General Instructions

Section references are to the Internal Revenue Code.

At-Risk Rules

Generally, you must complete Form 6198 to figure your allowable loss if you have:

- A loss from an activity carried on as a trade or business or for the production of income, and
- Amounts in the activity for which you are not at risk.

The at-risk rules generally limit the amount of loss (including loss on the disposition of assets) you can claim to the amount you could actually lose in the activity. However, the at-risk rules do not apply to losses from an activity of holding real property, if you acquired your interest in the activity before 1987 and the property was placed in service before 1987. The activity of holding mineral property does not qualify for this exception.

In most cases, you are not 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 are not secured by your own property (other than property used in the activity). However, there is an exception for certain nonrecourse financing borrowed by you in connection with holding real property (other than mineral property). See Qualified nonrecourse financing on this page.
- 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)(C), to a person (other than you) having such an interest.

Qualified nonrecourse financing. Qualified nonrecourse financing is treated as an amount at risk if it is secured by real property used in an activity of holding real property that is subject to the at-risk rules. Qualified nonrecourse financing is financing for which no one is personally liable for repayment and is:

- Borrowed by you in connection with holding real property (other than mineral property),
- Not convertible from a debt obligation to an ownership interest, and
- Loaned or guaranteed by any federal, state, or local government, or borrowed by you from a qualified person.

Qualified person. A qualified person is a person who actively and regularly engages in the activity for which no one is personally liable for repayment and is:

- Related to you (unless the nonrecourse financing obtained is commercially reasonable and on the same terms as loans involving unrelated persons),
- The seller of the property (or a person related to the seller), or
- A person who receives a fee due to your investment in real property (or a person related to that person).

For more details about the at-risk rules, see the Instructions for Form 6198 and Pub. 925.

Passive Activity Loss Rules

The passive activity loss rules may limit the amount of losses you can deduct. These rules apply to losses in Parts I, II, and III, and line 40 of Schedule E. Losses from passive activities may be subject first to the at-risk rules. Losses deductible under the at-risk rules are then subject to the passive activity loss rules.

You generally can deduct losses from passive activities only to the extent of income from passive activities. An exception applies to certain rental real estate activities (explained on page E-2).

Passive Activity

A passive activity is any business activity in which you did not materially participate and any rental activity, except as explained on this page and page E-2. If you are a limited partner, you generally are not treated as having materially participated in the partnership’s activities for the year.

The rental of real or personal property is generally a rental activity under the passive activity loss rules, but exceptions apply. If your rental of property is not treated as a rental activity, you must determine whether it is a trade or business activity, and if so, whether you materially participated in the activity for the tax year.

See the Instructions for Form 8582 to determine whether you materially participated in the activity and for the definition of "rental activity." See Pub. 925 for special rules that apply to rentals of:

- Substantially nondepreciable property,
- Property incidental to development activities, and
- Property to activities in which you materially participate.

Activities That Are Not Passive Activities

Activities of real estate professionals. If you were a real estate professional in 2005, any real estate activity in which you materially participated is not a passive activity. You were a real estate professional only if you met both of the following conditions:

1. 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.
2. You performed more than 750 hours of services in real property trades or businesses in which you materially participated.

For purposes of this rule, each interest in rental real estate is a separate activity, un-
Specific Instructions

Number Royalties Disclosure Statement only passive activities. Form 8582 to figure any losses allowed. Employer's adoption assistance program.

Space for "Your social security number." Estate Activities Exception for Certain Rental Real

Royalty income not derived in the ordinary course of a trade or business reported on Schedule E generally is not considered income from a passive activity. See the instructions for lines 3 and 4 to determine if you should report your rental real estate activities.

Filers of Form 1041

If you meet all three of the following conditions, your rental real estate losses are not limited by the passive activity loss rules. If you do not meet all three of these conditions, see the Instructions for Form 8582 to find out if you must complete and attach Form 8582 to figure any losses allowed.
1. Rental real estate activities are your only passive activities.
2. You do not have any prior year unrealized losses from any passive activities.
3. All of the following apply if you have an overall net loss from these activities:
   a. You actively participated (defined on this page) in all of the rental real estate activities;
   b. If married filing separately, you lived apart from your spouse all year;
   c. Your overall net loss from these activities is $25,000 or less ($12,500 or less if married filing separately);
   d. You have no current or prior year unrealized credits from passive activities; and
   e. Your modified adjusted gross income (defined below) is $100,000 or less ($50,000 or less if married filing separately).

Active participation. You can meet the active participation requirement without regular, continuous, and substantial involvement in real estate activities. But you must have participated in making management decisions or arranging for others to provide services (such as repairs) in a significant and bona fide sense. Such management decisions include:
   • Approving new tenants,
   • Deciding on rental terms,
   • Approving capital or repair expenditures, and
   • Other similar decisions.

You are not considered to actively participate 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.

Modified adjusted gross income. This is your adjusted gross income from Form 1040, line 38, without taking into account:
   • Any passive activity loss,
   • Rental real estate losses allowed for real estate professionals (see Activities of real estate professionals that begin on page E-1),
   • Taxable social security or tier 1 railroad retirement benefits,
   • Deductible contributions to a traditional IRA or certain other qualified retirement plans under section 219,
   • The student loan interest deduction,
   • The tuition and fees deduction,
   • The domestic production activities deduction,
   • The deduction for one-half of self-employment tax,
   • The exclusion from income of interest from series EE and I U.S. savings bonds used to pay higher education expenses, and
   • Any excluded amounts under an employer’s adoption assistance program.

Part I Income or Loss From Rental Real Estate and Royalties

Use Part I to report:
   • Income and expenses from rental real estate (including personal property leased with real estate), and
   • Royalty income and expenses.

Specific Instructions

Filers of Form 1041

If you are a fiduciary filing Schedule E with Form 1041, enter the estate’s or trust’s employer identification number (EIN) in the space for “Your social security number.”
C, Schedule C-EZ, or Form 4835 instead of Schedule E.

If you own a part interest in a rental real estate property, report only your part of the income and expenses on Schedule E.

Complete lines 1 and 2 for each rental real estate property. Leave these lines blank for each royalty property.

If you have more than three rental real estate or royalty properties, complete and attach as many Schedules E as you need to list them. But fill in the “Totals” column on only one Schedule E. The figures in the “Totals” column on that Schedule E should be the combined totals of all your Schedu-

les E. If you are also using page 2 of Schedule E, use the same Schedule E on which you entered the combined totals for Part I.

Personal property. Do not use Schedule E to report income and expenses from the rental of personal property, such as equipment or vehicles. Instead, use Schedule C or C-EZ if you are in the business of renting personal property. You are in the business of renting personal property if the primary purpose for renting the property is income or profit and you are involved in the rental activity with continuity and regularity.

If your rental of personal property is not a business, see the instructions for Form 1040, lines 21 and 36, to find out how to report the income and expenses.

Extraterritorial income exclusion. Except as otherwise provided in the Internal Reve-

nue Code, gross income includes all in-

come from whatever source derived. Gross income, however, does not include 80% of extraterritorial income that is qualifying foreign trade income. Use Form 8873 to figure the extraterritorial income exclusion. Report it on Schedule E as explained in the Instructions for Form 8873.

Line 1
For rental real estate property only, show all of the following.

- The kind of property you rented (for example, townhouse).
- The street address, city or town, and state. You do not have to give the ZIP code.
- Your percentage of ownership in the property, if less than 100%.

Line 2
If you rented out a dwelling unit that you also used for personal purposes during the year, you may not be able to deduct all the expenses for the rental part. “Dwelling unit” (unit) means a house, apartment, con-
dominium, or similar property.

A day of personal use is any day, or part of a day, that the unit was used by:

- You for personal purposes,
- Any other person for personal purposes, if that person owns part of the unit (unless rented to that person under a “shared equity” financing agreement),
- Anyone in your family (or in the fam-

ily of someone else who owns part of the unit), unless the unit is rented at a fair rental price to that person as his or her main home,
- Anyone who pays less than a fair rental price for the unit, or
- Anyone under an agreement that lets you use some other unit.

Do not count as personal use:

- Any day you spent working substan-

tially full time repairing and maintaining the unit, even if family members used it for recreational purposes on that day, or
- Any days you used the unit as your main home before or after renting it or of-

fering it for rent, if you rented or tried to rent it for at least 12 consecutive months (or for a period of less than 12 consecutive months at the end of which you sold or exchanged it).

Check “Yes” if you or your family used the unit for personal purposes in 2005 more than the greater of:

1. 14 days, or
2. 10% of the total days it was rented to others at a fair rental price.

Otherwise, check “No.”

If you checked “No,” you can deduct all your expenses for the rental part, subject to the At-Risk Rules and the Passive Activity Loss Rules explained beginning on page E-1.

If you checked “Yes” and rented the unit out for fewer than 15 days, do not report the rental income and do not deduct any rental expenses. If you itemize deduc-
tions on Schedule A, you can deduct allow-
able interest, taxes, and casualty losses.

If you checked “Yes” and rented the unit out for at least 15 days, you may not be able to deduct all your rental expenses. You can deduct all of the following expenses for the rental part on Schedule E:

- Mortgage interest.
- Real estate taxes.
- Casualty losses.
- Other rental expenses not related to your use of the unit as a home, such as advertising expenses and rental agents’ fees.

If any income is left after deducting these expenses, you can deduct other ex-

penses, including depreciation, up to the amount of remaining income. You can carry over to 2006 the amounts you cannot deduct.

See Pub. 527 for details.

Line 3
If you received rental income from real es-

te (including personal property leased with real estate) and you were not in the real estate business, report the income on line 3. Use a separate column (A, B, or C) for each rental property. Include income received for renting a room or other space. If you received services or property instead of money as rent, report the fair market value of what you received as rental in-

come.

Be sure to enter the total of all your rents in the “Totals” column even if you have only one property.

If you provided significant services to the renter, such as maid service, report the rental activity on Schedule C or C-EZ, not on Schedule E. Significant services do not include the furnishing of heat and light, cleaning of public areas, trash collection, or similar services.

If you were in the real estate sales busi-

ness, include on line 3 only the rent re-
ceived from real estate (including personal property leased with real estate) you held for investment or speculation. Do not use Schedule E to report income and expenses from rentals of real estate held for sale to customers in the ordinary course of your real estate sales business. Instead, use Schedule C or C-EZ for these rentals.

For more details on rental income use TeleTax topic 414 (see page 8 of the Form 1040 instructions) or see Pub. 527.

Rental income from farm production or crop shares. Report farm rental income and expenses on Form 4835 if:

- You received rental income based on crops or livestock produced by the tenant, and
- You did not manage or operate the farm to any great extent.

Line 4
Report on line 4 royalties from oil, gas, or mineral properties (not including operating interests); copyrights; and patents. Use a separate column (A, B, or C) for each royalty income and expenses on Schedule C or C-EZ.

You may be able to treat amounts re-
ceived as “royalties” for the transfer of a patent or amounts received on the disposal of coal and iron ore as the sale of a capital asset. For details, see Pub. 544.

Enter on line 4 the gross amount of roy-

alty income, even if state or local taxes were withheld from oil or gas payments

E-3
you received. Include taxes withheld by the producer on line 16.

**General Instructions for Lines 5 Through 21**

Enter your rental and royalty expenses for each property in the appropriate column. You can deduct all ordinary and necessary expenses, such as taxes, interest, repairs, insurance, management fees, agents' commissions, and depreciation.

Do not deduct the value of your own labor or amounts paid for capital investments or capital improvements.

Enter your total expenses for mortgage interest (line 12), total expenses before depreciation expense or depletion (line 19), and depreciation expenses or depletion (line 20) in the “Totals” column even if you have only one property.

**Renting out part of your home.** If you rent out only part of your home or other property, deduct the part of your expenses that applies to the rented part.

**Credit or deduction for access expenditures.** You may be able to claim a tax credit for eligible expenditures paid or incurred in 2005 to provide access to your business for individuals with disabilities.

See Form 8826 for details.

You can also deduct up to $15,000 of qualified costs paid or incurred in 2005 to remove architectural or transportation barriers to individuals with disabilities and the elderly.

You cannot take both the credit and the deduction for the same expenditures.

**Line 6**

You can deduct ordinary and necessary auto and travel expenses related to your rental activities, including 50% of meal expenses incurred while traveling away from home. You generally can either deduct your actual expenses or take the standard mileage rate. You must use actual expenses if you used more than four vehicles simultaneously in your rental activities (as in the use of money must be deducted over See the Instructions for Form 4562 ... must be capitalized and depreciated (that is, they cannot be deducted in full in the year they are paid or incurred). See the instructions for line 20).

**Line 10**

Include on line 10 fees for tax advice and the preparation of tax forms related to your rental real estate or royalty properties.

Do not deduct legal fees paid or incurred to defend or protect title to property, to recover property, or to develop or improve property. Instead, you must capitalize these fees and add them to the property’s basis.

**Line 11**

Depreciation on property first placed in service in 2005, the recipient should send you a Form 1098 or similar statement by January 31, 2006, showing the total interest received from you.

If you paid more mortgage interest than is shown on your Form 1098 or similar statement, see Pub. 535 to find out if you can deduct part or all of the additional interest. If you can, enter the entire deductible amount on line 12. Attach a statement to your return explaining the difference. On the dotted line next to line 12, enter “See attached.”

**Line 14**

You can deduct the cost of repairs made to your property in good working condition. Repairs generally do not add significant value to the property or extend its life. Examples of repairs are fixing a broken lock or painting a room. Improvements that increase the value of the property or extend its life, such as replacing a roof or renovating a kitchen, must be capitalized and depreciated (that is, they cannot be deducted in full in the year they are paid or incurred). See the instructions for line 20.

**Line 17**

Depreciation is the annual deduction you must take to recover the cost or other basis of business or investment property having a useful life substantially beyond the tax year. Land is not depreciable.

Depreciation starts when you first use the property in your business or for the production of income. It ends when you deduct all your depreciable cost or other basis or no longer use the property in your business or for the production of income.

See the Instructions for Form 4562 to figure the amount of depreciation to enter on line 20. Be sure to enter the total of all your depreciation in the “Totals” column even if you have only one property.

You must complete and attach Form 4562 only if you are claiming:

- Depreciation on property first placed in service during 2005,
- Depreciation on listed property (defined in the Instructions for Form 4562), including a vehicle, regardless of the date it was placed in service, or
- A section 179 expense deduction or amortization of costs that began in 2005.

See Pub. 527 for more information on depreciation of residential rental property.
You should receive a Schedule K-1 from the partnership or S corporation. You should also receive a copy of the Partner’s or Shareholder’s Instructions for Schedule K-1. Your copy of Schedule K-1 and its instructions will tell you where on your return to report your share of the items. If you did not receive these instructions with your Schedule K-1, see page 7 of the Form 1040 instructions for how to get a copy. Do not attach Schedules K-1 to your return. Keep them for your records.

You are treating items on your tax return differently from the way the partnership (other than an electing large partnership) or S corporation reported them on its return, you may have to file Form 8082. If you are a partner in an electing large partnership, you must report the items shown on Schedule K-1 (Form 1065-B) on your tax return the same way that the partnership reported the items on Schedule K-1.

Special rules that limit losses. Please note the following.

- If you have a current year loss, or a prior year unallowed loss, from a partnership or an S corporation, see At-Risk Rules and Passive Activity Loss Rules on page E-1.

Partners and S corporation shareholders should get a separate statement of income, expenses, deductions, and credits for each activity engaged in by the partnership and S corporation. If you are subject to the at-risk rules for any activity, use Form 6198 to figure the amount of any deductible loss. If the activity is nonpassive, enter any deductible loss from Form 6198 on the appropriate line in Part II, column (b), of Schedule E.

You have a passive activity loss, you generally need to complete Form 8582 to figure the amount of the allowable loss to enter in Part II, column (f), for that activity. But if you are a general partner or an S corporation shareholder reporting your share of a partnership or an S corporation loss from a rental real estate activity and you meet all three of the conditions listed on page E-2 under Exception for Certain Rental Real Estate Activities, you do not have to complete Form 8382. Instead, enter your allowable loss in Part II, column (f).

You have passive activity income, complete Part II, column (g), for that activity.

If you have nonpassive income or losses, complete Part II, columns (h) through (j), as appropriate.

Partnerships

See the Schedule K-1 instructions before entering on your return other partnership items from a passive activity or income or loss from any publicly traded partnership.

You can deduct unreimbursed ordinary and necessary expenses you paid on behalf of the partnership if you were required to pay these expenses under the partnership agreement. See the instructions for line 27 on page E-6 for how to report these expenses.

Report allowable interest expense paid or incurred from debt-financed acquisitions in Part II or on Schedule A depending on the type of expenditure to which the interest is allocated. See Pub. 535 for details.

If you claimed a credit for federal tax on gasoline or other fuels on your 2004 Form 1040 based on information received from the partnership, enter as income in column (g) or column (j), whichever applies, the amount of the credit claimed for 2004.

Part or all of your share of partnership income or loss from the operation of the business may be considered net earnings from self-employment that must be reported on Schedule SE. Enter the amount from Schedule K-1 (Form 1065), box 14, code A (or from Schedule K-1 (Form 1065-B), box 9 (code K1)), on Schedule SE, after you reduce this amount by any allowable expenses attributable to that income.

Foreign partnerships. If you are a U.S. person, you may have to file Form 8865 if any of the following applies.

1. You controlled a foreign partnership (that is, you owned more than a 50% direct or indirect interest in the partnership).
2. You owned at least a 10% direct or indirect interest in a foreign partnership while U.S. persons controlled that partnership.
3. You had an acquisition, disposition, or change in proportional interest of a foreign partnership that:
   a. Increased your direct interest to at least 10% or reduced your direct interest of at least 10% to less than 10%, or
   b. Changed your direct interest by at least a 10% interest.
4. You contributed property to a foreign partnership in exchange for a partnership interest if:
   a. Immediately after the contribution, you owned, directly or indirectly, at least a 10% interest in the partnership, or
   b. The fair market value of the property you contributed to the partnership in exchange for a partnership interest, when added to other contributions of property you made to the partnership during the preceding 12-month period, exceeds $100,000.

Also, you may have to file Form 8866 to report certain dispositions by a foreign partnership of property you previously contributed to that partnership if you were a partner at the time of the disposition.

For more details, including penalties for failing to file Form 8865, see Form 8865 and its separate instructions.
S Corporations
If you are a shareholder in an S corporation, your share of the corporation’s aggregate losses and deductions (combined income, losses, and deductions) is limited to the adjusted basis of your corporate stock and any debt the corporation owes you. Any loss or deduction not allowed this year because of the basis limitation can be carried forward and deducted in a later year subject to the basis limitation for that year.

If you are claiming a deduction for your share of an aggregate loss, attach to your return a computation of the adjusted basis of your corporate stock and of any debt the corporation owes you. See the Schedule K-1 instructions for details.

After applying the basis limitation, the deductible amount of your aggregate losses and deductions may be further reduced by the at-risk rules and the passive activity loss rules. See page E-1.

Distributions of prior year accumulated earnings and profits of S corporations are dividends and are reported on Form 1040, line 9a.

Interest expense relating to the acquisition of shares in an S corporation may be fully deductible on Schedule E. For details, see Pub. 535.

Your share of the net income of an S corporation is not subject to self-employment tax.

Line 27
If you answered “Yes” on line 27, follow the instructions below. If you fail to follow these instructions, the IRS may send you a notice of additional tax due because the amounts reported by the partnership or S corporation on Schedule K-1 do not match the amounts you reported on your tax return.

Losses Not Allowed in Prior Years Due to the At-Risk or Basis Limitations
• Enter your total prior year unallowed losses that are now deductible on a separate line in column (h) of line 28. Do not combine these losses with, or net them against, any current year amounts from the partnership or S corporation.
• Enter “PYA” (prior year amount) in column (a) of the same line.

Prior Year Unallowed Losses From a Passive Activity Not Reported on Form 8582
• Enter on a separate line in column (f) of line 28 your total prior year unallowed losses not reported on Form 8582. Such losses include prior year unallowed losses that are now deductible because you did not have an overall loss from all passive activities or you disposed of your entire interest in a passive activity in a fully taxable transaction. Do not combine these losses with, or net them against, any current year amounts from the partnership or S corporation.
• Enter “PYA” (prior year amount) in column (a) of the same line.

Unreimbursed Partnership Expenses
• You can deduct unreimbursed ordinary and necessary partnership expenses you paid on behalf of the partnership on Schedule E if you were required to report these expenses under the partnership agreement (except amounts deductible only as itemized deductions, which you must enter on Schedule A).
• Enter unreimbursed partnership expenses from nonpassive activities on a separate line in column (h) of line 28. Do not combine these expenses with, or net them against, any other amounts from the partnership.
• If the expenses are from a passive activity and you are not required to report Form 8582, enter the expenses related to a passive activity on a separate line in column (f) of line 28. Do not combine these expenses with, or net them against, any other amounts from the partnership.
• Enter “UPE” (unreimbursed partnership expenses) in column (a) of the same line.

Line 28
For nonpassive income or loss (and passive income or losses for which you are required to report Form 8582), enter in the applicable column of line 28 your current year ordinary income or loss from the partnership or S corporation. Report each related item required to be reported on Schedule E (including items of income or loss stated separately on Schedule K-1) in the applicable column of a separate line following the line on which you reported the current year ordinary income or loss. Also enter a description of the related item (for example, depletion) in column (a) of the same line.

If you are required to file Form 8582, see the Instructions for Form 8582 before completing Schedule E.

Part III
Income or Loss From Estates and Trusts
If you are a beneficiary of an estate or trust, use Part III to report your part of the income (even if not received) or loss. You should receive a Schedule K-1 (Form 1041) from the fiduciary. Your copy of Schedule K-1 and its instructions will tell you where on your return to report the items from Schedule K-1. Do not attach Schedule K-1 to your return. Keep it for your records.

If you are treating items on your tax return differently from the way the estate or trust reported them on its return, you may have to file Form 8082.

If you have estimated taxes credited to you from a trust (Schedule K-1, box 13, code A), enter “ES payment claimed” and the amount on the dotted line next to line 37. Do not include this amount in the total on line 37. Instead, enter the amount on Form 1040, line 65.

A U.S. person who transferred property to a foreign trust may have to report the income received by the trust as a result of the transferred property if, during 2005, the trust had a U.S. beneficiary. See section 679. An individual who received a distribution from, or who was the grantor of or transferor to, a foreign trust must also complete Part III of Schedule B (Form 1040) and may have to file Form 3520. In addition, the owner of a foreign trust must ensure that the trust files an annual information return on Form 3520-A.

Part IV
Income or Loss From Real Estate Mortgage Investment Conduits (REMICs)
If you are the holder of a residual interest in a REMIC, use Part IV to report your total share of the REMIC’s taxable income or loss for each quarter included in your tax year. You should receive Schedule Q (Form 1066) and instructions from the REMIC for each quarter. Do not attach Schedules Q to your return. Keep them for your records.

If you are treating REMIC items on your tax return differently from the way the REMIC reported them on its return, you may have to file Form 8082.

If you are the holder of a residual interest in more than one REMIC, attach a continuation sheet using the same format as in Part IV. Enter the totals of columns (d) and (e) on Schedule E, line 39. If you also completed Part I on more than one Schedule E, use the same Schedule E on which you entered the combined totals in Part I.

REMIC income or loss is not income or loss from a passive activity.

Note. If you are the holder of a regular interest in a REMIC, do not use Schedule E to report the income you received. Instead, report it on Form 1040, line 8a.

Column (e). Report the total of the amounts shown on Schedule(s) Q, line 2c. This is the smallest amount you are allowed to report as your taxable income (Form 1040, line 43). It is also the smallest amount you are allowed to report as your alternative minimum taxable income (AMTI) (Form 6251, line 28).
If the amount in column (c) is larger than your taxable income would otherwise be, enter the amount from column (c) on Form 1040, line 43. Similarly, if the amount in column (c) is larger than your AMTI would otherwise be, enter the amount from column (c) on Form 6251, line 28. Enter “Sch. Q” on the dotted line to the left of this amount on Form 1040, line 43, and Form 6251, line 28, if applicable.

Note. These rules also apply to estates and trusts that hold a residual interest in a REMIC. Be sure to make the appropriate entries on the comparable lines on Form 1041.

Do not include the amount shown in column (c) in the total on Schedule E, line 39.

Column (e). Report the total of the amounts shown on Schedule(s) Q, line 3b. If you itemize your deductions, include this amount on Schedule A, line 22.

Part V
Summary
Line 42
You will not be charged a penalty for underpayment of estimated tax if:

1. Your gross farming or fishing income for 2004 or 2005 is at least two-thirds of your gross income, and
2. You file your 2005 tax return and pay the tax due by March 1, 2006.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

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

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is approved under OMB control number 1545–1972 and is shown below.

Recordkeeping ............... 3 hr.
Learning about the law or the form .................. 1 hr., 13 min.
Preparing the form .......... 1 hr., 27 min.
Copying, assembling, and sending the form to the IRS ...... 34 min.

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