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Instructions for Schedule C (Form 1065)

(Rev. December 2014)

Additional Information for Schedule M-3 Filers

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

General Instructions

Future Developments

For the latest information about developments related to Schedule C (Form 1065) and its instructions, such as legislation enacted after they were published, go to www.irs.gov/form1065.

What's New

Some filers of Form 1065, U.S. Return of Partnership Income, that file Schedule M-3 (Form 1065), Net Income (Loss) Reconciliation for Certain Partnerships, with tax years ending on December 31, 2014 or later are not required to file Schedule C (Form 1065). See *Who Must File*, later.

Purpose of Form

Use Schedule C (Form 1065) to provide answers to additional questions for some filers of Schedule M-3 (Form 1065), Net Income (Loss) Reconciliation for Certain Partnerships.

Who Must File

Generally, filers of Form 1065, U.S. Return of Partnership Income, that file Schedule M-3 (Form 1065), Net Income (Loss) Reconciliation for Certain Partnerships, must complete and file Schedule C (Form 1065) and attach it to their return. However, for tax years ending on December 31, 2014 or later, partnerships that (a) are required to file Schedule M-3 and have less than \$50 million in total assets at the end of the tax year or (b) are not required to file Schedule M-3 and voluntarily file Schedule M-3, are not required to file Schedule C (Form 1065). For more information, visit IRS.gov and enter "Schedule M-3 for Large Business International (LBI)" in the Search box. Also see the Instructions for Schedule M-3 (Form 1065) for more information.

Specific Instructions

Question 1. For certain transfers that are presumed to be sales, the partnership or the partners must comply with the disclosure requirements in Regulations section 1.707-8. Generally, disclosure is required when:

1. Certain transfers to a partner are made within two years of a transfer of property by the partner to the partnership;

2. Certain debt is incurred by a partner within two years of the earlier of:

- A written agreement to transfer or
- A transfer of the property that secures the debt, if the debt, nevertheless, is treated as a qualified liability; or

3. Transfers from a partnership to a partner occur which are the equivalent to those listed in 1 or 2 above.

The disclosure must be made on the transferor partner's return using Form 8275, Disclosure Statement, or on an attached statement providing the same information. When more than one partner transfers property to a partnership under a plan, the disclosure may be made by the partnership rather than by each partner.

Question 2. Answer "Yes" if this partnership is a partner in another partnership and has received special allocations of income, gain, loss, deduction, or credit from that partnership. For more information on special allocations, see *Special Allocations*, in the Instructions for Form 1065.

Example. P, a partnership, joins with B, an individual, in forming the PB partnership. P and B each contribute \$50,000 cash to PB partnership. Profits and losses are split 50/50, with the exception of depreciation, which is allocated 99% to P and 1% to B. P answers "Yes" to question 2 because its 99% allocation of depreciation deductions from PB partnership is disproportionate to its ratio of sharing other items from PB partnership.

Question 5. The term "change in accounting principle" means a change from one generally accepted accounting principle to another generally accepted accounting principle as described in "Statement of Financial Accounting Standards No. 154—Accounting Changes and Error Corrections."

For purposes of this question, answer "Yes" if such a change in accounting principle occurred during the tax year and such change resulted in, or is expected to result in, an effect on the amount of income reported for financial statement purposes.

Question 6. File Form 3115, Application for Change in Accounting Method, to request a change in a method of accounting. See the Instructions for Form 3115 for information on requesting a change in accounting method.