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Almost every form and publication also has its own easily accessible information page on IRS.gov. For example, the Form 1040 page is at IRS.gov/form1040; the Form W-2 page is at IRS.gov/w2; the Publication 17 page is at IRS.gov/pub17; the Form W-4 page is at IRS.gov/w4; the Form 8863 page is at IRS.gov/form8863; and the Schedule A (Form 1040) page is at IRS.gov/schedulea. If typing in the links above instead of clicking on them: type the link into the address bar of your browser, not in a Search box; the text after the slash must be lowercase; and your browser may require the link to begin with “www.”. Note that these are shortcut links that will automatically go to the actual link for the page.

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2016

Department of the Treasury
Internal Revenue Service

Partner's Instructions for Schedule K-1 (Form 1065-B)

Partner's Share of Income (Loss) From an Electing Large Partnership (For Partner's Use Only)

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Section references are to the Internal Revenue Code unless otherwise noted.

Future Developments

For the latest information about developments related to Schedule K-1 (Form1065-B) and its instructions, such as legislation enacted after they were published, go to *www.irs.gov/form1065b*.

General Instructions

Purpose of Schedule K-1

The partnership uses Schedule K-1 to report your share of the partnership's income, deductions, credits, etc. Keep it for your records. Don't file it with your tax return. The partnership has filed a copy with the IRS.

You are liable for tax on your share of the partnership income, whether or not distributed. Include your share on your tax return if a return is required. Use these instructions to help you report the items shown on Schedule K-1 on your tax return.

The amount of loss and deduction that you can claim on your tax return may be less than the amount reported on Schedule K-1. It is the partner's responsibility to consider and apply any applicable limitations. See *Limitations on Losses, Deductions, and Credits*, later, for more information.

Electing Large Partnerships (ELPs)

This partnership has elected simplified reporting requirements intended to make it simpler for you to report your share of partnership income, credits, deductions, etc. In most cases, income, capital gains, credits, and deductions are combined at the partnership level so that the number of partnership items separately reported to partners is reduced. Most limitations and elections affecting partnership income are made by the electing large partnership.

For limited partners, income and other items from the partnership's trade or business and rental activities are treated as being from a trade or business that is a single passive activity. These items are reported in boxes 1, 4a, and 5, with most credits being reported in boxes 7 and 8.

General partners must make their own determinations as to whether the activities are passive for them. Therefore, partnership items from trade or business, rental real estate, and other rental activities are separately reported for each activity in box 9.

Income, etc., from other activities (investment and portfolio income and deductions) are reported in boxes 2, 3, 4b, and 6 for both limited and general partners.

Errors

You must report partnership items shown on your Schedule K-1 (and any attached statements) the same way that the partnership treated the items on its return. If you believe the partnership has made an error on your Schedule K-1, notify the partnership. Don't change any items on your copy of Schedule K-1. Generally, an adjustment to correct an error will take effect for the tax year in which the partnership actually makes the adjustment. However, if the error involves a change to your share of a partnership item, the partnership should file an amended partnership return and send you a corrected Schedule K-1.

If the treatment on your original or amended return is inconsistent with the partnership's treatment, you may be subject to the accuracy-related penalty. This penalty is in addition to any tax that results from making your amount or treatment of the item consistent with that shown on the partnership's return. Any deficiency that results from making the amounts consistent may be assessed immediately.

Sale or Exchange of Partnership Interest

Generally, a partner who sells or exchanges a partnership interest in a section 751(a) exchange must notify the partnership, in writing, within 30 days of the exchange (or, if earlier, by January 15 of the calendar year following the calendar year in which the exchange occurred). A "section 751(a) exchange" is any sale or exchange of a partnership interest in which any money or other property received by the partner in exchange for that partner's interest is attributable to unrealized receivables (as defined in section 751(c)) or inventory items (as defined in section 751(d)).

The written notice to the partnership must include the names and addresses of both parties to the exchange, the identifying numbers of the transferor and (if known) of the transferee, and the exchange date.

An exception to this rule is made for sales or exchanges of publicly traded partnership interests for which a broker is required to file Form 1099-B, Proceeds From Broker and Barter Exchange Transactions.

If a partner is required to notify the partnership of a section 751(a) exchange but fails to do so, the penalty is $260 for each such failure. However, no penalty will be imposed if the partner can show that the failure was due to reasonable cause and not willful neglect.

TIP *Gain or loss from the disposition of your partnership interest is generally net investment income under section 1411 and may be subject to the net investment income tax. See Form 8960, Net Investment Income Tax—Individuals, Estates, and Trusts, and its instructions for information about how to figure and report the tax due.*

Nominee Reporting

Any person who holds, directly or indirectly, an interest in a partnership as a nominee for another person must furnish a written statement to the partnership by the last day of the month following the end of the partnership's tax year. This statement must include the name, address, and identifying number of the nominee and such other person, description of the partnership interest held as nominee for that person, and other information required by Temporary Regulations section 1.6031(c)-1T. A nominee who fails to furnish this statement must furnish to the person for whom the nominee holds the partnership interest a copy of Schedule K-1 and related information within 30 days of receiving it from the partnership.

A nominee who fails to furnish when due all the information required by

Temporary Regulations section 1.6031(c)-1T, or who furnishes incorrect information, is subject to a $260 penalty for each failure. The maximum penalty is $3,193,000 for all such failures during a calendar year. If the nominee intentionally disregards the requirement to report correct information, each $260 penalty increases to $530 or, if greater, 10% of the aggregate amount of items required to be reported, and the $3,193,000 maximum does not apply.

International Boycotts

Every partnership that had operations in, or related to, a boycotting country, company, or a national of a boycotting country must file Form 5713, International Boycott Report.

If the partnership cooperated with an international boycott, it must provide you with a copy of its Form 5713. As a general or limited partner, you must file your own Form 5713 to report the partnership's activities and any other boycott operations that you may have. You may lose certain tax benefits if the partnership participated in, or cooperated with, an international boycott. See Form 5713 and its instructions for more information.

Definitions

General Partner

A *general partner* is a partner who is personally liable for partnership debts.

Limited Partner

A *limited partner* is a partner in a partnership formed under a state limited partnership law, whose personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership. Some members of other entities, such as domestic or foreign business trusts or limited liability companies that are classified as partnerships, may be treated as limited partners for certain purposes.

Disqualified Person

If you are a partner in a partnership holding oil and gas properties, you are a *disqualified person* if:

- You are an oil or natural gas retailer described in section 613A(d)(2) or crude oil refiner described in section 613A(d)(4), or
- Your average daily production of domestic crude oil and natural gas exceeds 500 barrels for your tax year in which the partnership's tax year ends. See section 776(b) for more details.

Note. *Disqualified persons* must report items of income, gain, loss, deduction, and credit attributable to partnership oil and gas properties as if the special rules for ELPs did not apply.

Nonrecourse Loans

Nonrecourse loans are those liabilities of the partnership for which no partner or related person bears the economic risk of loss.

Elections

Generally, the partnership decides how to figure taxable income from its operations. However, two elections are made by you separately on your income tax return and not by the partnership. These elections are made under the following Code sections.

- Section 108(b)(5) (election related to reduction of tax attributes due to exclusion from gross income of discharge of indebtedness).
- Section 901 (foreign tax credit).

Additional Information

For more information on the treatment of partnership income, deductions, credits, etc., see the following.

- Pub. 541, Partnerships.
- Pub. 535, Business Expenses.
- Pub. 925, Passive Activity and At-Risk Rules.

To get forms and publications, see the instructions for your tax return or visit the IRS website at *irs.gov*.

Limitations on Losses, Deductions, and Credits

There are three separate potential limitations on the amount of partnership losses that you can deduct on your return. These limitations and the order in which you must apply them are as follows: the basis rules, the at-risk limitations, and the passive activity limitations. Each of these limitations is discussed separately below.

Basis Rules

Generally, you can't claim your share of a partnership loss (including a capital loss) to the extent that it is greater than the adjusted basis of your partnership interest at the end of the partnership's tax year. Any losses and deductions not allowed this year because of the basis limit can be carried forward indefinitely and deducted in a later year subject to the basis limit for that year.

The partnership isn't responsible for keeping the information needed to figure the basis of your partnership interest. You can figure the adjusted basis of your partnership interest by adding items that increase your basis and then subtracting items that decrease your basis.

Use the Worksheet for Adjusting the Basis of a Partner's Interest in the Partnership, later, to figure the basis of your interest in the partnership.

CAUTION *Additional basis adjustments may apply to partners claiming deductions for depletion. See Pub. 535 for details.*

At-Risk Limitations

Generally, if you have (a) a loss or other deduction from any activity carried on as a trade or business or for the production of income by the partnership, and (b) amounts in the activity for which you are not at risk, you will have to complete Form 6198, At-Risk Limitations, to figure your allowable loss.

The at-risk rules generally limit the amount of loss and other deductions that you can claim to the amount you could actually lose in the activity. However, if you acquired your partnership interest before 1987, the at-risk rules don't apply to losses from an activity of holding real property placed in service before 1987 by the partnership. The activity of holding mineral property doesn't qualify for this exception. The partnership should identify on an attached statement to Schedule K-1 the amount of any losses that aren't subject to the at-risk limitations.

Generally, you aren't at risk for amounts such as the following.

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity, that aren't secured by your own property (other than the property used in the activity). See the instructions for *Partner's Share of Liabilities*, later, for the exception for qualified nonrecourse financing secured by real property.
- Cash, property, or borrowed amounts used in the activity (or contributed to the activity, or used to acquire your interest in the activity) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).
- Amounts borrowed for use in the activity from a person who has an interest in the activity, other than as a creditor, or who is related, under section 465(b)(3), to a person (other than you) having such an interest.

You should get a separate statement of income, expenses, etc., for each activity from the partnership.

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Worksheet for Adjusting the Basis of a Partner's Interest in the Partnership

Keep for Your Records

1. Your adjusted basis at the end of the prior year. Do not enter less than zero. Enter -0- if this is your first tax year . . . . . 1. _____

Increases:

2. Money and your adjusted basis in property contributed to the partnership less the associated liabilities (but not less than zero) . . . . . 2. _____

3. Your increased share of or assumption of partnership liabilities. (Subtract your share of liabilities shown on your 2015 Schedule K-1 from your share of liabilities shown on your 2016 Schedule K-1 and add the amount of any partnership liabilities you assumed during the tax year. Do not enter less than zero.) . . . . . 3. _____

4. Your share of the partnership's income or gain (including tax-exempt income) reduced by any amount included in interest income with respect to the credit to holders of clean renewable energy bonds . . . . . 4. _____

5. Any gain recognized this year on contributions of property. Do not include gain from transfer of liabilities . . . . . 5. _____

Decreases:

6. Withdrawals and distributions of money and the adjusted basis of property distributed to you from the partnership. Do not include the amount of property distributions included in the partner's income (taxable income) . . . . . 6. _____

Caution. A distribution may be taxable if the amount exceeds your adjusted basis of your partnership interest immediately before the distribution.

7. Your decreased share of partnership liabilities and any decrease in your individual liabilities because they were assumed by the partnership. (Subtract your share of liabilities shown on your 2016 Schedule K-1 from your share of liabilities shown on your 2015 Schedule K-1 and add the amount of your individual liabilities that the partnership assumed during the tax year. Do not enter less than zero.) . . . . . 7. _____

8. Your share of the partnership's nondeductible expenses that are not capital expenditures . . . . . 8. _____

9. Your share of the partnership's losses and deductions (including capital losses) . . . . . 9. _____

10. Your adjusted basis in the partnership at the end of this tax year. (Add lines 1 through 5 and subtract lines 6 through 9 from the total. If zero or less, enter -0-.) . . . . . 10. _____

Caution. The deduction for your share of the partnership's losses and deductions is limited to your adjusted basis in your partnership interest. If you entered zero on line 10 and the amount figured for line 10 was less than zero, a portion of your share of the partnership losses and deductions may not be deductible (see *Basis Rules*, earlier, for more information).

Passive Activity Limitations

Section 469 provides rules that limit the deduction of certain losses and credits. These rules apply to partners who:

- Are individuals, estates, trusts, closely held C corporations (other than S corporations), or personal service corporations; and
- Have a passive activity loss or credit for the tax year.

Individuals, estates, and trusts. If you have a passive activity loss or credit, use Form 8582, Passive Activity Loss Limitations, to figure your allowable passive losses and Form 8582-CR, Passive Activity Credit Limitations, to figure your allowable passive credits.

CAUTION *If the publicly traded partnership (PTP) box on Schedule K-1 is checked, do not report passive income (loss) from the partnership on Form 8582. See the special rules for PTPs, later.*

Corporations. Use Form 8810, Corporate Passive Activity Loss and Credit Limitations. See the instructions for more information.

For limited partners of an ELP, all income, loss, deductions, and credits from trade or business and rental activities generally are reported as being from a trade or business that is a single passive activity.

However, the determination of whether an activity is a passive activity must be made by any partner who is either a:

- General partner; or
- Limited partner who is a disqualified person (as defined earlier) with respect to items of income, gain, loss, deduction, and credit attributable to partnership oil and gas properties.

In addition, the partnership is required to provide each general partner and disqualified person the information necessary to comply with the passive activity rules of section 469. Items of income, gain, loss, credit, etc., must be separately reported to general partners for each trade or business, rental real estate, and other rental activity.

CAUTION *Except for the PTP discussion, later, the following information on passive activity limitations applies only to general partners.*

Generally, passive activities include:

1. Trade or business activities in which you didn't materially participate, and

2. Activities that meet the definition of rental activities under Temporary Regulations section 1.469-1T(e)(3) and Regulations section 1.469-1(e)(3).

Passive activities don't include the following.

1. Trade or business activities in which you materially participated.

2. Rental real estate activities in which you materially participated if you were a *real estate professional* for the tax year. You were a *real estate professional* only if you met both of the following conditions.

a. More than half of the personal services you performed in trades or businesses were performed in real property trades or businesses in which you materially participated.

b. You performed more than 750 hours of services in real property trades or businesses in which you materially participated.

If you are married filing jointly, either you or your spouse must separately meet both of the above conditions, without taking into account services performed by the other spouse.

CAUTION *For a closely held C corporation (defined in section 465(a)(1)(B)), the above conditions are treated as met if more than 50% of the corporation's gross receipts were from real property trades or businesses in which the corporation materially participated.*

For purposes of this rule, each interest in rental real estate is a separate activity, unless you elect to treat all interests in rental real estate as one activity. For

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details on making this election, see the Instructions for Schedule E (Form 1040).

A real property trade or business is any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business. Services you performed as an employee are not treated as performed in a real property trade or business unless you owned more than 5% of the stock (or more than 5% of the capital or profits interest) in the employer.

3. Working interests in oil or gas wells.

4. The rental of a dwelling unit any partner used for personal purposes during the year for more than the greater of 14 days or 10% of the number of days that the residence was rented at fair rental value.

5. Activities of trading personal property for the account of owners of interests in the activities.

Material participation. You must determine if you **(a)** materially participated in each trade or business activity held through the partnership, and **(b)** were a *real estate professional* (defined earlier), in each rental real estate activity held through the partnership. All determinations of material participation are made based on your participation during the partnership's tax year.

Material participation standards for partners who are individuals are listed below. Special rules apply to certain retired or disabled farmers and to the surviving spouses of farmers. See the Instructions for Form 8582 for details.

Corporations should refer to the Instructions for Form 8810 for the material participation standards that apply to them.

Individuals (other than limited partners). If you are an individual (either a general partner or a limited partner who owned a general partnership interest at all times during the tax year), you materially participated in an activity only if one or more of the following apply.

1. You participated in the activity for more than 500 hours during the tax year.

2. Your participation in the activity for the tax year constituted substantially all the participation in the activity of all individuals (including individuals who are not owners of interests in the activity for the tax year).

3. You participated in the activity for more than 100 hours during the tax year, and your participation in the activity for the tax year was not less than the participation in the activity of any other individual (including individuals who were not owners of interests in the activity) for the tax year.

4. The activity was a significant participation activity for the tax year, and you participated in all significant participation activities (including activities outside the partnership) during the year for more than 500 hours. A significant participation activity is any trade or business activity in which you participated for more than 100 hours during the tax year and in which you didn't materially participate under any of the material participation tests (other than this test 4).

5. You materially participated in the activity for any 5 tax years (whether or not consecutive) during the 10 tax years that immediately precede the tax year.

6. The activity was a personal service activity, and you materially participated in the activity for any 3 tax years (whether or not consecutive) preceding the tax year. A personal service activity involves the performance of personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other trade or business in which capital isn't a material income-producing factor.

7. Based on all the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis during the tax year.

Work counted toward material participation. Generally, any work that you or your spouse does in connection with an activity held through a partnership (where you own your partnership interest at the time the work is done) is counted toward material participation. However, work in connection with the activity is not counted toward material participation if either of the following applies.

1. The work isn't the sort of work that owners of the activity would usually do and one of the principal purposes of the work that you or your spouse does is to avoid the passive loss or credit limitations.

2. You do the work in your capacity as an investor and you aren't directly involved in the day-to-day operations of the activity. Examples of work done as an investor that would not count toward material participation include the following.

a. Studying and reviewing financial statements or reports on operations of the activity.

b. Preparing or compiling summaries or analyses of the finances or operations of the activity for your own use.

c. Monitoring the finances or operations of the activity in a nonmanagerial capacity.

Effect of determination. Income (loss), deductions, and credits from an activity are nonpassive if you determine that:

- You materially participated in a trade or business activity of the partnership, or
- You were a *real estate professional* in a rental real estate activity of the partnership.

If you determine that you didn't materially participate in a trade or business activity of the partnership or if you have income (loss), deductions, or credits from a rental activity of the partnership (other than a rental real estate activity in which you materially participated as a *real estate professional*), the amounts from that activity are passive. Report passive income (losses), deductions, and credits as follows.

1. If you have an overall gain (the excess of income over deductions and losses, including any prior year unallowed loss) from a passive activity, report the income, deductions, and losses from the activity as indicated in the instructions for the boxes in which those items were reported.

2. If you have an overall loss (the excess of deductions and losses, including any prior year unallowed loss, over income) or credits from a passive activity, report the income, deductions, losses, and credits from all passive activities using the Instructions for Form 8582 or Form 8582-CR (or Form 8810), to see if your deductions, losses, and credits are limited under the passive activity rules.

Special allowance for rental real estate activities. If you actively participated in a rental real estate activity, you may be able to deduct up to $25,000 of the loss from the activity from nonpassive income. This "special allowance" is an exception to the general rule disallowing losses in excess of income from passive activities. The special allowance isn't available if you were married, filed a separate return for the year, and did not live apart from your spouse at all times during the year.

Only individuals, qualifying estates, and qualifying revocable trusts that made a section 645 election can actively participate in a rental real estate activity. Estates (other than qualifying estates), trusts (other than qualifying revocable trusts that made a section 645 election), and corporations can't actively participate.

You aren't considered to actively participate in a rental real estate activity if at any time during the tax year your interest (including your spouse's interest) in the activity was less than 10% (by value) of all interests in the activity.

Active participation is a less stringent requirement than material participation. You may be treated as actively participating if you participated, for example, in making management decisions or arranging for others to provide services (such as repairs) in a

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significant and bona fide sense. Management decisions that can count as active participation include approving new tenants, deciding rental terms, approving capital or repair expenditures, and other similar decisions.

An estate is a qualifying estate if the decedent would have satisfied the active participation requirement for the activity for the tax year the decedent died. A qualifying estate is treated as actively participating for tax years ending less than 2 years after the date of the decedent's death.

Modified adjusted gross income limitation. The maximum special allowance that single individuals and married individuals filing a joint return can qualify for is $25,000. The maximum is $12,500 for married individuals who file separate returns and who lived apart all times during the year. The maximum special allowance for which an estate can qualify is $25,000 reduced by the special allowance for which the surviving spouse qualifies.

If your modified adjusted gross income (defined below) is $100,000 or less ($50,000 or less if married filing separately), your loss is deductible up to the amount of the maximum special allowance referred to in the preceding paragraph. If your modified adjusted gross income is more than $100,000 (more than $50,000 if married filing separately), the special allowance is limited to 50% of the difference between $150,000 ($75,000 if married filing separately) and your modified adjusted gross income. When modified adjusted gross income is $150,000 or more ($75,000 or more if married filing separately), there is no special allowance.

Modified adjusted gross income is your adjusted gross income figured without taking into account the following amounts, if applicable.

- Any passive activity loss.
- Any rental real estate loss allowed under section 469(c)(7) to real estate professionals (as defined earlier).
- Any overall loss from a publicly traded partnership.
- Any taxable social security or equivalent railroad retirement benefits.
- Any deductible contributions to an IRA or certain other qualified retirement plans under section 219.
- The domestic production activities deduction.
- The student loan interest deduction.
- The tuition and fees deduction.
- The deduction for one-half 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.

Commercial revitalization deduction. The special $25,000 allowance for the commercial revitalization deduction from rental real estate activities isn't subject to the active participation rules or modified adjusted gross income limits discussed above. See *Code Q. Commercial Revitalization Deduction*, later.

Special rules for certain other activities. If you have net income (loss), deductions, or credits from any activity to which special rules apply, the partnership will identify the activity and all amounts relating to it on Schedule K-1 or on an attached statement.

If you have net income subject to recharacterization under Temporary Regulations section 1.469-2T(f) and Regulations section 1.469-2(f), report such amounts according to the Instructions for Form 8582 (or Form 8810).

If you have net income (loss), deductions, or credits from any of the following activities, treat such amounts as nonpassive and report them as instructed in these instructions.

- Working interests in oil and gas wells.
- The rental of a dwelling unit any partner used for personal purposes during the year for more than the greater of 14 days or 10% of the number of days that the residence was rented at fair rental value.
- Trading personal property for the account of owners of interests in the activity.

Self-charged interest. The partnership must report any "self-charged" interest income or expense that resulted from loans between you and the partnership (or between the partnership and another partnership in which you have an interest). If there was more than one activity, the partnership will provide a statement allocating the interest income or expense with respect to each activity. The self-charged interest rules don't apply to your partnership interest if the partnership made an election under Regulations section 1.469-7(g) to avoid the application of these rules. See the Instructions for Form 8582 for more information.

Publicly traded partnerships. The passive activity limitations are applied separately for items (other than the low-income housing credit and the rehabilitation credit) from each PTP. Thus, a net passive loss from a PTP may not be deducted from other passive income. Instead, a passive loss from a PTP is suspended and carried forward to be applied against passive income from the same PTP in later years. If the partner's entire interest in the PTP is completely disposed of, any unused losses are allowed in full in the year of disposition.

If you have an overall gain from a PTP, the net gain is nonpassive income. In addition, the nonpassive income is included in investment income to figure your investment interest expense deduction.

Don't report passive income, gains, or losses from a PTP on Form 8582. Instead, use the following rules to figure and report on the proper form or schedule your income, gains, and losses from passive activities that you held through each PTP you owned during the tax year.

1. Combine any current year income, gains (losses), and any prior year unallowed losses to see if you have an overall gain (loss) from the PTP. Include only the same types of income and losses you would include in your net income or loss from a non-PTP passive activity. See Pub. 925 for more details.

2. If you have an overall gain, the net gain portion (total gain minus total losses) is nonpassive income. On the form or schedule you normally use, report the net gain portion as nonpassive income and the remaining income and the total losses as passive income and loss. To the left of the entry space, enter "From PTP." It is important to identify the nonpassive income because the nonpassive portion is included in modified adjusted gross income for purposes of figuring on Form 8582 the "special allowance" for active participation in a non-PTP rental real estate activity. In addition, the nonpassive income is included in investment income when figuring your investment interest expense deduction on Form 4952, Investment Interest Expense Deduction.

Example. If 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 particular PTP, you have a $4,500 overall gain ($8,000 – $3,500). On Schedule E (Form 1040), line 28, report the $4,500 net gain as nonpassive income in column (j). In column (g), report the remaining Schedule E gain of $3,500 ($8,000 – $4,500). On the appropriate line of Form 4797, report the prior year unallowed loss of $3,500. Be sure to enter "From PTP" to the left of each entry space.

3. If you have an overall loss (but did not dispose of your entire interest in the PTP to an unrelated person in a fully taxable transaction during the year), the losses are allowed to the extent of the income, and the excess loss is carried forward to use in a future year when 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

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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 a Schedule D gain of $7,200. Report the $7,200 gain on the appropriate line of Schedule D. On Schedule E (Form 1040), line 28, report $7,200 of the losses as a passive loss in column (f). Carry forward to 2017 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, you must allocate the unallowed losses on a pro rata basis to figure the amount allowed from each activity or on each form.

TIP *To allocate and keep a record of the unallowed losses, use Worksheets 5, 6, and 7 of Form 8582. List each activity of the PTP in Worksheet 5. Enter the overall loss from each activity in column (a). Complete column (b) of Worksheet 5 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 Worksheet 5. Then, complete Worksheet 6 if all the loss from the same activity is to be reported on one form or schedule. Use Worksheet 7 instead of Worksheet 6 if you have more than one loss to be reported on different forms or schedules for the same activity. Enter the net loss plus any prior year unallowed losses in column (a) of Worksheet 6 (or Worksheet 7, if applicable). The losses in column (c) of Worksheet 6 (column (e) of Worksheet 7) are the allowed losses to report on the forms or schedules. Report both these losses and any income from the PTP on the forms and schedules you normally use.*

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 are not limited by the passive loss rules. A fully taxable transaction is one in which you recognize all your realized gain (loss). Report the income and losses on the forms and schedules you normally use.

TIP *For rules on the disposition of an entire interest reported using the installment method, see the Instructions for Form 8582.*

Specific Instructions

Partner's identifying number. For your protection, this Schedule K-1 may show only the last four digits of your social security number (SSN), individual taxpayer identification number (ITIN), or employer identification number (EIN). However, the partnership has reported your complete identification number to the IRS.

Publicly Traded Partnership (PTP)

If the "publicly traded partnership" box is checked, you are a partner in a publicly traded partnership (PTP) and must follow the rules under *Publicly traded partnerships* discussed above.

Partner's Share of Liabilities

The partnership will show your share of the partnership's nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other liabilities as of the end of the partnership's tax year. If you terminated your interest in the partnership during the tax year, the amounts should reflect the share that existed immediately before the total disposition. A partner's "other liability" is any partnership liability for which a partner is personally liable.

Use the total of the three amounts for figuring the adjusted basis of your partnership interest.

Generally, you can use only the amounts shown next to "Qualified nonrecourse financing" and "Other" to figure your amount at risk. Don't include any amounts that aren't at risk if such amounts are included in either of these categories.

If your partnership is engaged in two or more different types of activities subject to the at-risk provisions, or a combination of at-risk activities and any other activity, the partnership should give you a statement showing your share of nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other liabilities for each activity.

Qualified nonrecourse financing. 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 borrowed from a "qualified" person. 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 persons. Qualified persons include any persons 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 Pub. 925 for more information on qualified nonrecourse financing.

Both the partnership and you must meet the qualified nonrecourse rules on this debt before you can include the amount shown next to "Qualified nonrecourse financing" in your at-risk computation.

See *Limitations on Losses, Deductions, and Credits*, earlier, for more information on the at-risk limitations.

Boxes 1 Through 9

The amounts shown in boxes 1 through 9 reflect your share of income, loss, deductions, credits, etc., from the partnership. These amounts don't take into consideration the following limitations.

- The adjusted basis of your partnership interest.
- The amount for which you are at risk.
- The passive activity limitations.

For information on these provisions, see *Limitations on Losses, Deductions, and Credits*, earlier.

For individuals, the following instructions explain how to report the amounts shown in the boxes. For all other entities, report the amounts in the boxes as instructed on your income tax return.

The line numbers in these instructions are references to forms in use for calendar year 2016. If you file your tax return on a calendar year basis, but your partnership files a return for a fiscal year, enter the amounts shown in the boxes on your tax return for the year in which the partnership's fiscal year ends. For example, if the partnership's tax year ends on June 30, 2017, report the amounts in the boxes on your 2017 income tax return.

If you have losses, deductions, or credits from a prior year that were not deductible or usable because of certain limitations, such as the basis rules or the at-risk limitations, take them into account in determining your net income, loss, or credits for this year. However, except for passive activity losses and credits, don't combine the prior year amounts with any amounts shown on this Schedule K-1 to get a net figure to report on any supporting schedules, statements, or forms attached to your return. Instead, report the amounts separately on the attached schedule, statement, or form on a year-by-year basis.

For amounts other than those shown on Schedule K-1, enter each item on a

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separate line of Part II of Schedule E (Form 1040).

Box 1. Taxable Income (Loss) From Passive Activities

Limited partners only. Any amount reported in box 1 is treated as being from a trade or business that is a single passive activity. Report this amount as follows.

- If income is reported in box 1, report the income on Schedule E (Form 1040), line 28, column (g). However, if the PTP box is checked, report the income following the rules for *Publicly traded partnerships*, earlier.
- If a loss is reported in box 1, follow the Instructions for Form 8582 to figure how much of the loss can be reported on Schedule E (Form 1040), line 28, column (f). However, if the PTP box is checked, report the loss following the rules for *Publicly traded partnerships*, earlier.

Box 2. Taxable Income (Loss) From Other Activities

This amount isn't subject to the passive activity limitations. Report the amount as follows.

- If the amount is income, report it on Schedule E (Form 1040), line 28, column (j).
- If the amount is a loss, report it on Schedule A (Form 1040), line 28.

Note. If the amount of interest included in box 2 includes interest from the credit to holders of clean renewable energy bonds, the partnership will attach a statement to Schedule K-1 showing your share of interest income from these credits. Because the basis in your partnership interest is increased by your share of the interest income from these credits, you must reduce your basis by the same amount to offset the increase. See line 4 of the Worksheet for Adjusting the Basis of a Partner's Interest in the Partnership, earlier.

Box 3. Qualified Dividends

Report this amount on lines 9a and 9b of Form 1040.

Note. Qualified dividends are excluded from investment income, but you can elect to include part or all of these amounts in investment income. See the instructions for line 4g of Form 4952, Investment Interest Expense Deduction, for important information on making this election.

CAUTION *If you have any foreign source qualified dividends, see the instructions for box 9, Code K.*

Note. In the case of a corporate partner, the partnership will attach a statement to the Schedule K-1 explaining what part of the dividends included in box 3 is eligible for the "dividends received by corporations deduction" under section 243(a), (b), or (c).

Box 4a. Net Capital Gain or (Loss) From Passive Activities

Limited partners only. The net capital gain (loss) reported in box 4a is treated as being from a trade or business that is a single passive activity. If a net capital gain is reported in box 4a, report the gain on Schedule D (Form 1040), line 12.

If a loss is reported in box 4a, report it following the Form 8582 instructions to figure how much of the loss can be reported on Schedule D (Form 1040), line 12. However, if the PTP box is checked, report the loss following the rules for *Publicly traded partnerships*, earlier.

CAUTION *If you have any foreign source capital gains or losses, see the instructions for box 9, Code K.*

Box 4b. Net Capital Gain or (Loss) From Other Activities

Net capital gain or (loss) from other activities isn't subject to the passive activity limitations. Report the gain or (loss) on Schedule D (Form 1040), line 12.

CAUTION *If you have any foreign source capital gains or losses, see the instructions for box 9, Code K.*

Box 5. Net Passive AMT Adjustment

Limited partners only. Use this amount (as well as your adjustments and tax preference items from other sources) to prepare your Form 6251, Alternative Minimum Tax—Individuals; Form 4626, Alternative Minimum Tax—Corporations; or Schedule I (Form 1041), Alternative Minimum Tax—Estates and Trusts. The adjustment is treated as being from a trade or business that is a single passive activity.

Individuals should enter the amount on Form 6251, line 19, where it is taken into account with adjustments and preferences from other passive activities.

Box 6. Net Other AMT Adjustment

Individual general and limited partners should enter this amount on Form 6251, line 16.

Box 7. General Credits

Limited partners only. Enter this amount from box 7 on Form 3800, General Business Credit, Part III, line 1bb. Because general credits are treated as being from a trade or business that is a single passive activity, you must also report the box 7 amount on Form 3800, Part III, as a credit from a passive activity.

Box 8. Low-Income Housing Credit

Limited partners only. Enter the amount reported in box 8 of Schedule K-1 on Form 8586, Low-Income Housing Credit, line 4. If an amount is reported in box 8, all of the low-income housing credit is for buildings placed in service before 2008. If any of the low-income housing credit is for buildings placed in service after 2007, the partnership will enter "STMT" in box 8 and attach a statement which lists separately the amount of the credit for buildings placed in service prior to 2008 (reported on Form 8586, line 4, or Form 3800, Part III, line 1d), and the amount for buildings placed in service after 2007 (reported on Form 8586, line 11, or Form 3800, Part III, line 4d). See the Instructions for Form 8586 for more information.

Box 9. Other

Codes A Through C

General partners in an ELP must separately account for any items attributable to passive loss limitation activities to the extent necessary to comply with the section 469 passive loss rules. Therefore, the partnership is required to report income or (loss), capital gain or (loss), 28% rate gain or (loss), credits, and the alternative minimum tax adjustment separately for all trade or business activities, rental real estate activities, and rental activities other than rental real estate.

Code A1. General partner's taxable income (loss) from trade or business activities. Report Code A1 income (loss) from partnership trade or business activities in which you materially participated on Schedule E (Form 1040), line 28, column (h) or (j). See the instructions to determine whether you materially participated in a trade or business activity.

Report Code A1 income or (loss) from partnership trade or business activities in which you didn't materially participate as follows.

1. Report any income on Schedule E (Form 1040), line 28, column (g). However, if the PTP box on Schedule K-1 is checked, report the income following the rules for *Publicly traded partnerships*, earlier.

2. Report a loss following the Instructions for Form 8582 to figure how much of the loss can be reported on Schedule E (Form 1040), line 28, column (f). However, if the PTP box is checked, report the loss following the rules for *Publicly traded partnerships*, earlier.

Code A2. General partner's net capital gain or (loss) from trade or business activities. If you didn't materially

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participate in the trade or business activity, the net capital gain or (loss) is a passive activity amount. If the amount is either **(a)** a loss that isn't from a passive activity or **(b)** a gain, report it on Schedule D (Form 1040), line 12.

If the amount is a loss from a passive activity, report it following the Instructions for Form 8582 to figure how much of the loss can be reported on Schedule D (Form 1040), line 12. However, if the PTP box is checked, report the loss following the rules for *Publicly traded partnerships*, earlier.

Code A3. General partner's 28% rate gain (loss) from trade or business activities. If you didn't materially participate in the trade or business activity, the 28% rate gain or (loss) is a passive activity amount. If the amount is either **(a)** a loss that isn't from a passive activity or **(b)** a gain, include it on line 4 of the 28% Rate Gain Worksheet in the Instructions for Schedule D (Form 1040).

If the amount is a loss from a passive activity, report it following the Instructions for Form 8582 to figure how much of the loss can be included on line 4 of the 28% Rate Gain Worksheet in the Instructions for Schedule D (Form 1040). However, if the PTP box is checked, report the loss following the rules for *Publicly traded partnerships*, earlier.

Code A4. General partner's general credits from trade or business activities. Report the general credits on Form 3800, Part III, line 1bb. If you didn't materially participate in the trade or business activity, you must also report the general credits on Form 3800, Part III, as a credit from a passive activity.

Code A5. General partner's alternative minimum tax adjustment from trade or business activities. Generally, an AMT adjustment must be reported on Form 6251, line 16. However, if the AMT adjustment is from a passive activity, it must be taken into account on line 19 with adjustments and preferences from other passive activities.

Code B1. General partner's taxable income (loss) from rental real estate activities. Generally, the income or (loss) reported in box 9, Code B1, is a passive activity amount for all general partners. However, the income or (loss) in box 9 isn't from a passive activity if you were a *real estate professional* and you materially participated in the activity.

Use the following instructions to determine where to enter the Code B1 amount.

1. If you have a loss from a passive activity in box 9, Code B1, and you meet all of the following conditions, enter the loss on Schedule E (Form 1040), line 28, column (f).

a. You actively participated in the partnership rental real estate activities. See *Special allowance for rental real estate activities*, earlier.

b. Rental real estate activities with active participation were your only passive activities.

c. You have no prior year unallowed losses from these activities.

d. Your total loss from the rental real estate activities wasn't more than $25,000 (not more than $12,500 if married filing separately and you lived apart from your spouse all year).

e. If you are a married person filing separately, you lived apart from your spouse all year.

f. You have no current or prior year unallowed credits from a passive activity.

g. Your modified adjusted gross income wasn't more than $100,000 (not more than $50,000 if married filing separately and you lived apart from your spouse all year).

2. If you have a (loss) from a passive activity in box 9 and you don't meet all the conditions in (1) above, report the loss following the Instructions for Form 8582 to figure how much of the loss you can report on Schedule E (Form 1040), line 28, column (f). However, if the PTP box is checked, report the loss following the rules for *Publicly traded partnerships*, earlier.

3. If you were a *real estate professional* and you materially participated in the activity, report box 9 income or (loss) on Schedule E (Form 1040), line 28, column (h) or (j).

4. If you have income from a passive activity in box 9, Code B1, enter the income on Schedule E (Form 1040), line 28, column (g). However, if the PTP box is checked, report the income following the rules for *Publicly traded partnerships*, earlier.

Code B2. General partner's net capital gain or (loss) from rental real estate activities (for the entire year). The net capital gain or (loss) from a rental real estate activity is a passive activity amount unless you were a *real estate professional* and you materially participated in the activity. If the amount is either **(a)** a loss that isn't from a passive activity or **(b)** a gain, report it on Schedule D (Form 1040), line 12.

If the amount is a loss from a passive activity, report it following the Instructions for Form 8582 to figure how much of the loss can be reported on Schedule D, line 12. However, if the PTP box is checked, report the loss following the rules for *Publicly traded partnerships*, earlier.

Code B3. General partner's 28% rate gain or (loss) from rental real estate activities. The 28% rate gain or (loss) from a rental real estate activity is a passive activity amount unless you were a *real estate professional* and you materially participated in the activity. If the amount is either **(a)** a loss that isn't from a passive activity or **(b)** a gain, include it on line 4 of the 28% Rate Gain Worksheet in the Instructions for Schedule D (Form 1040).

If the amount is a loss from a passive activity, report it following the Instructions for Form 8582 to figure how much of the loss can be included on line 4 of the 28% Rate Gain Worksheet in the Instructions for Schedule D (Form 1040). However, if the PTP box is checked, report the loss following the rules for *Publicly traded partnerships*, earlier.

Code B4. General partner's general credits from rental real estate activities. Report the general credits on Form 3800, Part III, line 1bb. Unless you were a *real estate professional* and materially participated in the rental real estate activity, you must also report the general credits on Form 3800, Part III, as a credit from a passive activity.

Code B5. General partner's low-income housing credit from rental real estate activities. Report the low-income housing credit on Form 8586, line 4, or Form 3800, Part III, line 1d, for buildings placed in service before 2008, and on Form 8586, line 11, or Form 3800, Part III, line 4d, for buildings placed in service after 2007. Unless you were a *real estate professional* and materially participated in the rental real estate activity, the low-income housing credit is a passive activity credit.

Code B6. General partner's rehabilitation credit from rental real estate activities. Report the rehabilitation credit on Form 3468, Investment Credit, line 11i. Unless you were a *real estate professional* and materially participated in the rental real estate activity, the credit is a passive activity credit, and you must also file Form 3800.

Code B7. General partner's alternative minimum tax adjustment from rental real estate activities. An AMT adjustment must be reported on Form 6251, line 16. However, if the AMT adjustment is from a passive activity, it must be taken into account on line 19 with other passive activities instead of being reported on line 16.

Code C1. General partner's taxable income or (loss) from other rental activities. Income (loss) reported in box 9, Code C1, is a passive activity amount for

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all general partners. Report a loss following the Instructions for Form 8582. Report income on Schedule E (Form 1040), line 28, column (g). However, if the PTP box is checked, report the income (loss) following the rules for *Publicly traded partnerships*, earlier.

Code C2. General partner's net capital gain or (loss) from other rental activities. The net capital gain (loss) from other rental activities is a passive activity amount for all general partners. Report the gain on Schedule D (Form 1040), line 12. Report a loss following the Instructions for Form 8582 to figure how much of the loss can be reported on Schedule D (Form 1040), line 12. However, if the PTP box is checked, report the loss following the rules for *Publicly traded partnerships*, earlier.

Code C3. General partner's 28% rate gain or (loss) from other rental activities. The 28% rate gain or (loss) from other rental activities is a passive activity amount for all general partners. If the amount is a gain, include it on line 4 of the 28% Rate Gain Worksheet in the Instructions for Schedule D (Form 1040). Report a loss following the Instructions for Form 8582 to figure how much of the loss can be included on line 4 of the 28% Rate Gain Worksheet in the Instructions for Schedule D (Form 1040). However, if the PTP box is checked, report the loss following the rules for *Publicly traded partnerships*, earlier.

Code C4. General partner's general credits from other rental activities. Report the general credits on Form 3800, Part III, line 1bb. Because general credits from other rental activities are passive activity credits for all general partners, you must also report the general credits on Form 3800, Part III, as a credit from a passive activity.

Code C5. General partner's alternative minimum tax adjustment from other rental activities. An AMT adjustment must be reported on Form 6251, line 16. However, if the AMT adjustment is from a passive activity, it must be taken into account on line 19 with adjustments and preferences from other passive activities instead of being reported on line 16.

Code D. Limited Partner's 28% Rate Gain or (Loss) From Passive Activities

Limited partners only. The 28% rate gain or (loss) is treated as being from a trade or business that is a single passive activity. If a gain is reported, include it on line 4 of the 28% Rate Gain Worksheet in the Instructions for Schedule D (Form 1040).

If a loss is reported, report the loss following the Instructions for Form 8582 to figure how much of the loss can be included on line 4 of the 28% Rate Gain Worksheet in the Instructions for Schedule D (Form 1040). However, if the PTP box is checked, report the loss following the rules for *Publicly traded partnerships*, earlier.

Code E. Limited Partner's 28% Rate Gain or (Loss) From Other Activities

The 28% gain or (loss) from other activities isn't subject to the passive activity limitations. Include it on line 4 of the 28% Rate Gain Worksheet in the Instructions for Schedule D (Form 1040).

Code F. Guaranteed Payments

Generally, these amounts aren't passive income. Report them on Schedule E (Form 1040), line 28, column (j) (for example, guaranteed payments for personal services).

Code G. Income From Discharge of Indebtedness

The amount reported under Code G is excluded from your gross income to the extent provided in section 108 if the discharge:

- Occurred in a title 11 case relating to bankruptcy;
- Occurred when you were insolvent;
- Involved qualified farm indebtedness, as defined in section 108(g); or
- Involved qualified real property business indebtedness, as defined in section 108(c)(3), unless the partner is a C corporation.

This amount is applied, instead, to reduce certain tax attributes. File Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment), to explain why any amount received from the discharge of indebtedness should be excluded and to report your reduction of tax attributes.

For a discharge of indebtedness not described above, you must include this amount in income on Form 1040, line 21.

Code H. Tax-Exempt Interest Income

Report on your income tax return, as an item of information, your share of the tax-exempt interest received or accrued by the partnership during the year. Individual partners must include this amount on Form 1040, line 8b. Increase the adjusted basis of your interest in the partnership by this amount.

Code I. Limited Partner's Rehabilitation Credit From Rental Real Estate Activities

Limited partners only. Report this amount on Form 3468, line 11i. Because the credit is treated as being from a single passive activity, you must also file Form 3800.

Codes J1 and J2. Self-Employment

Code J1. Net earnings or (loss) from self-employment. Enter this amount on Schedule SE (Form 1040), line 2, Section A or B, whichever is applicable. General partners should reduce this amount by unreimbursed partnership expenses claimed. General partners who are *disqualified persons* also should reduce this amount by depletion claimed on oil and gas properties. If this amount is a loss, enter only the deductible amount on Schedule SE. For purposes of self-employment tax, no income from an ELP is treated as farming or fishing income.

Code J2. Gross nonfarm income. Individual partners use this amount to figure net earnings from self-employment under the nonfarm optional method on Schedule SE (Form 1040), Section B, Part II.

Codes K1 Through K9. Foreign Tax Credit Information

Use the information reported under Codes K1 through K9 to figure your foreign tax credit.

CAUTION *Taxpayers filing Form 1116, Foreign Tax Credit—If you have any qualified dividends, capital gains (including any capital gain distributions), or capital losses, you may have to make certain adjustments to those amounts before taking them into account on Form 1116. For more information, see Form 1116, Foreign Tax Credit (Individual, Estate, or Trust), and its instructions; Form 1118, Foreign Tax Credit—Corporations, and its instructions; and Pub. 514, Foreign Tax Credit for Individuals. See the Instructions for Form 1116 for detailed instructions for reporting foreign tax information from partnerships.*

Code K1. Name of foreign country or U.S. possession. Include on Form 1116, Part I, item g. For each country reported, the partnership must give you the amount and a description of your share of the following items for Codes K2 through K9. For each country or possession being reported, a separate column in Part I and a separate line in Part II is needed on Form 1116.

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Code K2. Gross income from all sources. Enter this amount on Form 1116, line 3e.

Code K3. Gross income sourced at partner level. Although all this income reported has been apportioned to foreign source categories of income, you must nevertheless determine whether the income being reported is U.S. source income or foreign source income. See the Instructions for Form 1116 for the rules to source the income reported to you. Enter only foreign source income on lines 1a and 3d of Form 1116. A separate Form 1116 or 1118 is required for each foreign source category of income. Do not include income that you determined to be U.S. source income.

Codes K4(a) through K4(c). Foreign gross income sourced at partnership level. The following types of income have already been sourced for you by the partnership. Include these amounts on lines 1a and 3d of the applicable Form 1116 (that is, the Form 1116 for each category of income provided to you).

- **Code K4(a). Passive category foreign source income.**
- **Code K4(b). General category foreign source income.**
- **Code K4(c). Other foreign source income.**

Code K5. Interest expense allocated and apportioned at the partner level. Include this amount on line 4b of the applicable Forms 1116.

Code K6. Other expenses allocated and apportioned at the partner level. Include this amount on line 2 of the applicable Forms 1116.

CAUTION *For Codes K5 and K6, do not include any expenses allocated and apportioned to U.S. source income on any line of Part I of Form 1116.*

Codes K7(a) through K7(c). Deductions allocated and apportioned at partnership level to foreign source income. The following codes report the expenses allocated and apportioned by the partnership to foreign source categories of income. Include these amounts on line 2 of the applicable Forms 1116 (that is, the Forms 1116 for each category of income provided to you).

- **Code K7(a). Deductions allocated and apportioned at partnership level to passive category foreign source income.**
- **Code K7(b). Deductions allocated and apportioned at partnership level to general category foreign source income.**
- **Code K7(c). Deductions allocated and apportioned at partnership level to other foreign source income.**

Code K8(a). Total foreign taxes paid. Include this amount in Part II of Form 1116.

Code K8(b). Total foreign taxes accrued. Include this amount in Part II of Form 1116.

CAUTION *The partnership will attach a statement that separately identifies any arrangement, along with the taxes paid or accrued in connection with the arrangement, in which the partnership participates that would qualify as a splitter arrangement under section 909 if one or more partners are covered persons with respect to an entity that took into account related income from the arrangement. The statement will also indicate whether the partnership has taken into account any related income from any such splitter arrangement. See section 909 and the related regulations for rules regarding splitter arrangements.*

Code K9. Reduction in taxes available for credit. Enter this amount on Form 1116, line 12.

Code L. Oil and Gas Activities

Generally, oil and gas income, deductions, credits, and other items are included in your share of income or loss from passive loss limitation activities, general credits, and the alternative minimum tax adjustment.

However, shares of all oil and gas income, deductions, credits, and other items are separately reported to partners who are *disqualified persons* in accordance with the regular partnership rules, here or on an attached statement.

Note. A partner must notify the ELP of its status as a "disqualified person."

Codes M1 Through M9. Miscellaneous

Code M1. Other tax-exempt income. Increase the adjusted basis of your interest in the partnership by this amount, but don't include it in income on your income tax return.

CAUTION *The partnership will attach a statement to Schedule K-1 for the amount included in box 9, Code M1, that is exempt due to section 892 and describe the nature of the income.*

Code M2. Nondeductible expenses. Decrease the adjusted basis of your interest in the partnership by this amount. The nondeductible expenses paid or incurred by the partnership are not deductible on your income tax return, but they do affect your basis.

Code M3. Unrelated business taxable income. The partnership must give you any information you need to figure unrelated business taxable income under section 512(a)(1) (but excluding any modifications required by paragraphs (8) through (15) of section 512(b)) for a partner that is a tax-exempt organization.

Reminder. A partner is required to notify the partnership of its tax-exempt status.

Code M4. Health insurance. Include any amounts paid during the tax year for insurance that constitutes medical care for you, your spouse, your dependents, and your children under age 27 who aren't dependents on line 29 of your 2016 Form 1040. You may be allowed to deduct such amounts, even if you do not itemize deductions. If you do itemize deductions, enter on line 1 of Schedule A (Form 1040) any amounts not deducted on line 29 of Form 1040.

Code M5. Distributions of money (cash and marketable securities). This amount includes the distributions the partnership made to you of cash and certain marketable securities. The marketable securities are included at their fair market value (FMV) on the date of distribution (minus your share of the partnership's gain on the securities distributed to you). If this amount exceeds the adjusted basis of your partnership interest immediately before the distribution, the excess is treated as gain from the sale or exchange of your partnership interest. Generally, this gain is treated as gain from the sale of a capital asset and should be reported on Form 8949 and the Schedule D for your return. However, the gain may be ordinary income. For details, see Pub. 541.

The partnership must separately identify both of the following.

- The FMV of the marketable securities when distributed (minus your share of the gain on the securities distributed to you).
- The partnership's adjusted basis of those securities immediately before the distribution.

Decrease the adjusted basis of your interest in the partnership (but not below zero) by the amount of cash distributed to you and the partnership's adjusted basis of the distributed securities. Advances or drawings of money or property against your share are treated as current distributions made on the last day of the partnership's tax year.

Your basis in the distributed marketable securities (other than in liquidation of your interest) is the smaller of:

- The partnership's adjusted basis in the securities immediately before the distribution increased by any gain

recognized on the distribution of the securities, or

- The adjusted basis of your partnership interest reduced by any cash distributed in the same transaction and increased by any gain recognized on the distribution of the securities.

If you received the securities in liquidation of your partnership interest, your basis in the marketable securities is equal to the adjusted basis of your partnership interest reduced by any cash distributed in the same transaction and increased by any gain recognized on the distribution of the securities.

If, within 7 years of a distribution to you of marketable securities, you contributed appreciated property (other than those securities) to the partnership and the FMV of those securities exceeded the adjusted basis of your partnership interest immediately before the distribution (reduced by any cash received in the distribution), you may have to recognize gain on the appreciated property. See section 737 for details.

Code M6. Distributions of property other than money. Box 9, Code M6, shows the partnership's adjusted basis of property other than money immediately before the property was distributed to you. In addition, the partnership should attach a statement showing the cost basis and FMV of each property distributed. Decrease the adjusted basis of your interest in the partnership by the amount of your basis in the distributed property. Your basis in the distributed property (other than in liquidation of your interest) is the smaller of:

- The partnership's adjusted basis immediately before the distribution, or
- The adjusted basis of your partnership interest reduced by any cash distributed in the same transaction.

If you received the property in liquidation of your interest, your basis in the distributed property is equal to the adjusted basis of your partnership interest reduced by any cash distributed in the same transaction.

If you contributed appreciated property to the partnership within 7 years of a distribution of other property to you, and the FMV of the other property exceeded the adjusted basis of your partnership interest immediately before the distribution (reduced by any cash received in the distribution), you may have to recognize gain on the appreciated property. See section 737 for details.

Code M7. Gain eligible for section 1202 exclusion. This gain from the sale or exchange of qualified small business (QSB) stock (as defined in the Instructions for Schedule D) is eligible for the section 1202 exclusion. The partnership must also provide you with:

- The name of the corporation that issued the QSB stock,
- Your share of the partnership's adjusted basis of the QSB stock,
- Your share of the partnership's sales price of the QSB stock, and
- The dates the QSB stock was bought and sold.

Corporate partners are not eligible for the section 1202 exclusion. The following additional limitations apply at the partner level.

- You must have held an interest in the partnership when the partnership acquired the QSB stock and at all times thereafter until the partnership disposed of the QSB stock.
- Your share of the eligible section 1202 gain can't exceed the amount that would have been allocated to you based on your interest in the partnership at the time the QSB stock was acquired.

See the Instructions for Schedule D (Form 1040) and the Instructions for Form 8949 for details on how to report the gain and the amount of the allowable exclusion.

Code M8. Gain eligible for section 1045 rollover-stock replaced. This gain is eligible for the section 1045 rollover. Replacement stock has been purchased by the partnership. The partnership must also provide you with:

- The name of the corporation that issued the QSB stock,
- Your share of the partnership's adjusted basis of the QSB stock,
- Your share of the partnership's sales price of the QSB stock,
- The dates the QSB stock was bought and sold,
- Your share of gain from the sale of the QSB stock, and
- Your share of the gain that was deferred by the partnership under section 1045.

Corporate partners aren't eligible for the section 1045 rollover. To qualify for the section 1045 rollover:

- You must have held an interest in the partnership during the entire period in which the partnership held the QSB stock, and
- Your share of the gain eligible for the section 1045 rollover can't exceed the amount that would have been allocated to you based on your interest in the partnership at the time the QSB stock was acquired.

See the Instructions for Schedule D (Form 1040) and the Instructions for Form 8949 for details on how to report the gain and the amount of the allowable postponed gain.

Opting out of partnership election. You can opt out of the partnership's section 1045 election and either (1) recognize the gain, or (2) elect to purchase different replacement QSB stock, either directly or through ownership of a different partnership that acquired replacement QSB stock. You satisfy the requirement to purchase replacement QSB stock if you own an interest in a partnership that purchases QSB stock during the 60-day period. You also must notify the partnership, in writing, if you opt out of the partnership's section 1045 election. If you recognize gain, you must notify the partnership, in writing, of the amount of gain that you are recognizing.

Code M9. Gain eligible for section 1045 rollover-stock not replaced. This gain is eligible for the section 1045 rollover. Replacement stock has not been purchased by the partnership. The partnership must also provide you with:

- The name of the corporation that issued the QSB stock,
- Your share of the partnership's adjusted basis of the QSB stock,
- Your share of the partnership's sales price of the QSB stock,
- The dates the QSB stock was bought and sold, and
- Your share of the gain from the sale of the QSB stock.

Corporate partners are not eligible for the section 1045 rollover. To qualify for the section 1045 rollover:

- You must have held an interest in the partnership during the entire period in which the partnership held the QSB stock,
- Your share of the gain eligible for the section 1045 rollover can't exceed the amount that would have been allocated to you based on your interest in the partnership at the time the QSB stock was acquired, and
- You must purchase other QSB stock (as defined in the Instructions for Schedule D (Form 1040) and the Instructions for Form 8949) and during the 60-day period that began on the date the QSB stock was sold by the partnership.

See the Instructions for Schedule D (Form 1040) and the Instructions for Form 8949 for details on how to report the gain and the amount of the allowable postponed gain.

Making the section 1045 election. You make a section 1045 election on a timely filed return for the tax year during which the partnership's tax year ends. Attach to your Schedule D (Form 1040) a statement that includes the following information for each amount of gain that you do not recognize under section 1045.

- The name of the corporation that issued the QSB stock.
- The name and EIN of the selling partnership.
- The dates the QSB stock was purchased and sold.

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- The amount of gain that is not recognized under section 1045.
- If a partner purchases QSB stock, the name of the corporation that issued the replacement QSB stock, the date the stock was purchased, and the cost of the stock.
- If a partner treats the partner's interest in QSB stock that is purchased by a purchasing partnership as the partner's replacement QSB stock, the name and EIN of the purchasing partnership, the name of the corporation that issued the replacement QSB stock, the partner's share of the cost of the QSB stock that was purchased by the partnership, the computation of the partner's adjustment to basis with respect to that QSB stock, and the date the stock was purchased by the partnership.

Distribution of replacement QSB stock to a partner that reduces another partner's interest in replacement QSB stock. You must recognize gain upon a distribution of replacement QSB stock to another partner that reduces your share of the replacement QSB stock held by a partnership. The amount of gain that you must recognize is based on the amount of gain that you would recognize upon the sale of the distributed replacement QSB stock for its FMV on the date of the distribution, but not to exceed the amount you previously deferred under section 1045 with respect to the distributed replacement QSB stock. If the partnership distributed your share of replacement QSB stock to another partner, the partnership should give you **(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)** your share of the partnership's adjusted basis and fair market value of the replacement QSB stock on such date.

For more information, see Regulations section 1.1045-1.

Code N. Unrecaptured Section 1250 Gain

Report this gain on line 11 of the Unrecaptured Section 1250 Gain Worksheet in the Instructions for Schedule D (Form 1040). Do not report the gain on line 5 as stated on the worksheet.

Codes O1 and O2. Extraterritorial Income Exclusion

Partnership did not claim the exclusion. If the partnership reports your share of foreign trading gross receipts (Code O1) and the extraterritorial income exclusion (Code O2), the partnership was not entitled to claim the exclusion because it did not meet the foreign economic process requirements. You may still qualify for your share of this exclusion if the partnership's foreign trading gross receipts for the tax year were $5 million or less.

To qualify for this exclusion, your foreign trading gross receipts from all sources for the tax year also must have been $5 million or less.

Limited partners who qualify for the exclusion. Report the extraterritorial exclusion amount (Code O2) as a deduction reducing the amount reported in box 1 (see the box 1 instructions, earlier).

General partners who qualify for the exclusion. Report the Code O2 amount in accordance with the instructions for box 9, Code A1, B1, or C1, whichever applies. See Form 8873, Extraterritorial Income Exclusion, for more information.

Partnership claimed the exclusion. If the partnership reports your share of foreign trading gross receipts (Code O1) but not the amount of the extraterritorial income exclusion, the partnership met the foreign economic process requirements and claimed the exclusion when figuring your share of partnership income. You also may need to know the amount of your share of foreign trading gross receipts from this partnership to determine if you met the $5 million or less exception discussed above for purposes of qualifying for an extraterritorial income exclusion from other sources.

CAUTION *Upon request, the partnership should furnish you a copy of the partnership's Form 8873 if there is a reduction for international boycott operations, illegal bribes, kickbacks, etc.*

Code P. Inversion Gain

The partnership must provide a statement showing the amounts of each type of income or gain that is included in inversion gain. The partnership has included inversion gain in income elsewhere on Schedule K-1. Inversion gain is also reported under Code P because your taxable income and alternative minimum taxable income can't be less than the inversion gain. Also, your inversion gain **(a)** isn't taken into account in figuring the amount of net operating loss (NOL) for the tax year or the amount of NOL that can be carried over to each tax year, **(b)** may limit the amount of your credits, and **(c)** is treated as income from sources within the United States for the foreign tax credit. See section 7874 for details.

Code Q. Commercial Revitalization Deduction

Follow the Instructions for Form 8582 for commercial revitalization deductions from rental real estate activities to figure how much of the deduction can be reported on Schedule E (Form 1040), line 28, column (f).

CAUTION *The commercial revitalization deduction is not available for any building placed in service after December 31, 2009.*

Codes R1 and R2. Interest Deduction Limitation for Corporate Partners

A corporate partner is required to treat its share of interest income, interest expense, and partnership liabilities as income, expense, and liabilities of the corporation for purposes of the interest deduction limitation under section 163(j). The corporation's share of interest income is reported in box 9 using code R1. Its share of interest expense is reported using code R2. The amounts reported using code R1 and R2 are for information only, and are included in amounts reported elsewhere on Schedule K-1. The corporation's share of partnership liabilities is shown in the first column of Schedule K-1.

Code S1. Domestic Production Activities Information

The partnership must attach a statement to Schedule K-1 that provides the information you need to figure the domestic production activities deduction. Use Form 8903, Domestic Production Activities Deduction, to figure this deduction. See the Instructions for Form 8903 for details.

Code S2. Qualified Production Activities Income (QPAI)

Report the QPAI reported to you by the partnership (in box 9 using Code S2) on Form 8903, in the applicable column of line 7.

Code S3. Employer's W-2 Wages

Report the portion of W-2 wages reported to you by the partnership (in box 9 using Code S3) on Form 8903, line 17.

Code T. Section 409A Income

This is compensation to partners deferred under a section 409A nonqualified deferred compensation plan that doesn't meet the requirements of section 409A. This amount is also reported in box 9 using Code F. This amount is subject to interest and additional tax to be reported

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on Form 1040, line 62. See the instructions for line 62 of Form 1040 for details.

Code U. Net Investment Income

The partnership may use this Code U to report information you may need to determine your net investment income tax under section 1411 including information regarding income from controlled foreign corporations (CFCs) and passive foreign investment companies (PFICs) the stock of which is owned by the partnership. Any information that isn't provided elsewhere on Schedule K-1 (or an attachment to Schedule K-1) is provided using Code U. For CFCs and PFICs that you treat as qualified electing funds (QEFs), the information that is relevant to you will depend on whether you, the partnership, or a lower-tier entity has made an election under Regulations section 1.1411-10(g) with respect to the CFC or QEF. For example, if the partnership made an election under Regulations section 1.1411-10(g) for a CFC the stock of which is owned by the partnership, and the relevant income and deduction items derived from that CFC are reported elsewhere on the Schedule K-1, then you will not need the information provided using Code U to complete your Form 8960.

If you are an individual who is a U.S. citizen or resident, or a domestic trust or estate, follow the Instructions for Form 8960 to figure and report your net investment income and adjusted gross income or modified adjusted gross income. Corporate partners aren't subject to the net investment income tax. See Regulations sections 1.1411-1 through 10 for details.

Code V. Other Information

The partnership will use Code V to report the following to partners.

- The recapture of any credit (other than partnership level low-income housing credit or investment credit) is reported to you as a separately stated item. See the instructions for the specific form identified with the credit for more information on reporting the recapture.
- Any information a partner that is a publicly traded partnership may need to determine if it meets the 90% qualifying income test of section 7704(c)(2). Partners are required to notify the partnership of their status as a publicly traded partnership.
- Any information you need to complete a disclosure statement for reportable transactions in which the partnership participates. If the partnership participates in a transaction that must be disclosed on Form 8886, Reportable Transaction Disclosure Statement, both you and the partnership may be required to file Form 8886 for the transaction. The determination of whether you are required to disclose a transaction of the partnership is based on the category(s) under which the transaction qualifies for disclosure and is determined by the partnership. See the Instructions for Form 8886 for details.
- Conservation reserve program payments. Individuals who received social security retirement or disability benefits, and are partners in a farm partnership that receives conservation reserve program payments, don't pay self-employment tax on their share of the conservation reserve payments. The partnership will report your share of the conservation reserve program payments in box 9 using Code V. See Schedule SE (Form 1040) for information on excluding the payments from your calculation of self-employment tax.
- 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). The partnership will report on an attached statement the amount of gain or loss attributable to the sale or exchange of the qualified preferred stock, the date the stock was acquired by the partnership, and the date the stock was sold or exchanged by the partnership. If the partner is **not** a financial institution, report the gain or loss on line 5 or line 12 of Schedule D (Form 1040) in accordance with the instructions for Schedule D. If a partner is a financial institution referred to in section 582(c)(2) or a depositary institution holding company (as defined in section 3(w)(1) of the Federal Deposit Insurance Act), report the gain or loss in accordance with the Instructions for Form 4797, and Rev. Proc. 2008-64, 2008-47 I.R.B. 1195.
- If the partnership made a section 108(i) election or allocates any section 108(i) items to its partners, it will provide a statement identifying your share of the following.

1. The deferred section 108(i) cancellation of debt (COD) income that hasn't been included in income in the current or prior tax years.

2. The partnership's original issue discount (OID) deduction deferred under section 108(i)(2)(A)(i) that hasn't been deducted in the current or prior tax years.

3. The deferred section 752 amount that is treated as a distribution of money under section 752 in the current tax year.

4. The deferred section 752 amount remaining as of the end of the current tax year.

5. Any income previously deferred as a result of a section 108(i) election that is includible in the current year. See section 108(i) for events that will cause previously deferred income to be reportable, and a special rule for allocating deferred income to partners.

6. The current year section 108(i) OID deduction. The partnership will provide your share of the partnership's OID deduction deferred under section 108(i)(2)(A)(i) that is allowable as a deduction in the current tax year under section 108(i)(2)(A)(ii) or section 108(i)(5)(D)(i) or (ii).

- The information needed to complete Schedule P (Form 1120-F), List of Foreign Partner Interests in Partnerships. When required, the partnership will make this report on an attached statement to partners that are a corporation identified as a foreign partner under Regulations section 1.1446-1(c)(3) or partners that are a partnership (domestic or foreign) if the reporting partnership knows, or has reason to know, that one or more of the partners is a foreign corporation. If the partnership allocates effectively connected income to the partner, the statement will contain the information needed to complete lines 1 through 10, 13, 14, 15b, 17a, 17b, and 18 of Schedule P (Form 1120-F). If the partnership does not allocate effectively connected income to the partner, the statement will contain the information needed to complete lines 13, 14, and 18 of Schedule P (Form 1120-F), information that might be relevant for purposes of completing Schedule P in determining your interest expense deduction under Regulations section 1.882-5.
- The partner's share of the credit for each separate bond credit that was reported on the partnership's Form 8912. Do not add these amounts to your income, as they were included in the income (loss) reported in box 1 or 2. The partnership will report the following credits separately: clean renewable energy bond credit, **new** clean renewable energy bond credit, qualified energy conservation bond credit, qualified zone academy bond credit, qualified school construction bond credit, and build America bond credit.
- Excess farm loss limitation. If the partnership has deductions attributable to a farming activity, it will provide a statement showing the aggregate gross income or gain and the aggregate deductions from the farming activity that you need to figure any excess farm loss limitation. See section 461(j) for details.
- Any other information you may need to file with your return not shown elsewhere on Schedule K-1. The partnership must give you a description and the amount of your share for each of these items.

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