year unallowed losses in this column. Enter the total of column (b) on Part I, line 1b, of Form 8582.

If an activity has net income on one form or schedule and a net loss on another form or schedule, report the net amounts separately in columns (a) and (b) of Part IV.

**Example.** A Schedule E rental activity has current year income of \$1,000 on line 21 of Schedule E and a current year Form 4797 loss of \$4,500. You enter \$1,000 in column (a) and \$4,500 in column (b).

**Column (c).** Enter the prior-year unallowed losses for each activity. You find these amounts in Part VII, column (c), of your 2024 Form 8582. Enter the total of column (c) from your 2025 Part IV on Part I, line 1c, of Form 8582.

**Columns (d) and (e).** Combine income and losses in columns (a) through (c) for each activity, and either enter the overall gain for the activity in column (d) or enter the overall loss for the activity in column (e). Don't enter amounts from columns (d) and (e) in Part I, II, or III of Form 8582. These amounts will be used when the rest of Form 8582 is completed to figure the loss allowed for the current year.

## **Part V**

Use Part V to figure the amounts to enter on Part I, lines 2a through 2c, for:

- Passive trade or business activities,

- Passive rental real estate activities that don't qualify for the special allowance, and
- Rental activities other than rental real estate activities.

If you have prior-year unallowed CRD from passive activities other than rental real estate activities, include that amount in Part V. Add "CRD" after the name of the activity.

**Column (a).** Enter the current year net income for each activity. Enter the total of column (a) on Part I, line 2a, of Form 8582. (See the example under Column (a) for Part IV, earlier.)

**Column (b).** Enter the current year net loss for each activity. Enter the total of column (b) on Part I, line 2b, of Form 8582. (See the example under Column (b) for Part IV, earlier.)

**Column (c).** Enter the unallowed losses for the prior years for each activity. You find these amounts in Part VII, column (c),

of your 2024 Form 8582. Enter the total of column (c) from your 2025 Part V on Part I, line 2c, of Form 8582.

**Columns (d) and (e).** Combine income and losses in columns (a) through (c) for each activity, and either enter the overall gain for the activity in column (d) or enter the overall loss for the activity in column (e). Don't enter amounts from columns (d) and (e) in Part I, II, or III of Form 8582. These amounts will be used when the rest of Form 8582 is completed to figure the loss allowed for the current year.

## **Part II—Special Allowance for Rental Real Estate Activities With Active Participation**

**Caution:** If your filing status is married filing separately and you lived with your spouse at any time during the year, you are not eligible for the special allowances in Part II.

Do not complete Part II. Instead, go to Part III of Form 8582.

See the instructions for Part III, later.

Use Part II to figure the maximum amount of rental loss allowed if you have an overall loss on Part I, line 1d, from your rental real estate activities you actively participated in during 2025.

**Note:** If you included prior-year unallowed CRD from rental real estate activities in line 3, first figure the special \$25,000 allowance for losses from rental real estate activities with active participation from Part I, line 1d, if any, without regard to the CRD, by completing lines 4 through 8. To apply any remaining portion of the \$25,000 allowance to prior-year unallowed CRD from rental real estate activities, see the instructions for line 9.

**Caution:** If you're claiming both the premium tax credit



(PTC) and self-employed health insurance deduction (SEHID) and Part I, lines 1d and 3, of Form 8582 are both losses, see *Self-Employed Health Insurance Deduction and PTC* in Pub. 974. You'll have to complete worksheets in Pub. 974 before you complete Part II of Form 8582.

Enter all numbers in Part II as positive amounts (that is, greater than zero).

**Example.** Part II, line 4, has a loss of \$42,000 (reported as a positive amount) and line 8 is \$25,000. You enter \$25,000 on line 9 (the smaller of line 4 or line 8, both treated as positive amounts).

**Note:** If you included prior-year unallowed CRD from rental real estate activities in line 3, and line 3 is a loss and line 1d is a loss, complete lines 4 through 8, then see the instructions for line 9 below. If line 1d of Part I is zero or more, and line 3 is a loss, go directly to the instructions for line 9 below.

**Line 4.** Enter on line 4 the smaller of the loss on Part I, line 1d, or the loss on line 3.

**Example.** Part I, line 1d, has a loss of \$3,000 and line 2d has a gain of \$100. The combined loss on line 3 is \$2,900. You enter \$2,900 as a positive number on Part II, line 4 (the smaller of the loss on Part I, line 1d, or the loss on line 3).

**Line 5.** Married persons filing separate returns who lived apart from their spouses at all times during the year must enter \$75,000 on line 5 instead of \$150,000.

**Line 6.** To figure modified adjusted gross income, combine all the amounts used to figure adjusted gross income, except don't take into account:

- Any passive activity loss as defined in section 469(d)(1),
- Any rental real estate loss allowed to real estate professionals (defined under

Activities That Are Not Passive Activities, earlier),

- The taxable amount of social security and tier 1 railroad retirement benefits,
- Deductible contributions to traditional individual retirement accounts (IRAs) and section 501(c)(18) pension plans,
- The deduction allowed for the deductible part of self-employment taxes,
- The exclusion from income of interest from series EE and I U.S. savings bonds used to pay higher education expenses,
- The exclusion of amounts received under an employer's adoption assistance program,
- The student loan interest deduction, or
- The deduction allowed for foreign-derived intangible income and global intangible low-taxed income.

Include in modified adjusted gross income any portfolio income and expenses that are clearly and directly allocable to portfolio income. Also include any income that's treated as nonpassive income, such as overall gain from a PTP and net income from an activity or item of property subject to the recharacterization of passive income rules.

When figuring modified adjusted gross income, include any overall loss from the entire disposition of a passive activity (considered a nonpassive loss).

**Example.** Your adjusted gross income on line 11 of Form 1040 or Form 1040-SR is \$92,000 and you have taxable social security benefits of \$5,500 on line 6b. Your modified adjusted gross income is \$86,500 (\$92,000 – \$5,500).

**Line 8.** Don't enter more than \$12,500 on line 8 if you're married filing a separate return and you and your spouse lived apart at all times during the year.

**Line 9.** If you do not have prior-year unallowed CRD from rental real estate activities, enter the smaller of line 4 or line 8 on line 9.

If you have prior-year unallowed CRD from rental real estate activities included in line 3 of Part I, and you have a loss on line 1d and line 3 of Part I, first figure the \$25,000 special allowance for losses from rental real estate activities with active participation, without regard to the CRD, by completing lines 4 through 8, then go to the Worksheet below. If line 1d of Part I is zero or more, and line 3 is a loss, complete the Worksheet below and enter the result on line 9 as described below.

The remaining portion of the \$25,000 allowance, if any, is available for the prior-year unallowed CRD from rental real estate activities. Use the Worksheet to figure the maximum amount of prior year unallowed CRD allowed from rental real estate activities.

## **Worksheet for Special Allowance for Prior Unallowed Commercial Revitalization Deductions From Rental Real Estate Activities**

Enter all numbers in this calculation as  
positive amounts (greater than zero)

- A. Enter \$25,000\* reduced by the  
amount, if any, of the smaller of  
Part II, line 4 or line 8 . . . . . \$\_\_\_\_\_
- B. Enter the loss from Part I, line 3 \$\_\_\_\_\_
- C. Reduce line B by the amount of  
the smaller of Part II, line 4 or  
line 8 . . . . . \$\_\_\_\_\_
- D. Enter the smallest of the amount  
of the prior unallowed CRD (as a  
positive amount), the amount on  
line A, or the amount on line C . . \$\_\_\_\_\_

\* Enter \$12,500 (reduced by the amount, if any, of the smaller of Part II, line 4 or line 8) on line A if you're married but filing a separate return and you and your spouse lived apart at all times during the year.

Combine line D with the smaller of line 4 or line 8 and enter the combined amount on line 9. Enter "CRD" and the dollar amount of the special allowance for CRD on the dotted line.

## **Part III—Total Losses Allowed**

Use Part III to figure the amount of the losses from all passive activities (as determined in Part I) allowed for 2025.

**Line 11.** Use Parts IV through IX of Form 8582 and the related instructions to figure the unallowed loss to be carried forward and the allowed loss to report on your forms and schedules for 2025.

## **Parts IV and V**

Parts IV and V, columns (d) and (e), show whether an activity had an overall gain or loss. If you have activities that show overall gain in column (d) of Part(s) IV and/or V, report all the income and losses listed in columns (a), (b), and (c) for those activities on the proper forms and schedules, including Form 8582.

If you have activities that show an overall loss in column (e) of Part(s) IV and/or V, you must allocate your allowed loss on Part III, line 11, of Form 8582 to those activities by completing Parts VI, VII, plus VIII and/or IX.

Complete Part VI only if you entered an amount (other than zero) on Part II, line 9, of Form 8582. Otherwise, skip Part VI and complete Part VII for all activities in Part(s) IV and/or V that have overall losses in column (e) and any amount of prior-year unallowed CRD included in line 3.



## Part VI

Use Part VI to allocate the special allowance on Part II, line 9, of Form 8582 among your rental real estate activities.

If you used the Worksheet in the instructions for line 9 to apply any remaining special allowance to prior-year unallowed CRD from one or more rental real estate activities, complete a separate Part VI to allocate that portion of the special allowance to those CRD activities.

In the first column of Part VI, enter the name of each activity. In the second column, enter the form or schedule and line number on which the loss will be reported.

***Example.*** You receive a Schedule K-1 from partnership P that reports losses from two rental real estate activities, Activity X and Activity Y. The losses from partnership P are reported on line 28A of Schedule E.

In the first two columns of Part VI, enter:

<b>Name of activity</b>	<b>Form or schedule</b>
Activity X	Sch E, line 28A
Activity Y	Sch E, line 28A

If the loss from an activity is reported in more than one place, identify both locations in the second column (for example, Sch E, line 28A/Form 4797, line 2). If you need additional space, show this information on an attached statement.

If you entered an amount on Part II, line 9, and there is no amount included in line 9 from prior-year disallowed CRD, list in Part VI all activities with an overall loss in column (e) of Part IV.

If you also included an amount for prior-year unallowed CRD from rental real estate activities in line 9, complete another Part IV for these CRD activities.

You can use another Part IV or your own schedule in the same format as Part IV. Enter the prior-year unallowed CRD for each activity in column (a) of the second Part IV. Then follow the instructions for column (b) and column (c) below for each Part IV.

**Column (a).** Enter the overall loss from column (e) of Part IV for each activity.

**Column (b).** Divide each of the individual losses shown in column (a) by the total of all the losses in column (a), and enter this ratio for each activity in column (b). The total of all the ratios in column (b) must equal 1.00.

**Column (c).** Multiply each ratio in column (b) by the amount on Part II, line 9, of Form 8582, if there is no prior-year unallowed CRD from rental real estate activities, and enter the results in column (c). The total of column (c) must be the same as Part II, line 9, of Form 8582.

If there is prior-year unallowed CRD included in Part II, line 9:

1. For the Part VI for rental real estate activities with active participation, multiply each ratio in column (b) by the lesser of line 4 or line 8; and
2. For the Part VI for prior-year unallowed CRD, multiply each ratio in column (b) by the amount from line D of the Worksheet in the instructions for line 9 above.

The total of column (c) for the Part VI for rental real estate activities with active participation should be the same as the lesser of line 4 or line 8, Part II, and the total of column (c) for the second Part VI for prior-year unallowed CRD should be the amount from line D of the Worksheet.

***Column (c) total is the same as column (a) total.*** If the total losses in column (c) are the same as those in column (a), the losses in Part IV (or, in the case of the second Part VI for prior unallowed CRD, the additional amount listed in Part I, line 3) are allowed in full and aren't carried over to Part VII. Report all amounts in columns (a), (b), and (c) of Part IV on the proper forms and schedules.

***Column (c) total is less than column (a) total.*** If the total losses in column (c) are less than the total losses in column (a), complete column (d).

**Column (d).** Subtract column (c) from column (a) and enter the results in column (d). Also enter the amounts from column (d) of Part VI in column (a) of Part VII.

## **Part VII—Allocation of Unallowed Losses**

Complete Part VII if any activities have an overall loss in column (e) of Part V or losses in column (d) of Part VI (in column (e)

of Part IV and any prior-year unallowed CRD included in Part I, line 3, if you didn't have to complete Part VI).

On Part VII, enter the name of each activity and the form or schedule and line number on which the loss will be reported. See the Example for Part VI. If you have prior-year unallowed CRD from a passive activity other than rental real estate in Part V, and/or unallowed losses for prior-year CRD from a rental real estate activity in Part VI, column (d), add "CRD" after the name of each of the activities.

**Column (a).** Enter the amounts, if any, from column (d) of Part VI (from column (e) of Part IV and any prior-year unallowed CRD included in Part I, line 3, if you didn't have to complete Part VI). Also enter the losses, if any, from column (e) of Part V.

**Column (b).** Divide each of the individual losses shown in column (a) by the total of all the losses in column (a) and enter this ratio for each activity in column (b). The total of all the ratios must equal 1.00.

**Column (c).** Complete the following computation.

---

**A.** Enter as a positive amount Part I,  
line 3, of Form 8582 . . . . . \_\_\_\_\_

**B.** Enter Part II, line 9, of Form 8582 . \_\_\_\_\_

**C.** Subtract line B from line A . . . . . \_\_\_\_\_

Multiply each ratio in column (b) by the amount on line C above, and enter the result in column (c).

## **Parts VIII and IX**

Parts VIII and IX figure your unallowed and allowed losses for each activity.

If you have losses from any activity that are reported on two or more different forms or schedules, use Part IX instead of Part VIII for that activity.

Also use Part IX instead of Part VIII for any activity with two or more transactions that are reported on the same form or schedule but must be separately identified for tax purposes. Transactions that must be separately identified include capital losses that are 28% rate losses and those that aren't.

**Note:** 28% rate gain or loss includes all collectibles gains and deductible long-term losses and section 1202 gain on the sale of qualified small business stock. See the Instructions for Schedule D for details.



## Part VIII—Allowed Losses

Use Part VIII for any activity listed in Part VII if all the loss from that activity is reported on one form or schedule and no transactions need to be identified separately (as discussed in Part IX, later). Also see *Identification of Disallowed Passive Activity Deductions* in Pub. 925 for more information.

**Example.** You will report all the allowed loss from an activity listed in Part VII on Schedule E. Use Part VIII to determine the allowed loss, even if part of the loss is a current year Schedule E loss and part of it is a prior-year unallowed Schedule E loss.

In Part VIII, enter the name of each activity and the form or schedule and line number on which the loss is reported. Identify each CRD from Part VII on a separate line of Part VIII and add "CRD" after the name of the activity. See the Example for Part VI.

**Column (a).** For each activity entered in Part VIII, enter the net loss plus the prior-year unallowed loss for the activity. Figure this amount by adding the losses in columns (b) and (c) of Parts IV and V and any prior-year unallowed CRD included in Part I, line 3.

**Column (b).** For each activity entered in Part VIII, enter the amount from column (c) of Part VII for the activity. These are your unallowed losses for 2025. Keep a record of these amounts so the losses can be used to figure your PAL next year.

**Column (c).** Subtract column (b) from column (a). These amounts are the losses allowed for 2025 under the passive loss rules. Report the amounts in this column on the forms and schedules normally used, subject to any further limitations described in Coordination With Other Limitations, earlier.

See the forms and schedules listed under How To Report Allowed Losses, later.

## **Part IX—Activities With Losses Reported on Two or More Forms or Schedules**

Use Part IX for any activity listed in Part VII that has losses that are reported on two or more different forms and schedules or are identified separately on the same form or schedule (for example, 28% rate and non-28%-rate capital losses reported on Form 8949). Part IX allocates the allowed and unallowed loss for the activity and allocates the allowed loss to the different forms or schedules (or where identified separately on the same form or schedule) used to report the losses.

Only losses that would cause a difference in tax liability if they were reported on a different form or schedule or are identified separately on the same form or schedule are kept separate.

Those forms, schedules, and parts are the following.

- Schedules C, E, and F.
- Form 8949 (Parts I and II (28% rate losses and non-28%-rate losses)).

**Note:** You must generally make a separate entry in Form 8949, Part I or Part II, for each transaction reported. See the Instructions for Form 8949.

- Forms 4684 (Section B), 4797 (Parts I and II), and 4835.

Use a separate copy of Part IX for each activity for which you have losses reported on two or more different forms or schedules or which are identified separately on the same form or schedule.

In Part IX, enter the form or schedule and line number on the dotted line above each line 1a (for example, Schedule D, line 12, to report a long-term capital loss from a partnership).

**Line 1a, column (a).** Enter the net loss plus any prior-year unallowed loss from the activity that's reported on the same form or, in the case of Form 4797 and Form 8949, the same part.

If you have a Form 8949 28% rate loss and a Form 8949 non-28%-rate loss, see *Example of Form 8949 transactions*, later, before completing Part IX.

**Line 1b, column (a).** Enter any net income from the activity that's reported on the same form or schedule (or on the same part of the same form or schedule) as the loss on line 1a, column (a).

**Example.** You enter a prior-year unallowed loss from Form 4797, Part I, on line 1a. If the activity has a current year Form 4797, Part I, gain, enter the gain on line 1b, column (a). If the activity doesn't have a Form 4797, Part I, gain, enter -0- on line 1b, column (a).

**Column (b).** Subtract line 1b, column (a), from line 1a, column (a), and enter the result in column (b). If line 1b, column (a), is more than line 1a, column (a), enter -0- in column (b).

**Column (c).** Divide each of the losses entered in column (b) by the total of column (b) and enter the ratio in column (c). The total of this column must be 1.00.

**Column (d).** Multiply the unallowed loss for this activity, found in Part VII, column (c), by each ratio in column (c) of Part IX. If -0- is entered in column (b) of Part IX, also enter -0- for that form or schedule in column (d).

The amount in column (d) is the unallowed loss for 2025. Keep a record of Part IX so you can use the losses to figure your PAL next year.

**Column (e).** Subtract the amount in column (d) from the loss entered on line 1a, column (a). This amount is the loss allowed for 2025 under the passive loss rules. Report the amounts in this column on the forms or schedules normally used, subject to any further limitations described in Coordination With Other Limitations, earlier. The forms and schedules you use must show the losses from this column and the income, if any, for that activity from column (a) of Part IV or Part V.

***Example of Form 8949 transactions.*** The taxpayer had the following Form 8949 transactions from passive activities in 2025.

### *Activity I*

A passive activity prior-year unallowed long-term capital loss (a 28% rate loss) of \$1,000 and a current year long-term capital loss (a non-28%-rate loss) of \$3,000.

### *Activity II*

A current year collectibles loss (a 28% rate loss) of \$230 and net income of \$1,100 from Schedule E (Form 1040).

### *Part V*

Activity I has an overall loss of \$4,000 (current year long-term capital loss of \$3,000 and a prior-year unallowed long-term capital loss of \$1,000). Activity II has an overall gain of \$870 (current year net income of \$1,100 less a current year long-term capital loss of \$230). Part III, line 11, of Form 8582 shows an allowed loss of \$1,100.



Since Activity II has an overall gain, the amounts shown in columns (a) and (b) of Part V for that activity are reported on the proper forms and schedules and aren't shown in any other part.

### *Part VII*

Activity I has an unallowed loss of \$3,130 (Part I, line 3, of Form 8582 (\$3,130) less the sum of Part II, line 9, of Form 8582 (-0-)  $\times$  100%).

### *Part IX*

Part IX is used to figure the portion of the unallowed loss attributable to the 28% rate loss and the portion attributable to the non-28%-rate loss.

The loss attributable to the 28% rate loss (\$1,000) and the loss attributable to the non-28%-rate loss (\$3,000) are separate entries in Part IX.

The ratio of each loss to the total of the two losses is figured as follows.  $\$1,000/\$4,000 = 0.25$  and  $\$3,000/\$4,000 = 0.75$ . Each of these ratios is multiplied by the unallowed loss for Activity I, shown in column (c) of Part VII (\$3,130).

Unallowed losses for Activity I are the following.

- 28% rate loss:  $0.25 \times \$3,130 = \$782.50$ .
- Non-28%-rate loss:  $0.75 \times \$3,130 = \$2,347.50$ .

Allowed losses for Activity I are the following.

- 28% rate loss:  $\$1,000 - \$782.50 = \$217.50$ .
- Non-28%-rate loss:  $\$3,000 - \$2,347.50 = \$652.50$ .

The total loss allowed for Activity I (\$870) is entered in Part II of Form 8949.

The allowed 28% rate loss (\$217.50) is entered on the 28% Rate Gain Worksheet (see the instructions for Schedule D, line 18). Keep a record of the unallowed 28% rate and non-28%-rate losses to figure the PAL for next year.

See the forms and schedules listed under *How To Report Allowed Losses* next.

## **How To Report Allowed Losses**

**Line 3 is income.** If Part I, line 3, of Form 8582 shows net income or zero, all the losses in columns (b) and (c) of Parts IV and V and any prior-year unallowed CRD included in line 3 are allowed in full under the passive loss rules. Report the income and losses in columns (a), (b), and (c) of Parts IV and V and any prior-year unallowed CRD included in line 3 on the forms and schedules normally used.

**Line 11 is the same as the total of Part I, lines 1b, 1c, 2b, 2c, and CRD included in line 3.** In this case, all the losses in columns (b) and (c) of Parts IV and V and any prior-year unallowed CRD included in line 3 are allowed in full under the passive loss rules. Report the income and losses in columns (a), (b), and (c) of Parts IV and V on the forms and schedules normally used.

**Columns (a) and (c) of Part VI are the same amount.** In this case, all the losses in columns (b) and (c) of Part IV and any prior-year unallowed CRD included in line 3 are allowed in full under the passive loss rules. Report the income and losses in columns (a), (b), and (c) of Part IV and any prior-year unallowed CRD included in line 3 on the forms and schedules normally used.

**Losses allowed in column (c) of Part VIII.** The amounts in column (c) of Part VIII are the losses or deductions allowed for 2025 for the activities listed in that part.

Report the loss allowed from column (c) of Part VIII and the income, if any, for that activity from column (a) of Part IV or V on the form or schedule normally used.

**Losses allowed in column (e) of Part IX.**

The amounts in column (e) of Part IX are the losses or deductions allowed for 2025 for the activity listed on that part. Report the losses allowed from column (e) of Part IX and the income, if any, for that activity from column (a) of Part IV or V on the forms or schedules normally used.

**Schedules C and F, and Form 4835.** Enter on the net profit or loss line of your Schedule C or F, or line 34c of Form 4835, the allowed passive loss from the part. To the left of the entry space, enter "PAL."

If the net profit or loss line on your form or schedule shows net profit for the year, reduce the net profit by the allowed loss from Part VIII or IX and enter the result on the net profit or loss line.

**Example.** Schedule C shows net profit for the year of \$5,000 from a passive activity. The activity also has a Form 4797 gain of \$2,500 and a prior-year unallowed Schedule C loss of \$6,000. The loss allowed for 2025 is \$6,000. You enter a net loss of \$1,000 on line 31 of Schedule C (the \$5,000 net profit for the year less the \$6,000 loss allowed for the year). To the left of the entry space, you enter "PAL."

See Form 4797 and Form 8949, later, if you also had passive gains and losses from the sale of assets or of an interest in a passive activity.

**Schedule E, Part I.** Enter the allowed loss from the part on line 22 of Schedule E. An activity that has net profit for the year and prior-year unallowed losses will have net profit on line 21 and the allowed loss on line 22. The allowed loss on line 22 will include the loss allowed to the extent of the net profit.

Line 24 of Schedule E will show total profit and line 25 will show total losses allowed (both passive and nonpassive). Line 26 will show the total net profit or loss.

**Schedule E, Parts II and III.** Any item of income shown on your Schedule K-1 that's passive income must be entered as passive income in the appropriate column of Schedule E, Part II or III. Enter the passive loss allowed from Part VIII or IX of Form 8582 in the appropriate column for passive losses. The passive losses allowed include the loss allowed to the extent of any net income from the activity. Passive net income or loss reportable in Schedule E, Part II, includes any self-charged interest income and deductions treated as passive activity income and deductions. See *Self-Charged Interest*, earlier.

See Form 4797 and Form 8949, later, if you also had passive gains or losses from the sale of assets or of an interest in a passive activity.

**Form 4684, Section B.** Any passive activity gain from Form 4684 is unchanged. It was used on Form 8582 to determine allowable PALs. If you don't have passive losses on Form 4684, complete Form 4684 and follow the instructions for that form for where to report the gain.

If you have passive losses on Form 4684, cross through the amount you first entered on line 31, 32, 38a, 38b, or 39 of that form, and enter the allowed loss from the part. To the left of the entry space, enter "PAL."

**Form 4797 and Form 8949.** If you sold assets from a passive activity or you sold an interest in your passive activity, all gains from the activity must be entered on the appropriate line of Form 4797 or Form 8949. Identify the gain as "FPA."



Enter any allowed losses for Form 4797 or Form 8949 on the appropriate line. On Form 8949, include "PAL" in the description of the property in column (a). On Form 4797, enter "PAL" to the left of the entry space (for example, line 2 or line 10).

**Entire disposition with an overall loss.** If you made an entire disposition of your interest in a passive activity and that activity had an overall loss, none of the gains, if any, or losses were entered on Form 8582. However, all the gains and losses must be reported on the forms or schedules normally used. To the left of the entry space, enter "EDPA."

**Entire disposition with an overall gain.** Gains and losses from this activity were included on Form 8582 so that the gains might offset other PALs. Report all the gains and losses on the forms and schedules normally used, and to the left of the entry space, enter "EDPA."

# **Publicly Traded Partnerships (PTPs)**

A PTP is a partnership whose interests are traded on an established securities market or are readily tradable on a secondary market (or its substantial equivalent).

An established securities market includes any national securities exchange and any local exchange registered under the Securities Exchange Act of 1934 or exempted from registration because of the limited volume of transactions. It also includes any over-the-counter market.

A secondary market generally exists if a person stands ready to make a market in the interest. An interest is treated as readily tradable if the interest is regularly quoted by persons, such as brokers or dealers, who are making a market in the interest.

The substantial equivalent of a secondary market exists if there's no identifiable market maker, but holders of interests have a readily available, regular, and ongoing opportunity to sell or exchange interests through a public means of obtaining or providing information on offers to buy, sell, or exchange interests. Similarly, the substantial equivalent of a secondary market exists if prospective buyers and sellers have the opportunity to buy, sell, or exchange interests in a timeframe and with the regularity and continuity that the existence of a market maker would provide.

### **Special Instructions for PTPs**

Section 469(k) provides that the passive activity limitations must be applied separately to items from each PTP. PALs from a PTP may generally be used only to offset income or gain from passive activities of the same PTP. The special allowance for rental real estate activities (including CRDs) doesn't apply to PALs from a PTP.

**Passive activity loss rules for partners in PTPs.** Don't report passive income, gains, or losses from a PTP on Form 8582. Instead, use the following rules to figure and report your income, gains, and losses from passive activities you held through each PTP you owned during the tax year.

1. Combine any current year income, gains and losses, and any prior-year unallowed losses to see if you have an overall loss from the PTP. Include only the same types of income and losses you would include to figure your net income or loss from a non-PTP passive activity. See *Passive Activity Income and Deductions*, earlier.
2. If you have an overall gain, the net gain portion (total gain minus total losses) is nonpassive income.

It's important to figure the nonpassive income because it must be included in modified adjusted gross income to figure the special

allowance for active participation in a non-PTP rental real estate activity on Form 8582. Also, you may be able to include the nonpassive income in investment income when figuring your investment interest expense deduction. See Form 4952, Investment Interest Expense Deduction.

Report all gains and allowed losses from the activity on the forms or schedules normally used, and to the left of each entry space, enter "From PTP."

***Example.*** You have Schedule E income of \$8,000 and a Form 4797 prior-year unallowed loss of \$3,500 from the passive activities of a PTP. You have a \$4,500 overall gain (\$8,000 – \$3,500) that's nonpassive income. On Schedule E, Part II, you report the \$4,500 net gain as nonpassive income in column (k).

In column (h), you report the remaining Schedule E gain of \$3,500 (\$8,000 – \$4,500) as passive income. On the appropriate line of Form 4797, you report the prior-year unallowed loss of \$3,500. You enter “From PTP” to the left of each entry space.

3. If you have an overall loss (but didn’t dispose of your entire interest in the PTP to an unrelated person in a fully taxable transaction during the year), the losses are allowed only to the extent of the income, and the excess loss is carried forward to use in a future year if you have income to offset it. Report as a passive loss on the schedule or form you normally use the portion of the loss equal to the income. Report the income as passive income on the form or schedule you normally use.

**Example.** You have a Schedule E loss of \$12,000 (current year losses plus prior year unallowed losses) and Form 4797 gain of \$7,200 from the passive activities of a PTP. You report the \$7,200 gain on the appropriate line of Form 4797. On Schedule E, Part II, you report \$7,200 of the losses as a passive loss in column (g). You carry forward the unallowed loss of \$4,800 (\$12,000 – \$7,200).

If you have unallowed losses from more than one activity of the PTP or from the same activity of the PTP that must be reported on different forms or schedules, allocate the unallowed losses on a pro rata basis to figure the amount allowed for each activity or on each form or schedule.

**Tip:** To allocate and keep a record of the unallowed losses, use Parts VII, VIII, and IX of Form 8582.

List each activity of the PTP in Part VII. Enter the overall loss from each activity in column (a). Complete column (b) of Part VII according to its instructions. Multiply the total unallowed loss from the PTP by each ratio in column (b) and enter the result in column (c) of Part VII.

Next, complete Part VIII for each activity listed in Part VII if all the loss from that activity is reported on one form or schedule. Use Part IX instead of Part VIII for each activity with losses reported on two or more different forms or schedules (or are identified separately on the same form or schedule). Enter the net loss plus any prior-year unallowed losses in column (a) of Part VIII (or line 1a, column (a), of Part IX, if applicable). The losses in column (c) of Part VIII (column (e) of Part IX) are the allowed losses to report on your forms or schedules. Report these losses and any income from the PTP on the forms and schedules normally used.



4. If you have an overall loss and you disposed of your entire interest in the PTP to an unrelated person in a fully taxable transaction during the year, your losses (including prior-year unallowed losses) allocable to the activity for the year aren't limited by the passive loss rules. A fully taxable transaction is one in which you recognize all your realized gain or loss. Report the income and losses on the forms and schedules normally used.

For rules on the disposition of an entire interest reported using the installment method, see *Disposition of an Entire Interest*, earlier.

### **Paperwork Reduction Act Notice.**

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information.

We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

**Recordkeeping. . . . .** 26 min.

**Learning about the law or the form. . .** 22 min.

**Preparing the form Copying, assembling, and sending. . . . .** 1 hr., 52 min.

**the form to the IRS . . . . .** 48 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

This page intentionally left blank