

1994



Department of the Treasury Internal Revenue Service

Instructions for Form 1065

U.S. Partnership Return of Income

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

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.

The time needed to complete and file this form and related schedules will vary depending on individual circumstances. The estimated average times are:

Table with 5 columns: Form, Recordkeeping, Learning about the law or the form, Preparing the form, Copying, assembling, and sending the form to the IRS. Rows include Form 1065, Schedule D, Schedule K-1, Schedule L, Schedule M-1, and Schedule M-2.

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms simpler, we would be happy to hear from you. You can write to both the Internal Revenue Service, Attention: Tax Forms Committee, PC:FP, Washington, DC 20224; and the Office of Management and Budget, Paperwork Reduction Project (1545-0099), Washington, DC 20503. DO NOT send the tax form to either of these offices. Instead, see Where To File on page 3.

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Changes To Note

Final regulations under section 263A have been adopted. These regulations, which require the capitalization and inclusion in inventory of certain costs generally are effective for tax years beginning after 1993. Changes in accounting methods may be necessary as a result of the issuance of the final regulations. These changes must be made under Rev. Proc. 94-49, 1994-30 I.R.B. 31.

- For tax years beginning after 1993, certain partners who materially participate in real property trades or businesses are not subject to the passive activity limitations on losses from rental real estate activities in which they materially participate. For details, see item 2 under Activities That Are Not Passive Activities on page 6.
Partnerships that have employees that lived and worked in an area designated by the Federal Government as an "empowerment zone" may be able to claim the credit figured on Form 8844, Empowerment Zone Employment Credit.

General Instructions

Note: In addition to the publications listed throughout these instructions, you may wish to get Pub. 334, Tax Guide for Small Business; Pub. 535, Business Expenses; Pub. 541, Tax Information on Partnerships; Pub. 550, Investment Income and Expenses; and Pub. 556, Examination of Returns, Appeal Rights, and Claims for Refund.

You can get the above publications and other publications referenced throughout these instructions at most IRS offices. To order publications and forms, call our toll-free number 1-800-TAX-FORM (1-800-829-3676).

Purpose of Form

Form 1065 is an information return used to report the income, deductions, gains, losses, etc., from the operation of a partnership. A partnership does not pay tax on its income but "passes through" any profits or losses to its partners. Partners must include partnership items on their tax returns.

Definitions

Partnership

A partnership is the relationship between two or more persons who join to carry on a trade or business, with each person contributing money, property, labor, or skill and each expecting to share in the profits and losses of the business whether or not a formal partnership agreement is made.

The term "partnership" includes a limited partnership, syndicate, group, pool, joint venture, or other unincorporated organization, through or by which any business, financial operation, or venture is carried on, that is not, within the meaning of the Internal Revenue Code, a corporation, trust, estate, or sole proprietorship. If an organization more nearly resembles a corporation than a partnership or trust, it is considered to be a corporation.

A joint undertaking merely to share expenses is not a partnership. Mere co-ownership of property that is maintained and leased or rented is not a partnership. However, if the co-owners provide services to the tenants, a partnership exists.

General Partner

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

General Partnership

A general partnership is composed only of general partners.

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. See, for example, Temporary Regulations section 1.469-5T(e)(3) which treats all members with limited liability as limited partners for purposes of section 469(h)(2).

Limited Partnership

A limited partnership is a partnership formed under a state limited partnership law and composed of at least one general partner and one or more limited partners.

Limited Liability Company

A limited liability company (LLC) is an entity formed under state law by filing articles of organization as an LLC. Unlike a partnership, none of the members of an LLC are personally liable for its debts. An LLC may be classified for Federal income tax purposes either as a partnership or a corporation, depending on whether it has the corporate characteristics of centralization of management, continuity of life, free transferability of interests, and limited liability. To be classified as a partnership, it may have no more than two of these characteristics. Similar rules apply to a limited liability

company formed under the laws of a foreign country.

Nonrecourse Loans

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

Who Must File

Every partnership that engages in a trade or business or has income from sources in the United States must file Form 1065. A partnership must file even if its principal place of business is outside the United States or all its members are nonresident aliens.

A partnership is not considered to engage in a trade or business, and is therefore not required to file, for any tax year in which it neither receives income nor incurs any expenditures treated as deductions or credits for Federal income tax purposes.

Entities formed as limited liability companies under state law and treated as partnerships for Federal income tax purposes must file Form 1065.

A religious or apostolic organization exempt from income tax under section 501(d) must file Form 1065 to report its taxable income, which must be allocated to its members as a dividend, whether distributed or not. Such an organization must figure its taxable income on an attachment to Form 1065 in the same manner as a corporation. **Form 1120**, U.S. Corporation Income Tax Return, may be used for this purpose. Enter the organization's taxable income, if any, on line 4b of Schedule K and each member's pro rata share on line 4b of Schedule K-1. Net operating losses are not deductible by the members but may be carried back or forward by the organization under the rules of section 172.

A qualifying syndicate, pool, joint venture, or similar organization may elect under section 761(a) not to be treated as a partnership for Federal income tax purposes and will not be required to file Form 1065 except for the year of election. See section 761(a) and Regulations section 1.761-2 for more information.

Real estate mortgage investment conduits (REMICs) must file Form 1066.

Certain publicly traded partnerships treated as corporations under section 7704 must file Form 1120.

Termination of the Partnership

A partnership terminates when:

1. All its operations are discontinued and no part of any business, financial operation, or venture is continued by any of its partners in a partnership, OR
2. At least 50% of the total interest in partnership capital and profits is sold or exchanged within a 12-month period, including a sale or exchange to another partner. See Regulations section 1.708-1(b)(1) for more details.

The partnership's tax year ends on the date of termination. For purposes of **1** above, the date of termination is the date the partnership completes the winding up of its affairs. For

purposes of **2** above, the date of termination is the date the partnership interest is sold or exchanged that, of itself or together with other sales or exchanges in the preceding 12 months, transfers an interest of 50% or more in both partnership capital and profits.

Special rules apply in the case of a merger, consolidation, or division of a partnership. See Regulations section 1.708-1(b)(2) for details.

Electronic Filing

Qualified partnerships can file Form 1065 and related schedules electronically or on magnetic media. If the partnership does so, it must also file **Form 8453-P**, U.S. Partnership Declaration and Signature for Electronic and Magnetic Media Filing. Get **Pub. 1524**, Procedures for Electronic and Magnetic Media Filing of Form 1065, U.S. Partnership Return of Income (Including the "Paper-Parent Option").

When To File

Generally, a domestic partnership must file Form 1065 by the 15th day of the 4th month following the date its tax year ended as shown at the top of Form 1065. A partnership in which all partners are nonresident aliens must file its return by the 15th day of the 6th month following the date its tax year ended. If the due date falls on a Saturday, Sunday, or legal holiday, file on the next business day. A business day is any day that is not a Saturday, Sunday, or legal holiday.

Extension

If you need more time to file a partnership return, file **Form 8736**, Application for Automatic Extension of Time To File U.S. Return for a Partnership, REMIC, or for Certain Trusts, for an automatic 3-month extension. File Form 8736 by the regular due date of the partnership return.

If, after you have filed Form 8736, you still need more time to file the partnership return, file **Form 8800**, Application for Additional Extension of Time To File U.S. Return for a Partnership, REMIC, or for Certain Trusts, for an additional extension of up to 3 months. The partnership must show reasonable cause in order to obtain this additional extension of time to file. Form 8800 must be filed by the extended due date of the partnership return.

Period Covered

Form 1065 is an information return for calendar year 1994 and fiscal years beginning in 1994 and ending in 1995. If the return is for a fiscal year or a short tax year, fill in the tax year space at the top of the form.

The 1994 Form 1065 may also be used if:

1. The partnership has a tax year of less than 12 months that begins and ends in 1995; and
2. The 1995 Form 1065 is not available by the time the partnership is required to file its return.

However, the partnership must show its 1995 tax year on the 1994 Form 1065 and incorporate any tax law changes that are effective for tax years beginning after 1994.

Where To File

Use the preaddressed envelope. If you do not have the envelope, file your return at the applicable IRS address listed below.

If the partnership's principal place of business or principal office or agency is located in	Use the following Internal Revenue Service Center address
New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Florida, Georgia, South Carolina	Atlanta, GA 39901
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Minnesota, Missouri, Wisconsin	Kansas City, MO 64999
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia	Philadelphia, PA 19255

A partnership without a principal office or agency or principal place of business in the United States must file its return with the Internal Revenue Service Center, Philadelphia, PA 19255.

Who Must Sign

General Partner or Limited Liability Company Member

Form 1065 is not considered to be a return unless it is signed. One general partner or limited liability company member must sign the return. If a receiver, trustee in bankruptcy, or assignee controls the organization's property or business, that person must sign the return.

Paid Preparer's Information

If someone prepares the return and **does not charge the partnership**, that person **should not sign** the partnership return.

Generally, anyone who is paid to prepare the partnership return must sign the return and fill in the other blanks in the **Paid Preparer's Use Only** area of the return.

The preparer required to sign the partnership return **must** complete the required preparer information and:

- Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps or labels are not acceptable.)
- Give the partnership a copy of the return in addition to the copy to be filed with the IRS.

Penalties

A penalty is assessed against the partnership if it is required to file a partnership return and it **(a)** fails to file the return by the due date, including extensions, or **(b)** files a return that fails to show all the information required, unless such failure is due to reasonable cause. If the failure is due to reasonable cause, attach an explanation to the partnership return. The penalty is \$50 for each month or part of a month (for a maximum of 5 months) the failure continues, multiplied by the total number of persons who were partners in the partnership during any part of the partnership's tax year for which the return is due. This penalty will not be imposed on partnerships for which the answer to Question 4 on page 2 of Form 1065 is **No**, provided all partners have timely filed income tax returns fully reporting their shares of the income, deductions, and credits of the partnership. See page 14 of the instructions for further information.

For each failure to furnish Schedule K-1 to a partner when due and each failure to include on Schedule K-1 all the information required to be shown (or the inclusion of incorrect information), a \$50 penalty may be imposed with respect to each Schedule K-1 for which a failure occurs. The maximum penalty is \$100,000 for all such failures during a calendar year. If the requirement to report correct information is intentionally disregarded, each \$50 penalty is increased to \$100 or, if greater, 10% of the aggregate amount of items required to be reported, and the \$100,000 maximum does not apply.

Unresolved Tax Problems

The IRS has a Problem Resolution Program for taxpayers who have been unable to resolve a problem with the IRS. If the partnership has a problem it has been unable to resolve through normal channels, write to the partnership's local IRS District Director or call the partnership's local IRS office and ask for Problem Resolution assistance. Hearing-impaired persons who have access to TDD equipment may call 1-800-829-4059 to ask for help. The Problem Resolution Office will ensure that your problem receives proper attention. Although the office cannot change the tax law or make technical decisions, it can help clear up problems that have resulted from previous contacts.

Accounting Methods

Compute ordinary income using the method of accounting regularly used in keeping the partnership's books and records. Generally, permissible methods include the cash method, the accrual method, or any other method authorized by the Internal Revenue Code. In all cases, the method used must clearly reflect income.

Generally, a partnership may not use the cash method of accounting if **(a)** it has at least one corporate partner, average annual

gross receipts of more than \$5 million, and it is not a farming business or **(b)** it is a tax shelter (as defined in section 448(d)(3)). See section 448 for details.

Under the accrual method, an amount is includible in income when all the events have occurred that fix the right to receive the income and the amount can be determined with reasonable accuracy.

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year in which all events that determine liability have occurred, the amount of the liability can be figured with reasonable accuracy, and economic performance takes place with respect to the expense. There are exceptions for recurring items.

Except for certain real property construction contracts, long-term contracts must generally be accounted for using the percentage of completion method described in section 460.

Generally, the partnership may change its method of accounting used to report income (for income as a whole or for any material item) only by getting consent on **Form 3115**, Application for Change in Accounting Method. For more information, get **Pub. 538**, Accounting Periods and Methods.

Accounting Periods

A partnership is generally required to have one of the following tax years:

1. The tax year of a majority of its partners (majority tax year); or
2. If there is no majority tax year, then the tax year common to all of the partnership's principal partners (partners with an interest of 5% or more in the partnership profits or capital); or
3. If there is neither a majority tax year nor a tax year common to all principal partners, then the tax year that results in the least aggregate deferral of income; or
4. Some other tax year, if **(a)** the partnership can establish that there is a business purpose for the tax year (see Rev. Proc. 87-32, 1987-2 C.B. 396); or **(b)** the tax year is a "grandfathered" year (see Rev. Proc. 87-32); or **(c)** the partnership elects under section 444 to have a tax year other than a required tax year by filing **Form 8716**, Election to Have a Tax Year Other Than a Required Tax Year. For a partnership to have this election in effect, it must make the payments required by section 7519 and file **Form 8752**, Required Payment or Refund Under Section 7519. A section 444 election ends if a partnership changes its accounting period to its required tax year or some other permitted year or it willfully fails to comply with the requirements of section 7519. If the termination results in a short tax year, type or legibly print at the top of the first page of Form 1065 for the short tax year, "SECTION 444 ELECTION TERMINATED."

Note: Under the provisions of section 584(h), the tax year of a common trust fund must be the calendar year.

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Rounding Off to Whole Dollars

You may round off cents to whole dollars on your return and accompanying schedules. To do so, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next higher dollar.

Recordkeeping

The partnership records must be kept as long as they may be needed for the administration of any provision of the Internal Revenue Code. If the consolidated audit procedures of sections 6221 through 6233 apply to the partnership, records that support an item of income, deduction, or credit on the partnership return usually must be kept for 3 years from the date the return is due or is filed, whichever is later. If the consolidated audit procedures do not apply, these records usually must be kept for 3 years from the date each partner's return is due or is filed, whichever is later. Keep records that verify the partnership's basis in property for as long as they are needed to figure the basis of the original or replacement property.

Copies of the filed partnership returns should also be kept as part of the partnership's records. They help in preparing future returns and in making computations when filing an amended return.

Amended Return

If, after filing its return, the partnership becomes aware of any changes it must make to income, deductions, credits, etc., it should file an amended Form 1065 and an amended Schedule K-1 for each partner. Check the box on Form 1065 at Item G(4), page 1. Give a corrected Schedule K-1 (Form 1065) to each partner. Check the box at Item I(2) on each Schedule K-1 to indicate that it is an amended Schedule K-1.

Note: If you are filing an amended partnership return and you answered "Yes" to Question 4 in Schedule B, the tax matters partner must file **Form 8082, Notice of Inconsistent Treatment or Amended Return (Administrative Adjustment Request (AAR))**.

A change to the partnership's Federal return may affect its state return. This includes changes made as a result of an examination of the partnership return by the IRS. For more information, contact the state tax agency for the state in which the partnership return is filed.

Other Forms That May Be Required

- **Forms W-2 and W-3**, Wage and Tax Statement; and Transmittal of Income and Tax Statements.
- **Form 720**, Quarterly Federal Excise Tax Return. Use Form 720 to report environmental excise taxes, communications and air transportation taxes, fuel taxes, luxury tax on passenger vehicles, manufacturers' taxes, ship passenger tax, and certain other excise taxes.

Caution: A trust fund recovery penalty may apply where certain excise taxes that should be collected are not collected or are not paid to the IRS. Under this penalty, certain members or employees of the partnership become personally liable for payment of the taxes and may be penalized in an amount equal to the unpaid taxes. See the Instructions for Form 720 for more details.

- **Form 940** or **Form 940-EZ**, Employer's Annual Federal Unemployment (FUTA) Tax Return. The partnership may be liable for FUTA tax and may have to file Form 940 or 940-EZ if it paid wages of \$1,500 or more in any calendar quarter during the calendar year

(or the preceding calendar year) or one or more employees worked for the partnership for some part of a day in any 20 different weeks during the calendar year (or the preceding calendar year).

- **Form 941**, Employer's Quarterly Federal Tax Return. Employers must file this form quarterly to report income tax withheld on wages and employer and employee social security and Medicare taxes. Agricultural employers must file **Form 943**, Employer's Annual Tax Return for Agricultural Employees, instead of Form 941, to report income tax withheld and employer and employee social security and Medicare taxes on farmworkers.

Caution: A trust fund recovery penalty may apply where income, social security, and Medicare taxes that should be withheld are not withheld or are not paid to the IRS. Under this penalty, certain members or employees of the partnership become personally liable for payment of the taxes and may be penalized in an amount equal to the unpaid taxes. Get **Circular E, Employer's Tax Guide (or Circular A, Agricultural Employer's Tax Guide)**, for more details.

- **Form 945**, Annual Return of Withheld Federal Income Tax. Use this form to report income tax withheld from nonpayroll payments, including pensions, annuities, IRAs, gambling winnings, and backup withholding.
- **Forms 1042 and 1042-S**, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons; and Foreign Person's U.S. Source Income Subject to Withholding. Use these forms to report and transmit withheld tax on payments or distributions made to nonresident alien individuals, foreign partnerships, or foreign corporations to the extent such payments or distributions constitute gross income from sources within the United States that is not effectively connected with a U.S. trade or business. A domestic partnership must also withhold tax on a foreign partner's distributive share of such income, including amounts that are not actually distributed. Withholding on amounts not previously distributed to a foreign partner must be made and paid over by the earlier of (a) the date on which Schedule K-1 is sent to that partner or (b) the 15th day of the 3rd month after the end of the partnership's tax year. For more information, see sections 1441 and 1442 and get **Pub. 515**, Withholding of Tax on Nonresident Aliens and Foreign Corporations.
- **Form 1096**, Annual Summary and Transmittal of U.S. Information Returns.
- **Form 1098**, Mortgage Interest Statement. Use this form to report the receipt from any individual of \$600 or more of mortgage interest and points in the course of the partnership's trade or business for any calendar year.
- **Forms 1099-A, B, INT, MISC, OID, R, and S**. You may have to file these information returns to report abandonments, acquisitions through foreclosure, proceeds from broker and barter exchange transactions, interest payments, medical and dental health care payments, direct sales of consumer goods for resale, miscellaneous income payments, nonemployee compensation, original issue discount, distributions from pensions, annuities, retirement or profit-sharing plans, IRAs, insurance contracts, etc., and proceeds

from real estate transactions. Also, use these returns to report amounts that were received as a nominee on behalf of another person.

For more information, see the Instructions for Forms 1099, 1098, 5498, and W-2G.

Note: Every partnership must file Forms 1099-MISC if, in the course of its trade or business, it makes payments of rents, commissions, or other fixed or determinable income (see section 6041) totaling \$600 or more to any one person during the calendar year.

- **Form 5471**, Information Return of U.S. Persons With Respect to Certain Foreign Corporations. A partnership may have to file Form 5471 if it (a) controls a foreign corporation; or (b) acquires, disposes of, or owns 5% or more in value of the outstanding stock of a foreign corporation; or (c) is a 10%-or-more shareholder of a foreign personal holding company; or (d) owns stock in a controlled foreign corporation for an uninterrupted period of 30 days or more during any tax year of the foreign corporation, and it owned that stock on the last day of that year.
- **Form 5713**, International Boycott Report, is used by persons having operations in or related to "boycotting" countries. The partnership must give each partner a copy of the Form 5713 filed by the partnership if there has been participation in, or cooperation with, an international boycott.
- **Form 8264**, Application for Registration of a Tax Shelter, is used by tax shelter organizers to register tax shelters with the IRS for the purpose of receiving a tax shelter registration number.
- **Form 8271**, Investor Reporting of Tax Shelter Registration Number, is used by partnerships that have acquired an interest in a tax shelter that is required to be registered to report the tax shelter's registration number. Form 8271 must be attached to any return on which a deduction, credit, loss, or other tax benefit attributable to a tax shelter is taken or any income attributable to a tax shelter is reported.
- **Form 8275**, Disclosure Statement. Form 8275 is used by taxpayers and income tax return preparers to disclose items or positions, except those contrary to a regulation, that are not otherwise adequately disclosed on a tax return. The disclosure is made to avoid the parts of the accuracy-related penalty imposed for disregard of rules or substantial understatement of tax. Form 8275 is also used for disclosures relating to preparer penalties for understatements due to unrealistic positions or for willful or reckless conduct.
- **Form 8275-R**, Regulation Disclosure Statement, is used to disclose any item on a tax return for which a position has been taken that is contrary to Treasury regulations.
- **Forms 8288 and 8288-A**, U.S. Withholding Tax Return for Dispositions by Foreign Persons of U.S. Real Property Interests; and Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interests. Use these forms to report and transmit withheld tax on the sale of U.S. real property by a foreign person. See section 1445 and the related regulations for additional information.

● **Form 8300**, Report of Cash Payments Over \$10,000 Received in a Trade or Business. Generally, this form is used to report the receipt of more than \$10,000 in cash or foreign currency in one transaction or a series of related transactions.

● **Form 8594**, Asset Acquisition Statement, is to be filed by both the purchaser and seller of a group of assets constituting a trade or business if goodwill or a going concern value attaches, or could attach, to such assets and if the purchaser's basis in the assets is determined only by the amount paid for the assets.

● **Form 8697**, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts. Partnerships that are not closely held use this form to figure the interest due or to be refunded under the look-back method of section 460(b)(2) on certain long-term contracts that are accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method. Closely held partnerships should see the instructions for line 23, item 10, of Schedule K-1 for details on the Form 8697 information they must provide to their partners.

● **Forms 8804, 8805, and 8813**, Annual Return for Partnership Withholding Tax (Section 1446); Foreign Partner's Information Statement of Section 1446 Withholding Tax; and Partnership Withholding Tax Payment (Section 1446). File Forms 8804 and 8805 if the partnership had effectively connected gross income and foreign partners for the tax year. Use Form 8813 to transmit installment payments of withheld tax based on effectively connected taxable income allocable to foreign partners. However, publicly traded partnerships that do not elect to pay tax based on effectively connected taxable income do not file these forms. They must instead withhold tax on distributions to foreign partners and report and transmit payments using Forms 1042 and 1042-S. See section 1446 for more information.

Attachments

Attach schedules in alphabetical order and other forms in numerical order after Form 1065.

To assist us in processing the return, complete every applicable entry space on Form 1065 and Schedule K-1. If you attach statements, do not write "See attached" instead of completing the entry spaces on the forms.

If you need more space on the forms or schedules, attach separate sheets. Use the same size and format as on the printed forms. **But show your totals on the printed forms.** Be sure to put the partnership's name and employer identification number (EIN) on each sheet.

Separately Stated Items

Partners are required to take into account separately (under section 702(a)) their distributive shares of the following items (whether or not they are actually distributed):

1. Ordinary income or loss from trade or business activities;
2. Net income or loss from rental real estate activities;
3. Net income or loss from other rental activities;

4. Gains and losses from sales or exchanges of capital assets;

5. Gains and losses from sales or exchanges of property described in section 1231;

6. Charitable contributions;

7. Dividends (passed through to corporate partners) that qualify for the dividends-received deduction;

8. Taxes described in section 901 paid or accrued to foreign countries and to possessions of the United States; and

9. Other items of income, gain, loss, deduction, or credit, to the extent provided by regulations. Examples of such items include nonbusiness expenses, intangible drilling and development costs, and soil and water conservation expenditures.

Elections Made by the Partnership

Generally, the partnership decides how to figure taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use. The partnership also makes elections under the following sections:

1. Section 179 (election to expense certain tangible property);

2. Section 614 (definition of property—mines, wells, and other natural deposits. This election must be made before the partners compute their individual depletion allowances under section 613A(c)(7)(D));

3. Section 754 (manner of electing optional adjustment to basis of partnership property).

Under section 754, a partnership may elect to adjust the basis of partnership property when property is distributed or when a partnership interest is transferred. If the election is made with respect to a transfer of a partnership interest (section 743(b)) and the assets of the partnership constitute a trade or business for purposes of section 1060(c), then the value of any goodwill transferred must be determined in the manner provided in Temporary Regulations section 1.1060-1T. Once an election is made under section 754, it applies both to all distributions and to all transfers made during the tax year and in all subsequent tax years unless the election is revoked (see Regulations section 1.754-1(c)).

This election must be made in a statement that is filed with the partnership's timely filed return (including any extension) for the tax year during which the distribution or transfer occurs. The statement must include (a) the name and address of the partnership; (b) a declaration that the partnership elects under section 754 to apply the provisions of section 734(b) and section 743(b); and (c) the signature of the general partner authorized to sign the partnership return.

The partnership can get an automatic 12-month extension to make the section 754 election provided corrective action is taken within 12 months of the original deadline for making the election. For details, see Rev. Proc. 92-85, 1992-2 C.B. 490.

See section 754 and the related regulations for more information.

Note: *If there is a distribution of property consisting of an interest in another partnership, see section 734(b).*

4. Section 1033 (involuntary conversions).

Elections Made by Each Partner

Elections under the following sections are made by each partner separately on the partner's tax return:

1. Section 59(e) (election to deduct ratably certain qualified expenditures such as intangible drilling costs, mining exploration expenses, or research and experimental expenditures);

2. Section 108 (income from discharge of indebtedness);

3. Section 617 (deduction and recapture of certain mining exploration expenditures paid or incurred); and

4. Section 901 (foreign tax credit).

Partner's Dealings With Partnership

If a partner engages in a transaction with his or her partnership, other than in his or her capacity as a partner, the partner is treated as not being a member of the partnership for that transaction. Special rules apply to sales or exchanges of property between partnerships and certain persons, as explained in Pub. 541.

Contributions to the Partnership

Generally, no gain (loss) is recognized to the partnership or any of the partners when property is contributed to the partnership in exchange for an interest in the partnership. This rule does not apply to any gain realized on a transfer of property to a partnership that would be treated as an investment company (within the meaning of section 351) if the partnership were incorporated. If, as a result of a transfer of property to a partnership, there is a direct or indirect transfer of money or other property to the transferring partner, gain may have to be recognized on the exchange.

The basis to the partnership of property contributed by a partner is the adjusted basis in the hands of the partner at the time it was contributed, plus any gain recognized (under section 721(b)) by the partner at that time. See section 723 for more information.

Dispositions of Contributed Property

If the partnership disposes of property contributed to the partnership by a partner, income, gain, loss, and deductions from that property must be allocated among the partners to take into account the difference between the property's basis and its fair market value at the time of the contribution.

For property contributed to the partnership after October 3, 1989, the contributing partner must recognize gain or loss on a distribution of the property to another partner within 5 years of being contributed. The gain or loss is equal to the amount that the contributing partner should have recognized if the property had been sold for its fair market value when distributed, because of the difference between the property's basis and its fair market value at the time of contribution.

See section 704(c) for details and other rules on dispositions of contributed property. See section 724 for the character of any gain

or loss recognized on the disposition of unrealized receivables, inventory items, or capital loss property contributed to the partnership by a partner.

Recognition of Precontribution Gain on Certain Partnership Distributions

A partner who contributes appreciated property to the partnership must include in income any precontribution gain to the extent the fair market value of other property (other than money) distributed to the partner by the partnership exceeds the adjusted basis of his or her partnership interest just before the distribution. Precontribution gain is the net gain, if any, that would have been recognized under section 704(c)(1)(B) if the partnership had distributed to another partner all the property that had been contributed to the partnership by the distributee partner within 5 years of the distribution and that was held by the partnership just before the distribution.

Appropriate basis adjustments are to be made to the adjusted basis of the distributee partner's interest in the partnership and the partnership's basis in the contributed property to reflect the gain recognized by the partner.

For more details and exceptions, see section 737.

Unrealized Receivables and Inventory Items

Generally, if a partner sells or exchanges a partnership interest where unrealized receivables or substantially appreciated inventory items are involved, the transferor partner must notify the partnership, in writing, within 30 days of the exchange. The partnership must then file **Form 8308**, Report of a Sale or Exchange of Certain Partnership Interests.

If a partnership distributes unrealized receivables or substantially appreciated inventory items in exchange for all or part of a partner's interest in other partnership property (including money), treat the transaction as a sale or exchange between the partner and the partnership. Treat the partnership gain (loss) as ordinary income (loss). The income (loss) is specially allocated only to partners other than the distributee partner.

If a partnership gives other property (including money) for all or part of that partner's interest in the partnership's unrealized receivables or substantially appreciated inventory items, treat the transaction as a sale or exchange of the property.

See Rev. Rul. 84-102, 1984-2 C.B. 119, for information on the tax consequences that result when a new partner joins a partnership that has liabilities and unrealized receivables. Also, see Pub. 541 for more information on unrealized receivables and substantially appreciated inventory items.

Passive Activity Limitations

In general, section 469 limits the amount of losses, deductions, and credits that partners may claim from "passive activities." The passive activity limitations do not apply to the partnership. Instead, they apply to each partner's share of any income or loss and

credit attributable to a passive activity. Because the treatment of each partner's share of partnership income or loss and credit depends on the nature of the activity that generated it, the partnership must report income or loss and credits separately for each activity.

The instructions below (pages 6-9) and the instructions for Schedules K and K-1 (pages 14-22) explain the applicable passive activity limitation rules and specify the type of information the partnership must provide to its partners for each activity. If the partnership has more than one activity, it must report information for each activity on an attachment to Schedules K and K-1.

Generally, passive activities include (a) activities that involve the conduct of a trade or business if the partner does not materially participate in the activity; and (b) all rental activities (defined on page 7), regardless of the partner's participation. For exceptions, see **Activities That Are Not Passive Activities** below. The level of each partner's participation in an activity must be determined by the partner.

The passive activity rules provide that losses and credits from passive activities can generally be applied only against income and tax from passive activities. Thus, passive losses and credits cannot be applied against income from salaries, wages, professional fees, or a business in which the taxpayer materially participates; against "portfolio income" (defined on page 7); or against the tax related to any of these types of income.

Special provisions apply to certain activities. First, the passive activity limitations must be applied separately with respect to a net loss from passive activities held through a publicly traded partnership. Second, special rules require that net income from certain activities that would otherwise be treated as passive income must be recharacterized as nonpassive income for purposes of the passive activity limitations.

To allow each partner to correctly apply the passive activity limitations, the partnership must report income or loss and credits separately for each of the following types of activities and income: trade or business activities, rental real estate activities, rental activities other than rental real estate, and portfolio income.

Activities That Are Not Passive Activities

Passive activities **do not** include:

1. Trade or business activities in which the partner materially participated for the tax year.

2. For tax years beginning after 1993, any rental real estate activity in which the partner materially participated and met both of the following conditions for the tax year:

- a. More than half of the personal services the partner performed in trades or businesses were performed in real property trades or businesses in which he or she materially participated, and

- b. The partner performed more than 750 hours of services in real property trades or businesses in which he or she materially participated.

Note: For a partner that is 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 are 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 the partner elects to treat all interests in rental real estate as one activity.

If the partner is married filing jointly, either the partner or his or her spouse must separately meet both of the above conditions, without taking into account services performed by the other spouse.

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 the partner performed as an employee are not treated as performed in a real property trade or business unless he or she owned more than 5% of the stock (or more than 5% of the capital or profits interest) in the employer.

3. An interest in an oil or gas well drilled or operated under a working interest if at any time during the tax year the partner held the working interest directly or through an entity that did not limit the partner's liability (e.g., an interest as a general partner). This exception applies regardless of whether the partner materially participated for the tax year.

4. The rental of a dwelling unit used by a partner 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. An activity of trading personal property for the account of owners of interests in the activity. See Temporary Regulations section 1.469-1T(e)(6).

6. An interest as a qualified investor in a qualified low-income housing project under section 502 of the Tax Reform Act of 1986 for any tax year in the relief period.

Trade or Business Activities

A trade or business activity is an activity (other than a rental activity or an activity treated as incidental to an activity of holding property for investment) that:

1. Involves the conduct of a trade or business (within the meaning of section 162),
2. Is conducted in anticipation of starting a trade or business, or
3. Involves research or experimental expenditures deductible under section 174 (or that would be if you chose to deduct rather than capitalize them).

If the partner does not materially participate in the activity, a trade or business activity held through a partnership is generally a passive activity of the partner. However, the passive activity limitations do not apply to any partner holding a working interest in an oil or gas well if the partner holds the interest through an entity that does not limit the partner's liability. See Temporary Regulations section 1.469-1T(e)(4) and Regulations section 1.469-1(e)(4) for more information.

The determination whether a partner materially participated in an activity must be made by each partner. As a result, while the partnership's overall trade or business income (loss) is reported on page 1 of Form 1065, the

specific income and deductions from each separate trade or business activity must be reported on attachments to Form 1065. Similarly, while each partner's allocable share of the partnership's overall trade or business income (loss) is reported on line 1 of Schedule K-1, each partner's allocable share of the income and deductions from each trade or business activity must be reported on attachments to each Schedule K-1. See **Passive Activity Reporting Requirements** on page 8 for more information.

Rental Activities

Generally, except as noted below, if the gross income from an activity consists of amounts paid principally for the use of real or personal tangible property held by the partnership, the activity is a rental activity. There are several exceptions to this general rule. Under these exceptions, an activity involving the use of real or personal tangible property is not a rental activity if **(a)** the average period of customer use (defined below) for such property is 7 days or less; **(b)** the average period of customer use for such property is 30 days or less and significant personal services (defined below) are provided by or on behalf of the partnership; **(c)** extraordinary personal services (defined below) are provided by or on behalf of the partnership; **(d)** the rental of such property is treated as incidental to a nonrental activity of the partnership under Temporary Regulations section 1.469-1T(e)(3)(vi) and Regulations section 1.469-1(e)(3)(vi); or **(e)** the partnership customarily makes the property available during defined business hours for nonexclusive use by various customers.

In addition, if the partnership provides property for use in a nonrental activity of a partnership or joint venture in its capacity as an owner of an interest in such partnership or joint venture, the provision of the property is not a rental activity. Consequently, the partnership's distributive share of income from the activity is not income from a rental activity. A guaranteed payment described in section 707(c) is not income from a rental activity under any circumstances. Whether the partnership provides property used in an activity of another partnership or of a joint venture in the partnership's capacity as an owner of an interest in the partnership or joint venture is determined on the basis of all of the facts and circumstances.

Average period of customer use.—Compute the average period of customer use for a class of property by dividing the total number of days in all rental periods by the number of rentals during the tax year. If the activity involves renting more than one class of property, multiply the average period of customer use of each class by the ratio of the gross rental income from that class to the activity's total gross rental income. The activity's average period of customer use equals the sum of these class-by-class average periods weighted by gross income. See Regulations section 1.469-1(e)(3)(iii).

Significant personal services.—Personal services include only services performed by individuals. In determining whether personal services are significant personal services, consider all the relevant facts and circumstances. Relevant facts and circumstances include the frequency with which the services are provided, the type and

amount of labor required to perform the services, and the value of the services in relation to the amount charged for use of the property.

The following services are not considered in determining whether personal services are significant: **(a)** services necessary to permit the lawful use of the rental property; **(b)** services performed in connection with improvements or repairs to the rental property that extend the useful life of the property substantially beyond the average rental period; and **(c)** services provided in connection with the use of any improved real property that are similar to those commonly provided in connection with long-term rentals of high-grade commercial or residential property (e.g., cleaning and maintenance of common areas, routine repairs, trash collection, elevator service, and security at entrances).

Extraordinary personal services.—Services provided in connection with making rental property available for customer use are extraordinary personal services only if the services are performed by individuals and the customers' use of the rental property is incidental to their receipt of the services. For example, a patient's use of a hospital room generally is incidental to the care received from the hospital's medical staff. Similarly, a student's use of a dormitory room in a boarding school is incidental to the personal services provided by the school's teaching staff.

Rental activity incidental to a nonrental activity.—An activity is not a rental activity if the rental of the property is incidental to a nonrental activity, such as the activity of holding property for investment, trade or business activity, or the activity of dealing in property.

Rental of property is incidental to an activity of holding property for investment if **(a)** the main purpose for holding the property is to realize a gain from the appreciation of the property, and **(b)** the gross rental income from such property for the tax year is less than 2% of the smaller of the property's unadjusted basis or its fair market value.

Rental of property is incidental to a trade or business activity if **(a)** the partnership owns an interest in the trade or business at all times during the year; **(b)** the rental property was mainly used in the trade or business activity during the tax year or during at least 2 of the 5 preceding tax years; and **(c)** the gross rental income from the property for the tax year is less than 2% of the smaller of the property's unadjusted basis or its fair market value.

The sale or exchange of property that is both rented and sold or exchanged during the tax year (where the gain or loss is recognized) is treated as incidental to the activity of dealing in property if, at the time of the sale or exchange, the property was held primarily for sale to customers in the ordinary course of the partnership's trade or business.

See Temporary Regulations section 1.469-1T(e)(3) and Regulations section 1.469-1(e)(3) for more information on the definition of rental activities for purposes of the passive activity limitations.

Reporting of rental activities.—In reporting the partnership's income or losses and credits from rental activities, the partnership

must separately report **(a)** rental real estate activities, and **(b)** rental activities other than rental real estate activities.

Partners who actively participate in a rental real estate activity may be able to deduct part or all of their rental real estate losses (and the deduction equivalent of rental real estate credits) against income (or tax) from nonpassive activities. The combined amount of rental real estate losses and the deduction equivalent of rental real estate credits from all sources (including rental real estate activities not held through the partnership) that may be claimed is limited to \$25,000. This \$25,000 amount is reduced for high-income partners.

Report rental real estate activity income (loss) on **Form 8825**, Rental Real Estate Income and Expenses of a Partnership or an S Corporation, and line 2 of Schedules K and K-1 rather than on page 1 of Form 1065. Report credits related to rental real estate activities on lines 13c and 13d and low-income housing credits on line 13b of Schedules K and K-1.

Report income (loss) from rental activities other than rental real estate on line 3 and credits related to rental activities other than rental real estate on line 13e of Schedules K and K-1.

Portfolio Income

Generally, portfolio income includes all gross income, other than income derived in the ordinary course of a trade or business, that is attributable to interest; dividends; royalties; income from a real estate investment trust, a regulated investment company, a real estate mortgage investment conduit, a common trust fund, a controlled foreign corporation, a qualified electing fund, or a cooperative; income from the disposition of property that produces income of a type defined as portfolio income; and income from the disposition of property held for investment.

Solely for purposes of the preceding paragraph, gross income derived in the ordinary course of a trade or business includes (and portfolio income, therefore, does not include) only the following types of income: **(a)** interest income on loans and investments made in the ordinary course of a trade or business of lending money; **(b)** interest on accounts receivable arising from the performance of services or the sale of property in the ordinary course of a trade or business of performing such services or selling such property, but only if credit is customarily offered to customers of the business; **(c)** income from investments made in the ordinary course of a trade or business of furnishing insurance or annuity contracts or reinsuring risks underwritten by insurance companies; **(d)** income or gain derived in the ordinary course of an activity of trading or dealing in any property if such activity constitutes a trade or business (unless the dealer held the property for investment at any time before such income or gain is recognized); **(e)** royalties derived by the taxpayer in the ordinary course of a trade or business of licensing intangible property; **(f)** amounts included in the gross income of a patron of a cooperative by reason of any payment or allocation to the patron based on patronage occurring with respect to a trade or business of the patron; and **(g)** other income identified by the IRS as income

derived by the taxpayer in the ordinary course of a trade or business.

See Temporary Regulations section 1.469-2T(c)(3) for more information on portfolio income.

Report portfolio income on line 4 of Schedules K and K-1, rather than on page 1 of Form 1065. Report deductions related to portfolio income on line 10 of Schedules K and K-1.

Grouping Activities

Generally, one or more trade or business activities or rental activities may be treated as a single activity if the activities make up an appropriate economic unit for the measurement of gain or loss under the passive activity rules. Whether activities make up an appropriate economic unit depends on all the relevant facts and circumstances. The factors given the greatest weight in determining whether activities make up an appropriate economic unit are:

1. Similarities and differences in types of trades or businesses,
2. The extent of common control,
3. The extent of common ownership,
4. Geographical location, and
5. Interdependencies between the activities.

Example. The partnership has a significant ownership interest in a bakery and a movie theater in Baltimore and a bakery and a movie theater in Philadelphia. Depending on the relevant facts and circumstances, there may be more than one reasonable method for grouping the partnership's activities. For instance, the following groupings may or may not be permissible: a single activity, a movie theater activity and a bakery activity, a Baltimore activity and a Philadelphia activity, or four separate activities.

Once the partnership chooses a grouping under these rules, it must continue using that grouping in later tax years unless a material change in the facts and circumstances makes it clearly inappropriate.

The IRS may regroup the partnership's activities if the partnership's grouping fails to reflect one or more appropriate economic units and one of the primary purposes of the grouping is to circumvent the passive activity limitations.

Limitation on grouping certain activities.—The following activities may not be grouped together:

1. A rental activity with a trade or business activity unless the activities being grouped together make up an appropriate economic unit, and

a. The rental activity is insubstantial relative to the trade or business activity or vice versa, or

b. Each owner of the trade or business activity has the same proportionate ownership interest in the rental activity. If so, the portion of the rental activity involving the rental of property to be used in the trade or business activity may be grouped with the trade or business activity.

2. An activity involving the rental of real property with an activity involving the rental of personal property (except for personal property provided in connection with the real property or vice versa).

3. Any activity with another activity in a different type of business and in which the partnership holds an interest as a limited partner or as a limited entrepreneur (as defined in section 464(e)(2)) if that other activity engages in holding, producing, or distributing motion picture films or videotapes; farming; leasing section 1245 property; or exploring for (or exploiting) oil and gas resources or geothermal deposits.

Activities conducted through other partnerships.—Once a partnership determines its activities under these rules, the partnership as a partner may use these rules to group those activities with each other, with activities conducted directly by the partnership, and with activities conducted through other partnerships. A partner may not treat as separate activities those activities grouped together by a partnership.

Recharacterization of Passive Income

Under Temporary Regulations section 1.469-2T(f) and Regulations section 1.469-2(f), net passive income from certain passive activities must be treated as nonpassive income. Net passive income is the excess of an activity's passive activity gross income over its passive activity deductions (current year deductions and prior year unallowed losses).

Income from the following six sources is subject to recharacterization. Note that any net passive income recharacterized as nonpassive income is treated as investment income for purposes of computing investment interest expense limitations if it is from (a) an activity of renting substantially nondepreciable property from an equity-financed lending activity or (b) an activity related to an interest in a pass-through entity that licenses intangible property.

1. Significant participation passive activities.—A significant participation passive activity is any trade or business activity in which the partner both participates for more than 100 hours during the tax year and does not materially participate. Because each partner must determine the partner's level of participation, the partnership will not be able to identify significant participation passive activities.

2. Certain nondepreciable rental property activities.—Net passive income from a rental activity is nonpassive income if less than 30% of the unadjusted basis of the property used or held for use by customers in the activity is subject to depreciation under section 167.

3. Passive equity-financed lending activities.—If the partnership has net income from a passive equity-financed lending activity, the lesser of the net passive income or the equity-financed interest income from the activity is nonpassive income.

Note: *The amount of income from the activities in paragraphs 1 through 3 above, that any partner will be required to recharacterize as nonpassive income may be limited under Temporary Regulations section 1.469-2T(f)(8). Because the partnership will not have information regarding all of a partner's activities, it must identify all partnership activities meeting the definitions in paragraphs 2 and 3 as activities that may be subject to recharacterization.*

4. Rental of property incidental to a development activity.—Net rental activity income is nonpassive income for a partner if all of the following apply: (a) the partnership recognizes gain from the sale, exchange, or other disposition of the rental property during the tax year; (b) the use of the item of property in the rental activity started less than 12 months before the date of disposition (the use of an item of rental property begins on the first day that (i) the partnership owns an interest in the property; (ii) substantially all of the property is either rented or held out for rent and ready to be rented; and (iii) no significant value-enhancing services remain to be performed); and (c) the partner materially participated or significantly participated for any tax year in an activity that involved the performance of services for the purpose of enhancing the value of the property (or any other item of property, if the basis of the property disposed of is determined in whole or in part by reference to the basis of that item of property). "Net rental activity income" means the excess of passive activity gross income from renting or disposing of property over passive activity deductions (current year deductions and prior year unallowed losses) that are reasonably allocable to the rented property.

Because the partnership cannot determine a partner's level of participation, the partnership must identify net income from property described in items (a) and (b) of paragraph 4 as income that may be subject to recharacterization.

5. Rental of property to a nonpassive activity.—If a taxpayer rents property to a trade or business activity in which the taxpayer materially participates, the taxpayer's net rental activity income (defined above) from the property is nonpassive income.

6. Acquisition of an interest in a pass-through entity that licenses intangible property.—Generally, net royalty income from intangible property is nonpassive income if the taxpayer acquired an interest in the pass-through entity after the pass-through entity created the intangible property or performed substantial services, or incurred substantial costs in developing or marketing the intangible property. "Net royalty income" means the excess of passive activity gross income from licensing or transferring any right in intangible property over passive activity deductions (current year deductions and prior year unallowed losses) that are reasonably allocable to the intangible property.

See Temporary Regulations section 1.469-2T(f)(7)(iii) for exceptions to this rule.

Passive Activity Reporting Requirements

To allow partners to correctly apply the passive activity loss and credit rules, any partnership that carries on more than one activity must:

1. Provide an attachment for each activity conducted through the partnership that identifies the type of activity conducted (trade or business, rental real estate, rental activity other than rental real estate, or investment).

2. On the attachment for each activity, provide a schedule, using the same line numbers as shown on Schedule K-1, detailing the net income (loss), credits, and all items

required to be separately stated under section 702(a) from each trade or business activity, from each rental real estate activity, from each rental activity other than a rental real estate activity, and from investments.

3. Identify the net income (loss) and credits from each oil or gas well drilled or operated under a working interest that any partner (other than a partner whose only interest in the partnership during the year is as a limited partner) holds through the partnership. Further, if any partner had an interest as a general partner in the partnership during less than the entire year, the partnership must identify both the disqualified deductions from each well that the partner must treat as passive activity deductions, and the ratable portion of the gross income from each well that the partner must treat as passive activity gross income.

4. Identify the net income (loss) and the partner's share of partnership interest expense from each activity of renting a dwelling unit that any partner uses for personal purposes during the year for more than the greater of 14 days or 10% of the number of days that the residence is rented at fair rental value.

5. Identify the net income (loss) and the partner's share of partnership interest expense from each activity of trading personal property conducted through the partnership.

6. For any gain (loss) from the disposition of an interest in an activity or of an interest in property used in an activity (including dispositions before 1987 from which gain is being recognized after 1986):

a. Identify the activity in which the property was used at the time of disposition;

b. If the property was used in more than one activity during the 12 months preceding the disposition, identify the activities in which the property was used and the adjusted basis allocated to each activity; and

c. For gains only, if the property was substantially appreciated at the time of the disposition and the applicable holding period specified in Regulations section 1.469-2(c)(2)(iii)(A) was not satisfied, identify the amount of the nonpassive gain and indicate whether the gain is investment income under the provisions of Regulations section 1.469-2(c)(2)(iii)(F).

7. Specify the amount of gross portfolio income, the interest expense properly allocable to portfolio income, and expenses other than interest expense that are clearly and directly allocable to portfolio income.

8. Identify separately any of the following types of payments to partners:

a. Payments to a partner for services other than in the partner's capacity as a partner (under section 707(a));

b. Guaranteed payments to a partner for services (under section 707(c));

c. Guaranteed payments for use of capital;

d. If section 736(a)(2) payments are made for unrealized receivables or for goodwill, the amount of the payments and the activities to which the payments are attributable;

e. If section 736(b) payments are made, the amount of the payments and the activities to which the payments are attributable.

9. Identify the ratable portion of any section 481 adjustment (whether a net positive or a net negative adjustment) allocable to each partnership activity.

10. Identify the amount of gross income from each oil or gas property of the partnership.

11. Identify any gross income from sources that are specifically excluded from passive activity gross income, including:

a. Income from intangible property if the partner is an individual and the partner's personal efforts significantly contributed to the creation of the property;

b. Income from a qualified low-income housing project (as defined in section 502 of the Tax Reform Act of 1986) conducted through the partnership;

c. Income from state, local, or foreign income tax refunds; and

d. Income from a covenant not to compete (in the case of a partner who is an individual and who contributed the covenant to the partnership).

12. Identify any deductions that are not passive activity deductions.

13. If the partnership makes a full or partial disposition of its interest in another entity, identify the gain (loss) allocable to each activity conducted through the entity, and the gain allocable to a passive activity that would have been recharacterized as nonpassive gain had the partnership disposed of its interest in property used in the activity (because the property was substantially appreciated at the time of the disposition, and the gain represented more than 10% of the partner's total gain from the disposition).

14. Identify the following items from activities that may be subject to the recharacterization rules under Temporary Regulations section 1.469-2T(f) and Regulations section 1.469-2(f):

a. Net income from an activity of renting substantially nondepreciable property;

b. The lesser of equity-financed interest income or net passive income from an equity-financed lending activity;

c. Net rental activity income from property that was developed (by the partner or the partnership), rented, and sold within 12 months after the rental of the property commenced;

d. Net rental activity income from the rental of property by the partnership to a trade or business activity in which the partner had an interest (either directly or indirectly); and

e. Net royalty income from intangible property if the partner acquired the partner's interest in the partnership after the partnership created the intangible property or performed substantial services, or incurred substantial costs in developing or marketing the intangible property.

15. Identify separately the credits from each activity conducted by or through the partnership.

Specific Instructions

These instructions follow the line numbers on the first page of Form 1065 and on the schedules that accompany it. Specific instructions for most of the lines are provided on the following pages. Lines that are not

discussed in the instructions are self-explanatory.

Fill in all applicable lines and schedules.

Enter any items specially allocated to the partners on the appropriate line of the applicable partner's Schedule K-1. Enter the total amount on the appropriate line of Schedule K. Do not enter separately stated amounts on the numbered lines on Form 1065, page 1, or on Schedule A or D.

Be sure to file all four pages of Form 1065. However, if the answer to Question 5 of Schedule B is "Yes," the completion of page 4 is optional. Also attach a Schedule K-1 to Form 1065 for each partner.

File only one Form 1065 for each partnership. Mark "duplicate copy" on any copy you give to a partner.

If a syndicate, pool, joint venture, or similar group files Form 1065, it must attach a copy of the agreement and all amendments to the return, unless a copy has previously been filed.

General Information

Name, Address, and Employer Identification Number

Use the label on the package that was mailed to the partnership. Cross out any errors and print the correct information on the label. If the partnership did not receive a label, print or type the partnership's legal or trade name and address on the appropriate lines.

Address.—Include the suite, room, or other unit number after the street address. If a preaddressed label is used, please include this information on the label.

If the Post Office does not deliver mail to the street address and the partnership has a P.O. box, show the box number instead of the street address.

If the partnership has had a change of address, check box G(3).

If the partnership's address is outside the United States or its possessions or territories, enter the information on the line for "City or town, state, and ZIP code" in the following order: city, province or state, foreign postal code, and the name of the foreign country. **Do not** abbreviate the country name.

If the partnership changes its mailing address after filing its return, it can notify the IRS by filing **Form 8822**, Change of Address.

Employer identification number (EIN).— Show the correct EIN in Item D on page 1 of Form 1065. If the partnership does not have an EIN, it must apply for one on **Form SS-4**, Application for Employer Identification Number. Form SS-4 can be obtained at most IRS or Social Security Administration (SSA) offices. If the partnership has not received its EIN by the time the return is due, write "Applied for" in the space for the EIN. Get **Pub. 583**, Taxpayers Starting a Business, for more information.

Items A and C

Enter the applicable activity name and code number from the list on page 24.

For example, if, as its principal business activity, the partnership (a) purchases raw materials, (b) subcontracts out for labor to make a finished product from the raw materials, and (c) retains title to the goods, the partnership is considered to be a

manufacturer and must enter "Manufacturer" in Item A and enter in Item C one of the codes (2000 through 3970) listed under "Manufacturing" on page 24.

Item F—Total Assets

You are not required to complete Item F if the answer to Question 5 of Schedule B is "Yes."

If you are required to complete this item, enter the partnership's total assets at the end of the tax year, as determined by the accounting method regularly used in keeping the partnership's books and records. If there are no assets at the end of the tax year, enter the total assets as of the beginning of the tax year.

Income

Caution: Report only trade or business activity income on lines 1a through 8. **Do not report rental activity income or portfolio income on these lines.** (See the instructions on **Passive Activity Limitations** beginning on page 6 for definitions of rental income and portfolio income.) Rental activity income and portfolio income are reported on Schedules K and K-1 (rental real estate activities are also reported on Form 8825).

Do not include any tax-exempt income on lines 1a through 8. A partnership that receives any tax-exempt income other than interest, or holds any property or engages in any activity that produces tax-exempt income reports the amount of this income on line 20 of Schedules K and K-1.

Tax-exempt interest income, including exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company, is reported on line 19 of Schedules K and K-1.

See **Deductions** on page 11 for information on how to report expenses related to tax-exempt income.

If the partnership has had debt discharged resulting from a title 11 bankruptcy proceeding or while insolvent, get **Form 982**, Reduction of Tax Attributes Due to Discharge of Indebtedness, and **Pub. 908**, Tax Information on Bankruptcy.

Line 1a—Gross Receipts or Sales

Enter the gross receipts or sales from all trade or business operations except those that must be reported on lines 4 through 7. For example, do not include gross receipts from farming on this line. Instead, show the net profit (loss) from farming on line 5. Also, do not include on line 1a rental activity income or portfolio income. See section 460 for special rules that apply to long-term contracts.

Installment sales.—Generally, the installment method cannot be used for dealer dispositions of property. A "dealer disposition" means any disposition of personal property by a person who regularly sells or otherwise disposes of personal property of the same type on the installment plan or any disposition of real property held for sale to customers in the ordinary course of the taxpayer's trade or business. The disposition of property used or produced in a farming business is not included as a dealer disposition. See section 453(l) for details and exceptions.

Enter on line 1a the gross profit on collections from installment sales for any of the following:

- Dealer dispositions of property before March 1, 1986.
- Dispositions of property used or produced in the trade or business of farming.
- Certain dispositions of timeshares and residential lots reported under the installment method.

Attach a schedule showing the following information for the current year and the 3 preceding years: (a) gross sales, (b) cost of goods sold, (c) gross profits, (d) percentage of gross profits to gross sales, (e) amount collected, and (f) gross profit on amount collected.

Line 2—Cost of Goods Sold

See the instructions for Schedule A on page 13.

Line 4—Ordinary Income (Loss) From Other Partnerships, Estates, and Trusts

Enter the amount shown on Schedule K-1 (Form 1065) or Schedule K-1 (Form 1041). Be sure to show the partnership's, estate's, or trust's name, address, and EIN on a separate statement attached to this return. If the amount entered is from more than one source, identify the amount from each source.

Do not include portfolio income or rental activity income (loss) from other partnerships, estates, or trusts on this line. Instead, report these amounts on the applicable lines of Schedules K and K-1, or on line 20a of Form 8825 if the amount is from a rental real estate activity.

Ordinary income or loss from another partnership that is a publicly traded partnership is not reported on this line. Instead, report the amount separately on line 7 of Schedules K and K-1.

Treat shares of other items separately reported on Schedule K-1 issued by the other entity as if the items were realized or incurred by this partnership.

If there is a loss from another partnership, the amount of the loss that may be claimed is subject to the at-risk and basis limitations as appropriate.

If the tax year of your partnership does not coincide with the tax year of the other partnership, estate, or trust, include the ordinary income (loss) from the other entity in the tax year in which the other entity's tax year ends.

Line 5—Net Farm Profit (Loss)

Enter the partnership's net farm profit (loss) from **Schedule F (Form 1040)**, Profit or Loss From Farming. Attach Schedule F (Form 1040) to Form 1065. **Do not** include on this line any farm profit (loss) from other partnerships. Report those amounts on line 4. In computing the partnership's net farm profit (loss), do not include any section 179 expense deduction, since this amount must be separately stated.

Also report the partnership's fishing income on this line.

For a special rule concerning the method of accounting for a farming partnership with a corporate partner and for other tax

information on farms, get **Pub. 225**, Farmer's Tax Guide.

Note: Because the election to deduct the expenses of raising any plant with a preproductive period of more than 2 years is made by the partner and not the partnership, farm partnerships that are not required to use an accrual method should not capitalize such expenses. Instead, state them separately on an attachment to Schedule K, line 22, and on Schedule K-1, line 23, Supplemental Information. See Temporary Regulations section 1.263A-4T(c) for more information.

Line 6—Net Gain (Loss) From Form 4797

Caution: Include only ordinary gains or losses from the sale, exchange, or involuntary conversion of assets used in a trade or business activity. Ordinary gains or losses from the sale, exchange, or involuntary conversion of rental activity assets will be reported separately on line 19 of Form 8825 or line 3 of Schedules K and K-1, generally as a part of the net income (loss) from the rental activity.

A partnership that is a partner in another partnership must include on **Form 4797**, Sales of Business Property, its share of ordinary gains (losses) from sales, exchanges, or involuntary conversions (other than casualties or thefts) of the other partnership's trade or business assets.

Do not include any recapture of section 179 expense deduction. See the instructions for Schedule K-1, line 23, Supplemental Information, item 4, and the Instructions for Form 4797 for more information.

Line 7—Other Income (Loss)

Enter on line 7 trade or business income (loss) that is not included on lines 1a through 6. Examples of such income include:

1. Interest income derived in the ordinary course of the partnership's trade or business, such as interest charged on receivable balances.
2. Recoveries of bad debts deducted in earlier years under the specific charge-off method.
3. Taxable income from insurance proceeds.
4. The amount of credit figured on **Form 6478**, Credit for Alcohol Used as Fuel.
5. All section 481 income adjustments resulting from changes in accounting methods. Show the computation of the section 481 adjustments on an attached schedule.
6. The amount of any deduction previously taken under section 179A that is subject to recapture. See Pub. 535 for details, including how to figure the recapture.
7. The recapture amount for section 280F if the business use of listed property drops to 50% or less. To figure the recapture amount, the partnership must complete Part IV of Form 4797.

Do not include items requiring separate computations that must be reported on Schedules K and K-1. See the instructions for Schedules K and K-1 later in these instructions.

Do not report portfolio or rental activity income (loss) on this line.

Do not include items requiring separate computations that must be reported on Schedules K and K-1. See the instructions for Schedules K and K-1 later in these instructions.

Do not report portfolio or rental activity income (loss) on this line.

Deductions

Caution: Report **only** trade or business activity deductions on lines 9 through 21.

Do not report rental activity expenses or deductions allocable to portfolio income on these lines. Rental activity expenses are separately reported on Form 8825 or line 3b of Schedule K. Deductions allocable to portfolio income are separately reported on line 10 of Schedules K and K-1. See **Passive Activity Limitations** beginning on page 6 for more information on rental activities and portfolio income.

Do not report any nondeductible amounts (such as expenses connected with the production of tax-exempt income) on lines 9 through 21. Instead, report nondeductible expenses on line 21 of Schedules K and K-1. If an expense is connected with both taxable income and nontaxable income, allocate a reasonable part of the expense to each kind of income.

Do not take a deduction for any qualified expenditures to which an election under section 59(e) may apply. See the instructions for Schedules K and K-1, lines 18a and 18b, for information on how to report these amounts.

Do not deduct in this section items which section 702 and the regulations require that the partnership state separately and which require separate computations by the partners. For example, expenses incurred for the production of income instead of in a trade or business must be separately stated. Other items that must be separately stated include charitable contributions, foreign taxes paid, intangible drilling and development costs, soil and water conservation expenditures, and exploration expenditures. The distributive shares of these expenses are reported as separate items to each partner on Schedule K-1.

Limitations on Deductions

Section 263A uniform capitalization rules.—

The uniform capitalization rules of section 263A require partnerships to capitalize or include in inventory certain costs incurred in connection with the production of real and personal tangible property held in inventory or held for sale in the ordinary course of business. Tangible personal property produced by a partnership includes a film, sound recording, videotape, book, or similar property. The rules also apply to personal property (tangible and intangible) acquired for resale. Partnerships subject to the rules are required to capitalize not only direct costs but an allocable portion of most indirect costs (including taxes) that benefit the assets produced or acquired for resale. Interest expense paid or incurred during the production period of certain property must be capitalized and is governed by special rules. For more information, see Notice 88-99, 1988-2 C.B. 422. The uniform capitalization rules also apply to the production of property constructed or improved by a partnership for use in its trade or business or in an activity engaged in for profit.

Section 263A does not apply to personal property acquired for resale if the taxpayer's average annual gross receipts for the 3 prior tax years are \$10 million or less. It does not apply to timber or to most property produced under a long-term contract. Special rules

apply to certain partnerships engaged in farming (see the note at the end of line 5 instructions). The rules do not apply to property that is produced for use by the taxpayer if substantial construction occurred before March 1, 1986.

In the case of inventory, some of the indirect expenses that must be capitalized are administration expenses; taxes; depreciation; insurance; compensation paid to officers attributable to services; rework labor; and contributions to pension, stock bonus, and certain profit-sharing, annuity, or deferred compensation plans.

The costs required to be capitalized under section 263A are not deductible until the property to which the costs relate is sold, used, or otherwise disposed of by the partnership.

Research and experimental costs under section 174; intangible drilling costs for oil, gas, and geothermal property; and mining exploration and development costs are reported separately to partners for purposes of determinations under section 59(e).

Regulations section 1.263A-1(e)(3) specifies other indirect costs that may be currently deducted and those that must be capitalized with respect to production or resale activities.

For more information, see Regulations sections 1.263A-1 through 1.263A-3.

Transactions between related taxpayers.—

Generally, an accrual basis partnership may deduct business expenses and interest owed to a related party (including any partner) only in the tax year of the partnership that includes the day on which the payment is includible in the income of the related party. See section 267 for details.

Business start-up expenses.—Business start-up expenses must be capitalized. An election may be made to amortize them over a period of not less than 60 months. See Pub. 535.

Organization costs.—Amounts paid or incurred to organize a partnership are capital expenditures. They are not deductible as a current expense.

The partnership may elect to amortize organization expenses over a period of 60 or more months, beginning with the month in which the partnership begins business. Include the amortization expense on line 20. On the balance sheet (Schedule L) show the unamortized balance of organization costs. See the instructions for line 10 for the treatment of organization expenses paid to a partner. See Pub. 535 for more information.

Syndication costs.—Costs for issuing and marketing interests in the partnership, such as commissions, professional fees, and printing costs, must be capitalized. They cannot be depreciated or amortized. See the instructions for line 10 for the treatment of syndication fees paid to a partner.

Reducing certain expenses for which credits are allowable.—For each of the credits listed below, the partnership must reduce the otherwise allowable deductions for expenses used to figure the credit by the amount of the current year credit:

1. The orphan drug credit,
2. The credit for increasing research activities,
3. The enhanced oil recovery credit,

4. The disabled access credit,
5. The jobs credit,
6. The empowerment zone employment credit,
7. The Indian employment credit, and
8. The credit for employer social security and Medicare taxes paid on certain employee tips.

If the partnership has any of these credits, be sure to figure each current year credit before figuring the deductions for expenses on which the credit is based.

Line 9—Salaries and Wages

Enter on line 9 the salaries and wages paid or incurred for the tax year, reduced by any applicable employment credits from **Form 5884**, Jobs Credit, **Form 8844**, Empowerment Zone Employment Credit, and **Form 8845**, Indian Employment Credit. See the instructions for these forms for more information.

Do not include salaries and wages reported elsewhere on the return, such as amounts included in cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement.

Line 10—Guaranteed Payments to Partners

Deduct payments or credits to a partner for services or for the use of capital if the payments or credits are determined without regard to partnership income and are allocable to a trade or business activity. Also include on line 10 amounts paid during the tax year for insurance that constitutes medical care for a partner, a partner's spouse, or a partner's dependents.

Do not include any payments and credits that should be capitalized. For example, although payments or credits to a partner for services rendered in organizing or syndicating a partnership may be guaranteed payments, they are not deductible on line 10. They are capital expenditures. (However, they should be separately reported on Schedules K and K-1, line 5.) Do not include distributive shares of partnership profits.

Report the guaranteed payments to the appropriate partners on Schedule K-1, line 5.

Line 11—Repairs and Maintenance

Enter the costs of incidental repairs and maintenance that do not add to the value of the property or appreciably prolong its life, but only to the extent that such costs relate to a trade or business activity and are not claimed elsewhere on the return.

New buildings, machinery, or permanent improvements that increase the value of the property are not deductible. They are chargeable to capital accounts and may be depreciated or amortized.

Line 12—Bad Debts

Enter the total debts that became worthless in whole or in part during the year, but only to the extent such debts relate to a trade or business activity. Report deductible nonbusiness bad debts as a short-term capital loss on Schedule D (Form 1065).

Caution: *Cash method partnerships cannot take a bad debt deduction unless the amount was previously included in income.*

Line 13—Rent

Enter rent paid on business property used in a trade or business activity. Do not deduct rent for a dwelling unit occupied by any partner for personal use.

If the partnership rented or leased a vehicle, enter the total annual rent or lease expense paid or incurred in the trade or business activities of the partnership. Also complete Part V of **Form 4562**, Depreciation and Amortization. If the partnership leased a vehicle for a term of 30 days or more, the deduction for vehicle lease expense may have to be reduced by an amount called the **inclusion amount**. You may have an inclusion amount if—

And the vehicle's fair market value on the first day of the lease exceeded:

The lease term began:	exceeded:
After 12/31/93	\$14,900
After 12/31/92 but before 1/1/94	\$14,300
After 12/31/91 but before 1/1/93	\$13,700
After 12/31/90 but before 1/1/92	\$13,400
After 12/31/86 but before 1/1/91	\$12,800

If the lease term began after June 18, 1984, but before January 1, 1987, get **Pub. 917**, Business Use of a Car, to find out if the partnership has an inclusion amount.

See Pub. 917 for instructions on figuring the inclusion amount.

Line 14—Taxes and Licenses

Enter taxes and licenses paid or incurred in the trade or business activities of the partnership if not reflected in cost of goods sold. Federal import duties and Federal excise and stamp taxes are deductible only if paid or incurred in carrying on the trade or business of the partnership.

Do not deduct taxes, including state and local sales taxes, paid or accrued in connection with the acquisition or disposition of business property. These taxes must be added to the cost of the property, or, in the case of a disposition, subtracted from the amount realized.

Do not deduct taxes assessed against local benefits to the extent that they increase the value of the property assessed (such as for paving, etc.), Federal income taxes, or taxes reported elsewhere on the return.

Do not deduct section 901 foreign taxes. Report these taxes separately on Schedules K and K-1, line 17e.

Do not report on line 14 taxes allocable to portfolio income or to a rental activity. Taxes allocable to a rental real estate activity are reported on Form 8825. Taxes allocable to a rental activity other than a rental real estate activity are reported on line 3b of Schedule K. Taxes allocable to portfolio income are reported on line 10 of Schedules K and K-1.

Do not deduct on line 14 taxes paid or incurred for the production or collection of income, or for the management, conservation, or maintenance of property held to produce income. Report these taxes separately on line 11 of Schedules K and K-1.

See section 263A(a) for rules on capitalization of allocable costs (including taxes) for any property.

Line 15—Interest

Include only interest incurred in the trade or business activities of the partnership that is not claimed elsewhere on the return.

Do not include interest expense on debt required to be allocated to the production of qualified property. Interest that is allocable to certain property produced by a partnership for its own use or for sale must be capitalized. In addition, a partnership must also capitalize any interest on debt that is allocable to an asset used to produce the above property. A partner may have to capitalize interest that the partner incurs during the tax year with respect to the production expenditures of the partnership. Similarly, interest incurred by a partnership may have to be capitalized by a partner with respect to the partner's own production expenditures. The information required by the partner to properly capitalize interest for this purpose must be provided by the partnership in an attachment to Schedule K-1. See section 263A(f) and Notice 88-99.

Do not include interest expense on debt used to purchase rental property or debt used in a rental activity. Interest allocable to a rental real estate activity is reported on Form 8825 and is used in arriving at net income (loss) from rental real estate activities on line 2 of Schedules K and K-1. Interest allocable to a rental activity other than a rental real estate activity is included on line 3b of Schedule K and is used in arriving at net income (loss) from a rental activity (other than a rental real estate activity). This net amount is reported on line 3c of Schedule K and line 3 of Schedule K-1.

Do not include interest expense on debt used to buy property held for investment. Do not include interest expense that is clearly and directly allocable to interest, dividend, royalty, or annuity income not derived in the ordinary course of a trade or business. Interest paid or incurred on debt used to purchase or carry investment property is reported on line 12a of Schedules K and K-1. See the instructions for line 12a of Schedules K and K-1 and **Form 4952**, Investment Interest Expense Deduction, for more information on investment property.

Do not include interest on debt proceeds allocated to distributions made to partners during the tax year. Instead, report such interest on line 11 of Schedules K and K-1. To determine the amount to allocate to distributions to partners, see Notice 89-35, 1989-1 C.B. 675.

Temporary Regulations section 1.163-8T gives rules for allocating interest expense among activities so that the limitations on passive activity losses, investment interest, and personal interest can be properly computed. Generally, interest expense is allocated in the same manner that debt is allocated. Debt is allocated by tracing disbursements of the debt proceeds to specific expenditures, as provided in the regulations.

Note: *Interest paid by a partnership to a partner for the use of capital should be entered on line 10 as guaranteed payments. Prepaid interest can only be deducted over*

the period to which the prepayment applies. Interest incurred during construction or improvement of real property, personal property that has a class life of 20 years or more, or other tangible property requiring more than 2 years (1 year in the case of property costing more than \$1 million) to produce or construct generally must be capitalized. See section 263A for more information. The limitations on deductions for unpaid interest are in Regulations section 1.267(b)-1(b).

Line 16—Depreciation

On line 16a, enter **only** the depreciation claimed on assets used in a trade or business activity. Enter on line 16b the depreciation reported elsewhere on the return (e.g., on Schedule A) that is attributable to assets used in trade or business activities. See the Instructions for Form 4562 or **Pub. 534**, Depreciation, to figure the amount of depreciation to enter on this line.

For depreciation, you must complete and attach Form 4562 only if the partnership placed property in service during 1994 or claims depreciation on any car or other listed property.

Do not include any section 179 expense deduction on this line. This amount is not deducted by the partnership. Instead, it is passed through to the partners on line 9 of Schedule K-1.

Line 17—Depletion

If the partnership claims a deduction for timber depletion, complete and attach **Form T**, Forest Industries Schedules.

Caution: *Do not deduct depletion for oil and gas properties. Each partner figures depletion on oil and gas properties. See the instructions for Schedule K-1, line 23, item 3, for the information on oil and gas depletion that must be supplied to the partners by the partnership.*

Line 18—Retirement Plans, etc.

Do not deduct payments for partners to retirement or deferred compensation plans including IRAs, Keoghs, and simplified employee pension (SEP) plans on this line. These amounts are reported on Schedule K-1, line 11, and are deducted by the partners on their own returns.

Enter the deductible contributions not claimed elsewhere on the return made by the partnership for its common-law employees under a qualified pension, profit-sharing, annuity, or SEP plan, and under any other deferred compensation plan.

If the partnership contributes to an individual retirement arrangement (IRA) for employees, include the contribution in salaries and wages on page 1, line 9, or Schedule A, line 3, and not on line 18.

Employers who maintain a pension, profit-sharing, or other funded deferred compensation plan (other than a SEP), whether or not the plan is qualified under the Internal Revenue Code and whether or not a deduction is claimed for the current year, generally must file one of the following forms:

- **Form 5500**, Annual Return/Report of Employee Benefit Plan, for each plan with 100 or more participants.

- **Form 5500-C/R**, Return/Report of Employee Benefit Plan, for each plan with fewer than 100 participants.
- **Form 5500-EZ**, Annual Return of One-Participant (Owners and Their Spouses) Pension Benefit Plan, for each plan that covers only partners or partners and their spouses.

There are penalties for not filing these forms on time.

Line 19—Employee Benefit Programs

Enter the partnership's contributions to employee benefit programs not claimed elsewhere on the return (e.g., insurance, health, and welfare programs) that are not part of a pension, profit-sharing, etc., plan included on line 18.

Do not include amounts paid during the tax year for insurance that constitutes medical care for a partner, a partner's spouse, or a partner's dependents. Instead, include these amounts on line 10 as guaranteed payments and on Schedule K, line 5, and Schedule K-1, line 5, of each partner on whose behalf the amounts were paid. Also report these amounts on Schedule K, line 11, and Schedule K-1, line 11, of each partner on whose behalf the amounts were paid.

Line 20—Other Deductions

Attach your own schedule, listing by type and amount, all allowable deductions related to a trade or business activity for which there is no separate line on page 1 of Form 1065. Enter the total on this line. Do not include items that must be reported separately on Schedules K and K-1.

A partnership is not allowed the deduction for net operating losses.

Do not include qualified expenditures to which an election under section 59(e) may apply.

Include on line 20 the deduction taken for amortization. You must complete and attach Form 4562 if the partnership is claiming amortization of costs that begins during its 1994 tax year. The instructions for Form 4562 provide code section references for specific amortizable property. See Pub. 535 for more information on amortization.

Do not deduct amounts paid or incurred to participate or intervene in any political campaign on behalf of a candidate for public office, or to influence the general public regarding legislative matters, elections, or referendums. In addition, partnerships generally cannot deduct expenses paid or incurred to influence Federal or state legislation, or to influence the actions or positions of certain Federal executive branch officials. However, certain in-house lobbying expenditures that do not exceed \$2,000 are deductible. See section 162(e) for more details.

Do not deduct fines or penalties paid to a government for violating any law.

A deduction is allowed for part of the cost of qualified clean-fuel vehicle property and qualified clean-fuel vehicle refueling property. For more details, see section 179A.

Meals, travel, and entertainment.—

Generally, the partnership can deduct only 50% of the amount otherwise allowable for meals and entertainment expenses paid or incurred in its trade or business. In addition,

meals must not be lavish or extravagant; a bona fide business discussion must occur during, immediately before, or immediately after the meal; and a partner or employee of the partnership must be present at the meal. Get **Pub. 463**, Travel, Entertainment, and Gift Expenses, for exceptions.

Additional limitations apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets.

Partnerships are not allowed to deduct amounts paid or incurred for membership dues in any club organized for business, pleasure, recreation, or other social purpose. This rule applies to all types of clubs, including business, social, athletic, luncheon, sporting, airline, and hotel clubs. In addition, no deduction is allowed for travel expenses paid or incurred for a partner's or employee's spouse or dependent or other individual accompanying a partner or employee of the partnership, unless that spouse, dependent, or other individual is an employee of the partnership, and that person's travel is for a bona fide business purpose and would otherwise be deductible by that person.

Generally, a partnership can deduct all other ordinary and necessary travel and entertainment expenses paid or incurred in its trade or business. However, it cannot deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) that is used for an activity that is usually considered entertainment, amusement, or recreation.

Note: *The partnership may be able to deduct otherwise nondeductible meals, travel, and entertainment expenses if the amounts are treated as compensation and reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.*

See Pub. 463 for more details.

Schedule A—Cost of Goods Sold

Section 263A Uniform Capitalization Rules

The uniform capitalization rules of section 263A are discussed under **Limitations on Deductions** on page 11. See those instructions before completing Schedule A.

Line 1—Inventory at Beginning of Year

This figure should match the ending inventory reported on the partnership's 1993 Form 1065, Schedule A, line 7. If it is different, attach an explanation.

Line 2—Purchases

Purchases must be reduced by items withdrawn for personal use. The cost of these items should be shown on Schedules M-2 and K-1 (Item J) as distributions to partners, if these schedules are required to be completed.

Line 4—Additional Section 263A Costs

An entry is required on this line only for partnerships that have elected a simplified method.

For partnerships that have elected the simplified production method, additional section 263A costs are generally those costs, other than interest, that were not capitalized under the partnership's method of accounting immediately prior to the effective date of

section 263A that are now required to be capitalized under section 263A. Interest is to be accounted for separately. For new partnerships, additional section 263A costs are the costs, other than interest, that must be capitalized under section 263A, but which the partnership would not have been required to capitalize if it had existed before the effective date of section 263A. For more details, see Regulations section 1.263A-2(b).

For partnerships that have elected the simplified resale method, additional section 263A costs are generally those costs incurred with respect to the following categories: (a) off-site storage or warehousing; (b) purchasing; (c) handling, processing, assembly, and repackaging; and (d) general and administrative costs (mixed service costs). For more details, see Regulations section 1.263A-3(d).

Enter on line 4 the balance of section 263A costs paid or incurred during the tax year not included on lines 2, 3, and 5. Attach a schedule listing these costs.

Line 5—Other Costs

Enter on line 5 any other inventoriable costs paid or incurred during the tax year not entered on lines 2 through 4. Attach a schedule.

Line 7—Inventory at End of Year

See Regulations sections 1.263A-1 through 1.263A-3 for details on figuring the costs to be included in ending inventory.

Lines 9a and 9b—Inventory Valuation Methods

Inventories can be valued at:

- Cost,
- Cost or market value (whichever is lower), or
- Any other method approved by the IRS that conforms with the provisions of the applicable regulations.

Partnerships that use erroneous valuation methods must change to a method permitted for Federal tax purposes. To make this change, use Form 3115.

On line 9a, check the methods used for valuing inventories. Under lower of cost or market, the term "market" generally refers to normal market conditions when there is a current bid price prevailing at the date the inventory is valued. When no regular open market exists or when quotations are nominal because of inactive market conditions, use fair market prices from the most reliable sales or purchase transactions that occurred near the date the inventory is valued.

Inventory may be valued below cost when the merchandise is unsalable at normal prices or unusable in the normal way because the goods are subnormal due to damage, imperfections, shop wear, etc., within the meaning of Regulations section 1.471-2(c). These goods may be valued at the current bona fide selling price minus the direct cost of disposition (but not less than scrap value) if such a price can be established.

If this is the first year the last-in first-out (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method, attach **Form 970**, Application To Use LIFO Inventory Method, or a statement with the information

required by Form 970. Also check the LIFO box on line 9b.

If you have changed or extended your inventory method to LIFO and have had to write up your opening inventory to cost in the year of election, report the effect of this write-up as income (line 7, page 1, Form 1065) proportionately over a 3-year period that begins in the tax year of the LIFO election.

For more information on inventory valuation methods, get **Pub. 538**, Accounting Periods and Methods.

Schedule B—Other Information

Question 4—Consolidated Audit Procedures

Generally, the tax treatment of partnership items is determined at the partnership level in a consolidated audit proceeding, rather than in separate proceedings with individual partners.

Answer “Yes” to Question 4 if **ANY** of the following apply:

- The partnership had more than 10 partners at any one time during the tax year (for purposes of this question, a husband and wife—and their estates—count as one person); or
- Any partner was a nonresident alien or was other than a natural person or estate; or
- Any partner’s share of any partnership item was different from his or her share of any other partnership item; or
- The partnership is a “small partnership” that has elected to be subject to the rules for consolidated audit proceedings. “Small partnerships” as defined in section 6231(a)(1)(B) are not subject to the rules for consolidated audit proceedings, but may make an irrevocable election under Temporary Regulations section 301.6231(a)(1)-1T(b)(2) to be covered by them.

Note: *The partnership does not make this election when it answers “Yes” to Question 4. The election must be made separately.*

If a partnership return is filed by an entity for a tax year, but it is determined that the entity is not a partnership for that tax year, the consolidated partnership audit procedures will generally apply to that entity and to persons holding an interest in that entity. See Temporary Regulations section 301.6233-1T for details and exceptions.

For more information on the rules for consolidated audit proceedings, see Pub. 556.

Question 6—Foreign Partners

Answer “Yes” to Question 6 if the partnership had any foreign partners (for purposes of section 1446) at any time during the tax year. Otherwise, answer “No.”

If the partnership had gross income effectively connected with a trade or business in the United States **and** foreign partners, it may be required to withhold tax under section 1446 on income allocable to foreign partners (without regard to distributions) and file Forms 8804, 8805, and 8813.

Question 7

Answer “Yes” to Question 7 if interests in the partnership are traded on an established securities market or are readily tradable on a secondary market (or its substantial equivalent).

Question 8

Organizers of certain tax shelters are required to register the tax shelters by filing Form 8264 no later than the day on which an interest in the shelter is first offered for sale. Organizers filing a properly completed Form 8264 will receive a tax shelter registration number that they must furnish to their investors. See the Instructions for Form 8264 for the definition of a tax shelter and the investments exempted from tax shelter registration.

Question 9—Foreign Accounts

Answer “Yes” to Question 9 if either **1 OR 2** below applies to the partnership. Otherwise, check the “No” box.

1. At any time during calendar year 1994, the partnership had an interest in or signature or other authority over a bank account, securities account, or other financial account in a foreign country; **AND**

• The combined value of the accounts was more than \$10,000 at any time during the calendar year; **AND**

• The accounts were NOT with a U.S. military banking facility operated by a U.S. financial institution.

2. The partnership owns more than 50% of the stock in any corporation that would answer the question “Yes,” based on item **1** above.

Get **Form TD F 90-22.1**, Report of Foreign Bank and Financial Accounts, to see if the partnership is considered to have an interest in or signature or other authority over a bank account, securities account, or other financial account in a foreign country.

If you answered “Yes” to Question 9, file Form TD F 90-22.1 by June 30, 1995, with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return, so **do not** file it with Form 1065. You may order Form TD F 90-22.1 by calling our toll-free number, 1-800-829-3676.

Designation of Tax Matters Partner (TMP)

If the partnership is subject to the rules for consolidated audit proceedings in sections 6221 through 6233, the partnership may designate a partner as the TMP for the tax year for which the return is filed by completing the **Designation of Tax Matters Partner** section on page 2 of Form 1065. See the instructions for Question 4, consolidated audit procedures, to determine if the partnership is subject to these rules. The designated TMP must be a general partner and, in most cases, must also be a U.S. person. For details, see Temporary Regulations section 301.6231(a)(7)-1T.

General Instructions for Schedules K and K-1—Partners’ Shares of Income, Credits, Deductions, etc.

Purpose of Schedules

Although the partnership is not subject to income tax, the partners are liable for tax on their shares of the partnership income, whether or not distributed, and must include their shares on their tax returns.

Schedule K (page 3 of Form 1065) is a summary schedule of all the partners’ shares of the partnership’s income, credits, deductions, etc.

Schedule K-1 (Form 1065) shows each partner’s separate share. Attach a copy of each Schedule K-1 to the Form 1065 filed with the IRS; keep a copy with a copy of the partnership return as a part of the partnership’s records; and furnish a copy to each partner. If a partnership interest is held by a nominee on behalf of another person, the partnership may be required to furnish Schedule K-1 to the nominee. See Temporary Regulations sections 1.6031(b)-1T and 1.6031(c)-1T for more information.

Be sure to give each partner a copy of either the Partner’s Instructions for Schedule K-1 (Form 1065) or specific instructions for each item reported on the partner’s Schedule K-1 (Form 1065).

Substitute Forms

The partnership does not need IRS approval to use a substitute Schedule K-1 if it is an exact copy of the IRS schedule, or if it contains only those lines the taxpayer is required to use. The lines must use the same numbers and titles and must be in the same order and format as on the comparable IRS Schedule K-1. The substitute schedule must include the OMB number. The partnership must provide each partner with the Partner’s Instructions for Schedule K-1 (Form 1065) or other prepared specific instructions.

The partnership must request IRS approval to use other substitute Schedules K-1. To request approval, write to Internal Revenue Service, Attention: Substitute Forms Program Coordinator, PC:FP:FS, 1111 Constitution Avenue, N.W., Washington, DC 20224.

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

The partnership may be subject to a penalty if it files Schedules K-1 that do not conform to the specifications of Rev. Proc. 94-34, 1994-18 I.R.B. 19.

How Income Is Shared Among Partners

Income (loss) is allocated to a partner only for the part of the year in which that person is a member of the partnership. The partnership will either allocate on a daily basis or divide the partnership year into segments and allocate income, loss, or special items in each segment among the persons who were partners during that segment. Partnerships that report their income on the cash basis must allocate interest expense, taxes, and

any payment for services or for the use of property on a daily basis if there is any change in any partner's interest during the year. See Pub. 541 for more information and for information on the tax consequences of the termination of a partner's interest.

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

Special rules on the allocation of income, gain, loss, and deductions generally apply if a partner contributes property to the partnership and the fair market value of that property at the time of contribution differs from the contributing partner's adjusted tax basis. Under these rules, the partnership must use a reasonable method of making allocations of income, gain, loss, and deductions from the property so that the contributing partner receives the tax burdens and benefits of any built-in gain or loss (i.e., pre-contribution appreciation or diminution of value of the contributed property). See Regulations section 1.704-3 and Temporary Regulations section 1.704-3T for details on how to make these allocations, including a description of specific allocation methods that are generally reasonable.

See **Dispositions of Contributed Property** on page 5 for special rules on the allocation of income, gain, loss, and deductions on the disposition of property contributed to the partnership by a partner.

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

Note: If a partner's interest changed during the year, see section 706(d) before determining each partner's distributive share of any item of income, gain, loss, deduction, etc.

Specific Instructions (Schedule K Only)

All partnerships must complete Schedule K. Rental activity income (loss) and portfolio income are not reported on page 1 of Form 1065. These amounts are not combined with trade or business activity income (loss). Schedule K is used to report the totals of these and other amounts.

Specific Instructions (Schedule K-1 Only)

General Information

Prepare and give a Schedule K-1 to each person who was a partner in the partnership at any time during the year. **Schedule K-1 must be provided to each partner on or before the day on which the partnership return is required to be filed.**

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

On each Schedule K-1, enter the names, addresses, and identifying numbers of the partner and partnership and the partner's distributive share of each item.

For an individual partner, enter the partner's social security number. For all other partners, enter the partner's EIN. (However, if a partner is an individual retirement arrangement (IRA), enter the identifying number of the custodian of the IRA. Do not enter the social security number of the person for whom the IRA is maintained.)

If a husband and wife each had an interest in the partnership, prepare a separate Schedule K-1 for each of them. If a husband and wife held an interest together, prepare one Schedule K-1 if the two of them are considered to be one partner.

Note: There is space on line 23 of Schedule K-1 for you to provide information to the partners. This space may be used in lieu of attachments.

Specific Items and Questions

Question A

Answer Question A on all Schedules K-1. If a partner holds interests as both a general and limited partner, check the first two boxes and attach a schedule for each activity that shows the amounts allocable to the partner's interest as a limited partner.

Question B—What Type of Entity Is This Partner?

State on this line whether the partner is an individual, a corporation, an estate, a trust, a partnership, an exempt organization, or a nominee (custodian). If the partner is a nominee, use one of the following codes to indicate the type of entity the nominee represents: I—Individual; C—Corporation; F—Estate or Trust; P—Partnership; E—Exempt Organization; or IRA—Individual Retirement Arrangement.

Question C—Domestic/Foreign Partner

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

Item D—Partner's Profit, Loss, and Capital Sharing Percentages

Enter in Item D, column (ii), the appropriate percentages as of the end of the year. However, if a partner's interest terminated during the year, enter in column (i) the percentages that existed immediately before

the termination. When the profit or loss sharing percentage has changed during the year, show the percentage before the change in column (i) and the end-of-year percentage in column (ii). If there are multiple changes in the profit and loss sharing percentage during the year, attach a statement giving the date and percentage before each change.

"Ownership of capital" means the portion of the capital that the partner would receive if the partnership was liquidated at the end of the year by the distribution of undivided interests in partnership assets and liabilities.

Item F—Partner's Share of Liabilities

Enter each partner's share of nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other liabilities.

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

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

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

The at-risk rules of section 465 generally apply to any activity carried on by the partnership as a trade or business or for the production of income. These rules generally limit the amount of loss and other deductions a partner can claim from any partnership activity to the amount for which that partner is considered at risk. However, for partners who acquired their partnership interests before 1987, the at-risk rules do not apply to losses from an activity of holding real property placed in service before 1987 by the partnership. The activity of holding mineral property does not qualify for this exception. Identify on an attachment to Schedule K-1 the amount of any losses that are not subject to the at-risk rules.

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

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

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

The partner as well as the partnership must meet the qualified nonrecourse rules. Therefore, the partnership must enter on an attached statement any other information the partner needs to determine if the qualified nonrecourse rules are also met at the partner level.

Item G—Tax Shelter Registration Number

If the partnership is a registration-required tax shelter, it must enter its tax shelter registration number in Item G. If the partnership invested in a registration-required shelter, the partnership must also furnish a copy of its Form 8271 to its partners. See Form 8271 for more information.

Item J—Analysis of Partner's Capital Account

You are not required to complete Item J if the answer to Question 5 of Schedule B is "Yes." If you are required to complete this item, see the instructions for Schedule M-2 on page 23.

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

Schedules K and K-1 have the same line numbers for lines 1 through 21.

Special Allocations

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

Report specially allocated ordinary gain (loss) on Schedules K and K-1, line 7. Report other specially allocated items on the applicable lines of the partner's Schedule K-1, with the total amount on the applicable line of Schedule K. For example, specially allocated long-term capital gain is entered on line 4e of the partner's Schedule K-1, and the total is entered on line 4e of Schedule K, along with any net long-term capital gain (or loss) from line 11 of Schedule D (Form 1065).

Income (Loss)

Line 1—Ordinary Income (Loss) From Trade or Business Activities

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

If the partnership has more than one trade or business activity, identify on an attachment to Schedule K-1 the amount from each separate activity. See **Passive Activity Reporting Requirements** beginning on page 8.

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

Line 2—Net Income (Loss) From Rental Real Estate Activities

Enter the net income or loss from rental real estate activities of the partnership from Form 8825. Attach this form to Form 1065. If the partnership has more than one rental real estate activity, identify on an attachment to Schedule K-1 the amount attributable to each activity.

If a loss from a qualified low-income housing project is reported on line 2, identify this loss on a statement attached to the Schedule K-1 of each partner who is a qualified investor in the project. Any loss sustained by a qualified investor in a qualified low-income housing project for any tax year in the relief period is not subject to the passive activity loss limitations under section 502 of the Tax Reform Act of 1986. See Act section 502 for definitions and other information on qualified low-income housing projects.

Line 3—Net Income (Loss) From Other Rental Activities

On Schedule K, line 3a, enter gross income from rental activities other than rental real estate activities. See page 7 of these instructions and Pub. 925 for the definition of rental activities. Include on line 3a, the gain (loss) from line 20 of Form 4797 that is attributable to the sale, exchange, or involuntary conversion of an asset used in a rental activity other than a rental real estate activity.

On line 3b of Schedule K, enter the deductible expenses of the activity. Attach a schedule of these expenses to Form 1065.

Enter the net income (loss) on line 3c of Schedule K. Enter each partner's share on line 3 of Schedule K-1.

If the partnership has more than one rental activity reported on line 3, identify on an attachment to Schedule K-1 the amount from each activity.

Lines 4a Through 4f—Portfolio Income (Loss)

Enter portfolio income (loss) on lines 4a through 4f.

See page 7 of these instructions for a definition of portfolio income. Do not reduce portfolio income by deductions allocable to it. Report such deductions (other than interest expense) on line 10 of Schedules K and K-1. Interest expense allocable to portfolio income is generally investment interest expense and is reported on line 12a of Schedules K and K-1.

Lines 4a and 4b.—Enter only taxable interest and dividends on these lines. Taxable interest is interest from all sources except interest exempt from tax and interest on tax-free covenant bonds.

Lines 4d and 4e.—Enter on line 4d of Schedule K the amount on line 5 of Schedule D (Form 1065) plus any short-term capital

gain (loss) that is specially allocated to partners. Report each partner's share on line 4d of Schedule K-1.

The amount reported for line 4e of Schedule K is the amount on line 11 of Schedule D (Form 1065) plus any long-term capital gain (loss) that is specially allocated to partners. Report each partner's share on line 4e of Schedule K-1.

Caution: *If any short-term or long-term capital gain or loss is from the disposition of nondepreciable personal property used in a trade or business, it may not be treated as portfolio income. Report such gain or loss on line 7 of Schedules K and K-1.*

Line 4f.—Report and identify other portfolio income or loss on an attachment for line 4f.

For example, income reported to the partnership from a real estate mortgage investment conduit (REMIC), in which the partnership is a residual interest holder, would be reported on an attachment for line 4f. If the partnership holds a residual interest in a REMIC, report on the attachment for line 4f the partner's share of:

1. Taxable income (net loss) from the REMIC (line 1b of Schedule Q (Form 1066)),
2. "Excess inclusion" (line 2c of Schedules Q (Form 1066)), and
3. Section 212 expenses (line 3b of Schedules Q (Form 1066)). Do not report these section 212 expenses on line 10 of Schedules K and K-1.

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

Line 5—Guaranteed Payments to Partners

Guaranteed payments to partners include:

1. Payments for salaries, health insurance, and interest deducted by the partnership and reported on Form 1065, page 1, line 10; Form 8825; or on Schedule K, line 3b; and
2. Payments the partnership must capitalize. (See the instructions for Form 1065, line 10.)

Generally, amounts reported on line 5 are not considered to be related to a passive activity. For example, guaranteed payments for personal services paid to a partner would not be passive activity income. Likewise, interest paid to any partner is not passive activity income.

Line 6—Net Gain (Loss) Under Section 1231 (Other Than Due to Casualty or Theft)

Enter on line 6 the amount shown on line 8 of Form 4797. Do not include specially allocated ordinary gains and losses or net gains or losses from involuntary conversions due to casualties or thefts on this line; report them on line 7. If the partnership has more than one activity, attach a statement to Schedule K-1 that identifies the activity to which the section 1231 gain (loss) relates.

Line 7—Other Income (Loss)

Use line 7 to report other items of income, gain, or loss not included on lines 1 through 6. If the partnership has more than one activity, identify on an attachment the amount

and the activity to which each amount relates.

Items to be reported on line 7 include:

- Gains from the disposition of farm recapture property (see Form 4797) and other items to which section 1252 applies.
- Gains from the disposition of an interest in oil, gas, geothermal, or other mineral properties (section 1254).
- Any net gain or loss from section 1256 contracts from **Form 6781**, Gains and Losses From Section 1256 Contracts and Straddles.
- Recoveries of tax benefit items (section 111).
- Gambling gains and losses (subject to the limitations in section 165(d)).
- Any income, gain, or loss to the partnership under section 751(b).
- Specially allocated ordinary gain (loss).
- Net gain (loss) from involuntary conversions due to casualty or theft. The amount for this line is shown on **Form 4684**, Casualties and Thefts, line 38a, 38b, or 39.

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

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

Deductions

Line 8—Charitable Contributions

If the partnership made a qualified conservation contribution, include the fair market value of the underlying property before and after the donation and describe the conservation purpose furthered by the donation. Give a copy of this information to each partner.

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

Certain contributions made to an organization conducting lobbying activities are not deductible. See section 170(f)(9) for more details.

Form 8283, Noncash Charitable Contributions, must be completed and attached to Form 1065 if the deduction claimed for noncash contributions exceeds \$500.

The partnership must give a copy of its Form 8283 to every partner if the deduction for an item or group of similar items of

contributed property exceeds \$5,000. Each partner must be furnished a copy even if the amount allocated to any partner is \$5,000 or less.

If the deduction for an item or group of similar items of contributed property is \$5,000 or less, the partnership should pass through each partner's share of the amount of noncash contributions so the partners will be able to complete their own Forms 8283. See the Instructions for Form 8283 for additional information.

Enter the total amount of charitable contributions made by the partnership during its tax year on Schedule K. Enter each partner's distributive share on Schedule K-1. On an attachment to Schedules K and K-1, show separately the dollar amount of contributions subject to each of the 50%, 30%, and 20% of adjusted gross income limits. For additional information, get **Pub. 526**, Charitable Contributions.

Line 9—Section 179 Expense Deduction

A partnership may elect to expense part of the cost of certain tangible property the partnership purchased this year for use in its trade or business or certain rental activities. See Pub. 534 for a definition of what kind of property qualifies for the section 179 deduction.

Complete Part I of Form 4562 to figure the partnership's section 179 expense deduction. The partnership does not claim the deduction itself but instead passes it through to the partners. Attach Form 4562 to Form 1065 and show the total section 179 expense deduction on Schedule K, line 9. Report each partner's allocable share on Schedule K-1, line 9. Line 9 of Schedule K-1 should not be completed for any partner that is an estate or trust.

If the partnership is an enterprise zone business, also report on an attachment to Schedules K and K-1 the cost of section 179 property placed in service during the year that is qualified zone property.

See the instructions for line 23 of Schedule K-1, item 4, for any recapture of a section 179 amount.

Note: See the *Instructions for Form 4562 concerning limitations on the section 179 deduction that the partnership is allowed to claim.*

Line 10—Deductions Related to Portfolio Income

Enter on line 10 and attach an itemized list of the deductions clearly and directly allocable to portfolio income (other than interest expense and section 212 expenses from a REMIC). Interest expense related to portfolio income is investment interest expense and is reported on line 12a of Schedules K and K-1. Section 212 expenses from the partnership's interest in a REMIC are reported on an attachment for line 4f of Schedules K and K-1. Generally, the line 10 amounts are section 212 expenses and are miscellaneous itemized deductions subject to the 2% floor at the partner level.

No deduction is allowable under section 212 for expenses allocable to a convention, seminar, or similar meeting.

Line 11—Other Deductions

Use line 11 to report deductions not included on lines 8, 9, 10, 17e, and 18a. On an attachment, identify the deduction and amount, and if the partnership has more than one activity, the activity to which the deduction relates.

Examples of items to be reported on an attachment to line 11 include:

- Amounts paid by the partnership that would be allowed as itemized deductions on any of the partners' income tax returns if they were paid directly by a partner for the same purpose. However, do not enter expenses related to portfolio income or investment interest expense on this line.

If there was a loss from an involuntary conversion due to casualty or theft of income-producing property, include in the total amount for this line the relevant amount from Form 4684, line 32.

- Any penalty on early withdrawal of savings.
- Soil and water conservation expenditures (section 175).
- Expenditures for the removal of architectural and transportation barriers to the elderly and handicapped and which the partnership has elected to treat as a current expense (section 190).
- Any amounts paid during the tax year for health insurance coverage for a partner (including that partner's spouse and dependents).
- Payments for a partner to an IRA, Keogh, or SEP plan.

If there is a defined benefit plan (Keogh), attach to the Schedule K-1 for each partner a statement showing the amount of benefit accrued for the tax year.

- Interest expense allocated to debt-financed distributions. See Notice 89-35 for more information.
- Interest paid or accrued on debt properly allocable to each general partner's share of a working interest in any oil or gas property (if the partner's liability is not limited). General partners that did not materially participate in the oil or gas activity treat this interest as investment interest; for other general partners, it is trade or business interest.

Investment Interest

Lines 12a through 12b(2) must be completed for all partners.

Line 12a—Interest Expense on Investment Debts

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

Property held for investment also includes each general partner's share of a working interest in any oil or gas property for which the partner's liability is not limited and in which the partner did not materially participate. However, the level of each partner's participation in an activity is determined by the partner and not by the partnership. As a result, interest allocable to a

general partner's share of a working interest in any oil or gas property (if the partner's liability is not limited) should not be reported on line 12a. Instead, report this interest on line 11.

Investment interest does not include interest expense allocable to a passive activity.

The amount on line 12a will be deducted (after applying the investment interest expense limitations of section 163(d)) by individual partners on Schedule A (Form 1040), line 13.

For more information, get **Form 4952**, Investment Interest Expense Deduction.

Lines 12b(1) and 12b(2)—Investment Income and Expenses

Enter on line 12b(1) only the investment income included on lines 4a, 4b, 4c, and 4f of Schedules K and K-1. Do not include other portfolio gains or losses on this line.

Enter on line 12b(2) only the investment expense included on line 10 of Schedules K and K-1.

If there are other items of investment income or expense included in the amounts that are required to be passed through separately to the partner on Schedule K-1, such as net short-term capital gain or loss, net long-term capital gain or loss, and other portfolio gains or losses, give each partner a schedule identifying these amounts.

Investment income includes gross income from property held for investment, the excess of net gain from the disposition of property held for investment over net capital gain from the disposition of property held for investment, and any net capital gain from the disposition of property held for investment that each partner elects to include in investment income under section 163(d)(4)(B)(iii). Generally, investment income and investment expenses do not include any income or expenses from a passive activity.

Property subject to a net lease is not treated as investment property because it is subject to the passive loss rules. Do not reduce investment income by losses from passive activities.

Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income. See the Form 4952 instructions for more information on investment income and expenses.

Credits

Line 13a—Credit for Income Tax Withheld

Enter on this line any credit for backup withholding on dividends, interest, or patronage dividends.

Line 13b—Low-Income Housing Credit

Section 42 provides a credit that may be claimed by owners of low-income residential rental buildings. If the partners are eligible to take the low-income housing credit, complete and attach **Form 8586**, Low-Income Housing Credit; **Form 8609**, Low-Income Housing Credit Allocation Certification; and **Schedule A (Form 8609)**, Annual Statement, to Form 1065.

Note: *No low-income housing credit can be claimed for any building for which any person has been allowed any benefit under section 502 of the Tax Reform Act of 1986 (relating to the transitional exception rule for low-income housing).*

Report on line 13b(1) the total low-income housing credit for property placed in service before 1990 with respect to which a partnership is to be treated under section 42(j)(5) as the taxpayer to which the low-income housing credit was allowed. Report any other low-income housing credit for property placed in service before 1990 on line 13b(2). On lines 13b(3) and (4), report the low-income housing credit for property placed in service after 1989.

Line 13c—Qualified Rehabilitation Expenditures Related to Rental Real Estate Activities

Enter total qualified rehabilitation expenditures related to rental real estate activities of the partnership. Also complete the applicable lines of **Form 3468**, Investment Credit, that apply to qualified rehabilitation expenditures for property related to rental real estate activities of the partnership for which income or loss is reported on line 2 of Schedule K. See Form 3468 for details on qualified rehabilitation expenditures. Attach Form 3468 to Form 1065.

For line 13c of Schedule K-1, enter each partner's distributive share of the expenditures. On the dotted line to the left of the entry space for line 13c, enter the line number of Form 3468 on which the partner should report the expenditures. If there is more than one type of expenditure, or the expenditures are from more than one rental real estate activity, report this information separately for each expenditure or activity on an attachment to Schedules K and K-1.

Note: *Qualified rehabilitation expenditures for property not related to rental real estate activities must be listed separately on line 23 of Schedule K-1.*

Line 13d—Credits (Other Than Credits Shown on Lines 13b and 13c) Related to Rental Real Estate Activities

Report any information that the partners need to figure credits related to a rental real estate activity, other than the low-income housing credit and qualified rehabilitation expenditures. On the dotted line to the left of the entry space for line 13d (or in the margin), identify the type of credit. If there is more than one type of credit or the credit is from more than one activity, report this information separately for each credit or activity on an attachment to Schedules K and K-1.

Line 13e—Credits Related to Other Rental Activities

Use this line to report information that the partners need to figure credits related to a rental activity other than a rental real estate activity. On the dotted line to the left of the entry space for line 13e, identify the type of credit. If there is more than one type of credit or the credit is from more than one activity, report this information separately for each credit or activity on an attachment to Schedules K and K-1.

Line 14—Other Credits

Enter each partner's allocable share of any credit that is related to a trade or business activity. On the dotted line to the left of the entry space for line 14, identify the type of credit. If there is more than one type of credit or the credit is from more than one activity, report this information separately for each credit or activity on an attachment to Schedules K and K-1. The credits to be reported on line 14 and other required attachments are as follows:

- Nonconventional source fuel credit. The credit is figured at the partnership level and then is apportioned to the partners based on their distributive shares of partnership income attributable to sales of qualified fuels. Attach a separate schedule to the return to show the computation of the credit. See section 29 for more information.

- Unused credits from cooperatives. The unused credits are apportioned to persons who were partners in the partnership on the last day of the partnership's tax year.

- Credit for increasing research activities (or for claiming the orphan drug credit) (Form 6765).

- Jobs credit (Form 5884). This credit is apportioned among the partners according to their interest in the partnership at the time the wages on which the credit is computed were paid or accrued.

- Credit for alcohol used as fuel (Form 6478). This credit is apportioned to persons who were partners on the last day of the partnership's tax year. The credit must be included in income on page 1, line 7, of Form 1065. See section 40(f) for an election the partnership can make to not have the credit apply.

If this credit includes the small ethanol producer credit, identify on a statement attached to each Schedule K-1 (a) the amount of the small producer credit included in the total credit allocated to the partner, (b) the number of gallons of qualified ethanol fuel production allocated to the partner, and (c) the partner's share in gallons of the partnership's productive capacity for alcohol.

- Disabled access credit (Form 8826).

- Enhanced oil recovery credit (Form 8830).

- Qualified electric vehicle credit (Form 8834).
- Renewable electricity production credit (Form 8835).

- Empowerment zone employment credit (Form 8844).

- Indian employment credit (Form 8845).

- Credit for employer social security and Medicare taxes paid on certain employee tips (Form 8846).

- Credit for contributions to selected community development corporations (Form 8847).

Note: *See the instructions for line 23, item 13 of Schedule K-1 to report expenditures qualifying for the (a) rehabilitation credit not related to rental real estate activities, (b) energy credit, or (c) reforestation credit.*

Self-Employment

Note: *If the partnership is an options dealer or a commodities dealer, see section 1402(i) before completing lines 15a, b, and c, to determine the amount of any adjustment that*

Worksheet for Figuring Net Earnings (Loss) From Self-Employment

1a Ordinary income (loss) (Schedule K, line 1)	1a			
b Net income (loss) from CERTAIN rental real estate activities (see instructions)	1b			
c Net income (loss) from other rental activities (Schedule K, line 3c)	1c			
d Net loss from Form 4797, Part II, line 20, included on line 1a above. Enter as a positive amount	1d			
e Combine lines 1a through 1d	1e			
2 Net gain from Form 4797, Part II, line 20, included on line 1a above	2			
3a Subtract line 2 from line 1e. If line 1e is a loss, increase the loss on line 1e by the amount on line 2	3a			
b Part of line 3a allocated to limited partners, estates, trusts, corporations, exempt organizations, and IRAs	3b			
c Subtract line 3b from line 3a. If line 3a is a loss, reduce the loss on line 3a by the amount on line 3b. Include each individual general partner's share on line 15a of Schedule K-1			3c	
4a Guaranteed payments to partners (Schedule K, line 5) derived from a trade or business as defined in section 1402(c) (see instructions)	4a			
b Part of line 4a allocated to individual limited partners for other than services and to estates, trusts, corporations, exempt organizations, and IRAs	4b			
c Subtract line 4b from line 4a. Include each individual general partner's share and each individual limited partner's share on line 15a of Schedule K-1			4c	
5 Net earnings (loss) from self-employment. Combine lines 3c and 4c. Enter here and on Schedule K, line 15a			5	

may have to be made to the amounts shown on the Worksheet for Figuring Net Earnings (Loss) From Self-Employment above. If the partnership is engaged solely in the operation of a group investment program, earnings from the operation are not self-employment earnings for either general or limited partners.

General partners.—General partners' net earnings (loss) from self-employment do not include:

- Dividends on any shares of stock and interest on any bonds, debentures, notes, etc., unless the dividends or interest are received in the course of a trade or business, such as a dealer in stocks or securities or interest on notes or accounts receivable.
- Rentals from real estate, except rentals received in the course of a trade or business as a real estate dealer or payments for rooms or space when significant services are provided.
- Royalty income, except royalty income received in the course of a trade or business.

See the instructions for **Schedule SE (Form 1040)**, Self-Employment Tax, for more information.

Limited partners.—Generally, a limited partner's share of partnership income (loss) is not included in net earnings (loss) from self-employment. Limited partners treat as self-employment earnings only guaranteed payments for services they actually rendered to, or on behalf of, the partnership to the extent that those payments are payment for those services.

Worksheet Instructions

Line 1b.—Include on line 1b any part of the net income (loss) from rental real estate activities from Schedule K, line 2, that is from:

1. Rentals received as a real estate dealer, or
2. Rentals for which services were rendered to the occupants (other than services usually or customarily rendered for the rental of

space for occupancy only). The supplying of maid service, for example, is such a service; but the furnishing of heat and light, the cleaning of public entrances, exits, stairways and lobbies, trash collection, etc., are not considered services rendered to the occupants.

Lines 3b and 4b.—Allocate the amounts on these lines in the same way Form 1065, page 1, line 22, is allocated to these particular partners.

Line 4a.—Include in the amount on line 4a any guaranteed payments to partners reported on Schedules K and K-1, line 5, and derived from a trade or business as defined in section 1402(c). Also include other ordinary income and expense items (other than expense items subject to separate limitations at the partner level, such as the section 179 expense deduction) reported on Schedules K and K-1 that are used to compute self-employment earnings under section 1402.

Line 15a—Net Earnings (Loss) From Self-Employment

Schedule K.—Enter on line 15a the amount from line 5 of the worksheet.

Schedule K-1.—Do not complete this line for any partner that is an estate, trust, corporation, exempt organization, or individual retirement arrangement (IRA).

Enter on line 15a of Schedule K-1 each individual general partner's share of the amount shown on line 5 of the worksheet and each individual limited partner's share of the amount shown on line 4c of the worksheet.

Line 15b—Gross Farming or Fishing Income

Enter the partnership's gross farming or fishing income. Individual partners need this amount to figure net earnings from self-employment under the farm optional method in Section B, Part II of Schedule SE (Form 1040).

Line 15c—Gross Nonfarm Income

Enter the partnership's gross nonfarm income from self-employment. Individual partners need this amount to figure net earnings from self-employment under the nonfarm optional method in Section B, Part II of Schedule SE (Form 1040).

Adjustments and Tax Preference Items

Lines 16a through 16e must be completed for all partners.

Enter items of income and deductions that are adjustments or tax preference items. Get **Form 6251**, Alternative Minimum Tax—Individuals; **Form 4626**, Alternative Minimum Tax—Corporations; or Schedule H of **Form 1041**, U.S. Income Tax Return for Estates and Trusts, to determine the amounts to enter and for other information.

Do not include as a tax preference item any qualified expenditures to which an election under section 59(e) may apply. Instead, report these expenditures on lines 18a and 18b. Because these expenditures are subject to an election by each partner, the partnership cannot figure the amount of any tax preference related to them.

Line 16a—Depreciation Adjustment on Property Placed in Service After 1986

Figure the adjustment for line 16a based only on tangible property placed in service after 1986 (and tangible property placed in service after July 31, 1986, and before 1987 for which the partnership elected to use the General Depreciation System). **Do not** make an adjustment for motion picture films, videotapes, sound recordings, certain public utility property (as defined in section 168(f)(2)), or property depreciated under the unit-of-production method (or any other method not expressed in a term of years).

Using the same convention you used for regular tax purposes, refigure depreciation as follows:

- For property that is neither real property nor property depreciated using the straight line method, use the 150% declining balance method over the property's class life (instead of the recovery period), switching to straight line for the first tax year that method gives a better result. See Pub. 534 for a table of class lives. For property having no class life, use 12 years.
- For property depreciated using the straight line method (other than real property), use the straight line method over the property's class life (instead of the recovery period). For property having no class life, use 12 years.
- For residential rental and nonresidential real property, use the straight line method over 40 years.

Determine the depreciation adjustment by subtracting the recomputed depreciation from the depreciation claimed on Form 4562. If the recomputed depreciation exceeds the depreciation claimed on Form 4562, enter the difference as a negative amount. See Form 6251 for more information.

Line 16b—Adjusted Gain or Loss

If the partnership disposed of any tangible property placed in service after 1986 (or after July 31, 1986, if an election was made to use the General Depreciation System), or if it disposed of a certified pollution control facility placed in service after 1986, refigure the gain or loss from the disposition using the adjusted basis for alternative minimum tax (AMT) purposes. The property's adjusted basis for AMT purposes is its cost or other basis minus all depreciation or amortization deductions allowed or allowable for AMT purposes during the current tax year and previous tax years. Enter on this line the difference between the gain (or loss) reported for regular tax purposes and the gain (or loss) recomputed for AMT purposes. If the gain recomputed for AMT purposes is less than the gain computed for regular tax purposes, OR if the loss recomputed for AMT purposes is more than the loss computed for regular tax purposes, OR if there is a loss for AMT purposes and a gain for regular tax purposes, enter the difference as a negative amount.

Line 16c—Depletion (Other Than Oil and Gas)

Do not include any depletion on oil and gas wells. The partners must compute both their depletion deduction and their depletion preference item separately.

In the case of mines, wells, and other natural deposits, other than oil and gas wells, enter the amount by which the deduction for depletion under section 611 (including percentage depletion for geothermal deposits) is more than the adjusted basis of such property at the end of the tax year. Figure the adjusted basis without regard to the depletion deduction for the tax year and figure the excess separately for each property.

Lines 16d(1) and 16d(2)

Enter only the income and deductions for oil, gas, and geothermal properties that are used to figure the partnership's ordinary income or loss (line 22 of Form 1065). If there are items of income or deduction for oil, gas, and geothermal properties included in the amounts required to be passed through separately to the partners on Schedule K-1 (items not reported on line 1 of Schedule

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K-1), give each partner a schedule identifying these amounts.

Figure the amount for lines 16d(1) and (2) separately for oil and gas properties that are not geothermal deposits and for all properties that are geothermal deposits.

Give each partner a schedule that shows the separate amounts that are included in the computation of the amounts on lines 16d(1) and (2).

Line 16d(1). Gross income from oil, gas, and geothermal properties.—Enter the aggregate amount of gross income (within the meaning of section 613(a)) from all oil, gas, and geothermal properties that was received or accrued during the tax year and included on page 1, Form 1065.

Line 16d(2). Deductions allocable to oil, gas, and geothermal properties.—Enter the amount of any deductions allocable to oil, gas, and geothermal properties reduced by the excess intangible drilling costs that were included on page 1, Form 1065, on properties for which the partnership made the election to expense intangible drilling costs in tax years beginning before 1983. Do not include on line 16d nonproductive well costs or the amount shown on line 16b, page 1, Form 1065. Instead, use any applicable amount on line 16c, page 1, Form 1065.

See Form 6251 for information on how to compute excess intangible drilling costs.

Line 16e—Other Adjustments and Tax Preference Items

Attach a schedule that shows each partner's share of other items not shown on lines 16a through 16d(2) that are adjustments or tax preference items or that the partner needs to complete Form 6251, Form 4626, or Schedule H of Form 1041. See these forms and their instructions to determine the amount to enter.

Other adjustments or tax preference items include the following:

- Accelerated depreciation of real property under pre-1987 rules.
- Accelerated depreciation of leased personal property under pre-1987 rules.
- Long-term contracts entered into after February 28, 1986. Except for certain home construction contracts, the taxable income from these contracts must be figured using the percentage of completion method of accounting for alternative minimum tax purposes.
- Installment sales after March 1, 1986, of property held primarily for sale to customers in the ordinary course of the partnership's trade or business. Generally, the installment method may not be used for these sales in computing alternative minimum taxable income.
- Losses from tax shelter farm activities. No loss from any tax shelter farm activity is allowed for alternative minimum tax purposes.

Foreign Taxes

Lines 17a through 17g must be completed whether or not a partner is eligible for the foreign tax credit if the partnership has foreign income, deductions, or losses or has paid or accrued foreign taxes.

In addition to the instructions below, see the following for more information:

- **Form 1116**, Foreign Tax Credit (Individual, Estate, Trust, or Nonresident Alien Individual), and the related instructions.
- **Form 1118**, Foreign Tax Credit—Corporations, and the related instructions.
- **Pub. 514**, Foreign Tax Credit for Individuals.

Line 17a—Type of Income

Enter the type of income from outside the United States as follows:

- Passive income,
- High withholding tax interest,
- Financial services income,
- Shipping income,
- Dividends from a DISC or former DISC,
- Distributions from a foreign sales corporation (FSC) or former FSC,
- Dividends from each noncontrolled section 902 corporation,
- Taxable income attributable to foreign trade income (within the meaning of section 923(b)), and
- General limitation income—all other income from sources outside the United States (including income from sources within U.S. possessions).

If, for the country or U.S. possession shown on line 17b, the partnership had **more than one** type of income, enter "**See attached**" and attach a schedule for each type of income for lines 17c through 17g.

Line 17b—Foreign Country or U.S. Possession

Enter the name of the foreign country or U.S. possession. If, for the type of income shown on line 17a, the partnership had income from, or paid taxes to, **more than one** foreign country or U.S. possession, enter "**See attached**" and attach a schedule for each country for lines 17a and 17c through 17g.

Line 17c—Total Gross Income From Sources Outside the United States

Enter in U.S. dollars the total gross income from sources outside the United States. Attach a schedule that shows each type of income listed in the instructions for line 17a.

See section 904(d) for types of income that must be reported to partners for figuring their foreign tax credit.

Line 17d—Total Applicable Deductions and Losses

Enter in U.S. dollars the total applicable deductions and losses. Attach a schedule that shows each type of deduction or loss as follows:

- Expenses directly allocable to each type of income,
- Pro rata share of all other deductions not directly allocable to specific items of income, and
- Pro rata share of losses from other separate limitation categories.

Line 17e—Total Foreign Taxes

Enter in U.S. dollars the total foreign taxes (described in section 901) that were paid or accrued by the partnership to foreign countries or U.S. possessions. Attach a schedule that shows the dates the taxes were paid or accrued, and the amount in both

foreign currency and in U.S. dollars, as follows:

- Taxes withheld at source on dividends,
- Taxes withheld at source on rents and royalties, and
- Other foreign taxes paid or accrued.

Line 17f—Reduction in Taxes Available for Credit

Enter in U.S. dollars the total reduction in taxes available for credit. Attach a schedule that shows separately the:

- Reduction for foreign mineral income (section 901(e)),
- Reduction for failure to furnish returns required under section 6038,
- Reduction for taxes attributable to boycott operations (section 908),
- Reduction for foreign oil and gas extraction income (section 907(a)), and
- Reduction for any other items (specify).

Line 17g—Other Foreign Tax Information

Enter in U.S. dollars any items not covered on lines 17c through 17f. For noncorporate partners, enter gross income from all sources. Noncorporate partners need this information to complete Form 1116. For corporate partners, enter gross income and definitely allocable deductions from sources outside the United States and for foreign branches. Corporations need this information to complete Form 1118, Schedule F.

Other

Lines 18a and 18b

Generally, section 59(e) allows each partner to make an election to deduct the partner's distributive share of the partnership's otherwise deductible qualified expenditures ratably over 10 years (3 years for circulation expenditures), beginning with the tax year in which the expenditures were made (or for intangible drilling and development costs, over the 60-month period beginning with the month in which such costs were paid or incurred). The term "qualified expenditures" includes only the following types of expenditures paid or incurred during the tax year: circulation expenditures, research and experimental expenditures, intangible drilling and development costs, and mining exploration and development costs. If a partner makes this election, these items are not treated as tax preference items.

Because the partners are generally allowed to make this election, the partnership cannot deduct these amounts or include them as adjustments or tax preference items on Schedule K-1. Instead, on lines 18a and 18b of Schedule K-1, the partnership passes through the information the partners need to compute their separate deductions.

Enter on line 18a the qualified expenditures paid or incurred during the tax year to which an election under section 59(e) may apply. Enter this amount for all partners whether or not any partner makes an election under section 59(e). On line 18b, enter the type of expenditures claimed on line 18a. If the expenditures are for intangible drilling and development costs, enter the month in which the expenditures were paid or incurred (after the type of expenditure on line 18b). If there

is more than one type of expenditure included in the total shown on line 18a (or intangible drilling and development costs were paid or incurred for more than 1 month), report this information separately for each type of expenditure (or month) on an attachment to Schedules K and K-1.

Line 19—Tax-Exempt Interest Income

Enter on line 19 tax-exempt interest income, including any exempt-interest dividends received from a mutual fund or other regulated investment company. This information must be reported by individuals on line 8b of Form 1040. The adjusted basis of the partner's interest is increased by the amount shown on this line under section 705(a)(1)(B).

Line 20—Other Tax-Exempt Income

Enter on line 20 all income of the partnership exempt from tax other than tax-exempt interest (e.g., life insurance proceeds). The adjusted basis of the partner's interest is increased by the amount shown on this line under section 705(a)(1)(B).

Line 21—Nondeductible Expenses

Enter on line 21 nondeductible expenses paid or incurred by the partnership. Do not include separately stated deductions shown elsewhere on Schedules K and K-1, capital expenditures, or items the deduction for which is deferred to a later tax year. The adjusted basis of the partner's interest is decreased by the amount shown on this line under section 705(a)(2)(B).

Line 22 (Schedule K Only)

Attach a statement to report the partnership's total income, expenditures, or other information for the items listed under **Supplemental Information (Schedule K-1 Only)** below.

Lines 22a and 22b (Schedule K-1 Only)—Recapture of Low-Income Housing Credit

If recapture of part or all of the low-income housing credit is required because: (a) prior year qualified basis of a building decreased, or (b) the partnership disposed of a building or part of its interest in a building, get **Form 8611**, Recapture of Low-Income Housing Credit. The instructions for Form 8611 indicate when the form is completed by the partnership and what information is provided to partners when recapture is required.

Note: *If a partner's ownership interest in a building decreased because of a transaction at the partner level, the partnership must provide the necessary information to the partner to enable the partner to compute the recapture.*

Report on line 22a the total low-income housing credit recapture with respect to a partnership treated under section 42(j)(5) as the taxpayer to which the low-income housing credit was allowed. Report any other low-income housing credit recapture on line 22b.

If the partnership has posted a bond as provided in section 42(j)(6) to avoid recapture, no entry should be made on line 22 of Schedule K-1.

See Form 8586, Form 8611, and section 42 for more information.

Analysis (Schedule K Only)

Lines 23a and 23b

For each type of partner shown, enter the portion of the amount shown on line 23a of Schedule K that was allocated to that type of partner. Report all amounts for limited liability company members on the line for limited partners. The sum of the amounts shown on line 23b must equal the amount shown on line 23a. In addition, the amount on line 23a must equal the amount on line 9, Schedule M-1 (if the partnership is required to complete Schedule M-1).

In classifying partners who are individuals as "active" or "passive," the partnership should apply the rules below. In applying these rules, a partnership should classify each partner to the best of its knowledge and belief. It is assumed that in most cases the level of a particular partner's participation in an activity will be apparent:

1. If the partnership's principal activity is a trade or business, classify a general partner as "active" if the partner materially participated in all partnership trade or business activities; otherwise, classify a general partner as "passive."
2. If the partnership's principal activity consists of a working interest in an oil or gas well, classify a general partner as "active."
3. If the partnership's principal activity is a rental real estate activity, classify a general partner as "active" if the partner actively participated in all of the partnership's rental real estate activities; otherwise, classify a general partner as "passive."
4. Classify as "passive" all partners in a partnership whose principal activity is a rental activity other than a rental real estate activity.
5. If the partnership's principal activity is a portfolio activity, classify all partners as "active."

6. Classify as "passive" all limited partners and limited liability company members in a partnership whose principal activity is a trade or business or rental activity.

7. If the partnership cannot make a reasonable determination whether a partner's participation in a trade or business activity is material or whether a partner's participation in a rental real estate activity is active, classify the partner as "passive."

Supplemental Information (Schedule K-1 Only)

Line 23

Enter in the line 23 Supplemental Information space of Schedule K-1, or on an attached schedule if more space is needed, each partner's share of any information asked for on lines 1 through 22b that is required to be reported in detail, and items 1 through 17 below. Identify the applicable line number next to the information entered in the Supplemental Information space. Show income or gains as a positive number. Show losses in parentheses.

1. Taxes paid on undistributed capital gains by a regulated investment company. As a shareholder of a regulated investment company, the partnership will receive notice on **Form 2439**, Notice to Shareholder of

Undistributed Long-Term Capital Gains, that the company paid tax on undistributed capital gains.

2. The number of gallons of each fuel used during the tax year in a use qualifying for the credit for taxes paid on fuels and the applicable credit per gallon. Also, each partner's share of the credit for the purchase of qualified diesel-powered highway vehicles. Get **Form 4136**, Credit for Federal Tax on Fuels, for details.

3. The partner's share of gross income from each property, share of production for the tax year, etc., needed to figure the partner's depletion deduction for oil and gas wells. The partnership should also allocate to each partner a proportionate share of the adjusted basis of each partnership oil or gas property. The allocation of the basis of each property is made as specified in section 613A(c)(7)(D).

The partnership cannot deduct depletion on oil and gas wells. The partner must determine the allowable amount to report on his or her return. See Pub. 535 for more information.

4. Recapture of section 179 expense deduction. For property placed in service after 1986, the section 179 expense deduction is recaptured at any time the business use of the property drops to 50% or less. Enter the amount that was originally passed through to the partners and the partnership's tax year in which the amount was passed through. Tell the partner if the recapture amount was caused by the disposition of the section 179 property. Do not include this amount in the partnership's income.

5. Recapture of certain mining exploration expenditures (section 617).

6. Any information or statements a partner needs to comply with section 6111 (registration of tax shelters) or section 6662(d)(2)(B)(ii) (regarding adequate disclosure of items that may cause an understatement of income tax).

7. The partner's share of preproductive period farm expenses, if the partnership is not required to use the accrual method of accounting. See Temporary Regulations section 1.263A-4T(c).

8. Any information needed by a partner to compute the interest due under section 453(l)(3). If the partnership elected to report the disposition of certain timeshares and residential lots on the installment method, each partner's tax liability must be increased by the partner's allocable share of the interest on tax attributable to the installment payments received during the tax year.

9. Any information needed by a partner to compute interest due under section 453A(c). If an obligation arising from the disposition of property to which section 453A applies is outstanding at the close of the year, report each partner's allocable share of the outstanding installment obligation to which section 453A(b) applies.

10. For closely held partnerships (as defined in section 460(b)(4)), provide the information needed by a partner to compute the partner's allocable share of any interest due or to be refunded under the look-back method of section 460(b)(2) on certain long-term contracts that are accounted for under either the percentage of

completion-capitalized cost method or the percentage of completion method. Also attach to Form 1065 the information specified in the instructions for Form 8697, Part II, lines 1 and 3, for each tax year in which such a long-term contract is completed.

11. Any information needed by a partner relating to interest expense that the partner is required to capitalize. Under section 263A, a partner may be required to capitalize interest expense incurred by the partner during the tax year with respect to the production expenditures of the partnership. Similarly, interest incurred by a partnership may have to be capitalized by a partner with respect to the partner's own production expenditures. The information required by the partner to properly capitalize interest for this purpose must be provided on an attachment to Schedule K-1. See Notice 88-99 for more information.

12. Any information a partner that is a tax-exempt organization may need to compute that partner's share of unrelated business taxable income under section 512(a)(1) (but excluding any modifications required by paragraphs (8) through (15) of section 512(b)).

Note: Partners are required to notify the partnership of their tax-exempt status.

13. Expenditures qualifying for the (a) rehabilitation credit not related to rental real estate activities, (b) energy credit, or (c) reforestation credit. Complete and attach Form 3468 to Form 1065. See Form 3468 and the related instructions for information on eligible property and the lines on Form 3468 to complete. Do not include that part of the cost of the property the partnership has elected to expense under section 179. Attach to each Schedule K-1 a separate schedule in a format similar to that shown on Form 3468 detailing each partner's share of qualified expenditures. Also indicate the lines of Form 3468 on which the partners should report these amounts.

14. Recapture of investment credit. Complete and attach **Form 4255**, Recapture of Investment Credit, when investment credit property is disposed of, or it no longer qualifies for the credit, before the end of the recapture period or the useful life applicable to the property. State the type of property at the top of Form 4255 and complete lines 2, 3, 4, and 8, whether or not any partner is subject to recapture of the credit. Attach to each Schedule K-1 a separate schedule providing the information the partnership is required to show on Form 4255, but list only the partner's distributive share of the cost of the property subject to recapture. Also indicate the lines of Form 4255 on which the partners should report these amounts.

15. Any information a partner may need to compute the recapture of the qualified electric vehicle credit. See Pub. 535 for more information.

16. Any information a partner may need to figure recapture of the Indian employment credit. Generally, if a partnership terminates a qualified employee less than 1 year after the date of initial employment, any Indian employment credit allowed for a prior tax year by reason of wages paid or incurred to that employee must be recaptured. For details, see section 45A(d).

17. Any other information a partner may need to file his or her return that is not shown anywhere else on Schedule K-1. For example, if one of the partners is a pension plan, that partner may need special information to properly file its tax return.

Specific Instructions

Note: Schedules L, M-1, and M-2 are not required to be completed if the partnership answered "Yes" to Question 5 of Schedule B.

Schedule L—Balance Sheets

The balance sheets should agree with the partnership's books and records. Attach a statement explaining any differences.

Partnerships reporting to the Interstate Commerce Commission or to any national, state, municipal, or other public officer may send copies of their balance sheets prescribed by the Commission or state or municipal authorities, as of the beginning and end of the tax year, instead of completing Schedule L. However, statements filed under this procedure must contain sufficient information to enable the IRS to reconstruct a balance sheet similar to that contained on Form 1065 without contacting the partnership during processing.

Line 5—Tax-Exempt Securities

Include on this line:

1. State and local government obligations, the interest on which is excludable from gross income under section 103(a), and

2. Stock in a mutual fund or other regulated investment company that distributed exempt-interest dividends during the tax year of the partnership.

Line 18—All Nonrecourse Loans

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

Schedule M-1—Reconciliation of Income (Loss) per Books With Income (Loss) per Return

Line 3—Guaranteed Payments

Include on this line guaranteed payments shown on Schedule K, line 5 (other than amounts paid for insurance that constitutes medical care for a partner, a partner's spouse, and a partner's dependents).

Line 4b—Travel and Entertainment

Include on this line 50% of meals and entertainment not allowed under section 274(n); expenses for the use of an entertainment facility; the part of business gifts in excess of \$25; expenses of an individual allocable to conventions on cruise ships in excess of \$2,000; employee achievement awards in excess of \$400; the cost of entertainment tickets in excess of face value (also subject to 50% disallowance); the cost of skyboxes in excess of the face value of nonluxury box seat tickets; the part of the cost of luxury water travel not allowed under section 274(m); expenses for travel as a form of education; nondeductible club dues; and other travel and entertainment expenses not allowed as a deduction.

Schedule M-2—Analysis of Partners' Capital Accounts

Show what caused the changes during the tax year in the partners' capital accounts as reflected on the partnership's books and records. The amounts on Schedule M-2 should equal the total of the amounts reported in Item J of all the partners' Schedules K-1.

The partnership may, but is not required to, use the rules in Regulations section 1.704-1(b)(2)(iv) to determine the partners'

capital accounts in Schedule M-2 and Item J of the partners' Schedules K-1. If the beginning and ending capital accounts reported under these rules differ from the amounts reported on Schedule L, attach a statement reconciling any differences.

Line 2—Capital Contributed During Year

Include on line 2 the amount of money and property contributed by each partner to the partnership as reflected on the partnership's books and records.

Line 3—Net Income per Books

Enter on line 3 the net income shown on the partnership books from Schedule M-1, line 1.

Line 6—Distributions

1. On line 6a, enter the amount of money distributed to each partner by the partnership;

2. On line 6b, enter the amount of property distributed to each partner by the partnership as reflected on the partnership's books and records. Include withdrawals from inventory for the personal use of a partner.

Codes for Principal Business Activity and Principal Product or Service

These codes for the Principal Business Activity are designed to classify an enterprise by the type of activity in which it is engaged to facilitate the administration of the Internal Revenue Code. Though similar in format and structure to the

Standard Industrial Classification Codes (SIC), they should not be used as SIC codes.

Using the list below, enter on page 1, Item C, the code for the specific industry group for which the largest percentage of "total assets (Schedule L, line 14, column (d))" is used.

In Item A, state the principal business activity. In Item B, state the principal product or service that accounts for the largest percentage of total assets. For example, if the principal business activity is "Retail food store," the principal product or service may be "dairy products."

Code	Code	Code	Code
Agriculture, Forestry, and Fishing Code Farms: 0120 Field crop. 0160 Vegetable and melon farms. 0170 Fruit and nut tree farms. 0180 Horticultural specialty. 0211 Beef cattle feedlots. 0212 Beef cattle, except feedlots. 0215 Hogs, sheep, and goats. 0240 Dairy farms. 0250 Poultry and eggs. 0260 General livestock (except animal specialty). 0270 Animal specialty. Agricultural services and forestry: 0740 Veterinary services. 0753 Livestock breeding. 0754 Animal services, except livestock breeding and veterinary. 0780 Landscape and horticultural services. 0790 Other agricultural services. 0800 Forestry, except logging. 2400 Logging. Fishing, hunting, and trapping: 0930 Commercial fishing, hatcheries, and preserves. 0970 Hunting, trapping, and game propagation.	Code Transportation, Communication, Electric, Gas, and Sanitary Services Local and interurban passenger transit: 4121 Taxicabs. 4189 Other passenger transportation. Trucking and warehousing: 4210 Trucking (local and long distance), except trash collection. 4216 Trash collection without own dump. 4220 Public warehousing. Other transportation including transportation services: 4400 Water transportation. 4540 Transportation by air. 4722 Passenger transportation arrangement. 4799 Other transportation services. 4800 Communication. 4900 Utilities, including dumps, snowplowing, etc.	Code Furniture, home furnishings, and equipment stores: 5712 Furniture stores. 5713 Floor covering stores. 5714 Drapery, curtain, and upholstery stores. 5719 Home furnishings, except appliances. 5722 Household appliance stores. 5732 Radio and television stores. 5733 Music stores. 5734 Computer and software stores. Eating and drinking places: 5812 Eating places. 5813 Drinking places. Miscellaneous retail stores: 5912 Drug stores and proprietary stores. 5921 Liquor stores. 5932 Used merchandise and antique stores (except motor vehicle parts). 5941 Sporting goods stores and bicycle shops. 5942 Book stores. 5943 Stationery stores. 5944 Jewelry stores. 5945 Hobby, toy, and game shops. 5946 Camera and photographic supply stores. 5947 Gift, novelty, and souvenir shops. 5948 Luggage and leather goods stores. 5949 Sewing, needlework, and piece goods stores. 5961 Mail order houses. 5962 Merchandising machine operators. 5963 Direct selling organizations. 5983 Fuel oil dealers. 5984 Liquefied petroleum gas (bottled gas) dealers. 5989 Other fuel dealers (except gasoline) 5992 Florists. 5996 Other miscellaneous retail stores.	Code Personal services: 7215 Coin-operated laundries and dry cleaning. 7219 Other laundry, cleaning, and garment services. 7221 Photographic studios and portrait studios. 7231 Beauty shops. 7241 Barber shops. 7251 Shoe repair and hat cleaning shops. 7261 Funeral services and crematories. 7291 Income tax preparation. 7299 Miscellaneous personal services. Business services: 7310 Advertising. 7340 Janitorial and window cleaning. 7350 Equipment rental and leasing. 7370 Computer and data processing services. 7398 Other business services. Automotive repair and services: 7510 Automotive rentals and leasing, without drivers. 7520 Automobile parking. 7538 General automobile repair shops. 7539 Other automotive repair shops. 7540 Automotive services, except repair. Miscellaneous repair services: 7622 Radio and TV repair shops. 7628 Electrical repair shops, except radio and TV. 7641 Reupholstery and furniture repair. 7680 Other miscellaneous repair shops. Motion picture: 7812 Other motion picture and TV film and tape activities. 7830 Motion picture theaters. 7840 Video tape rental stores. Amusement and recreation services: 7920 Producers, orchestras, and entertainers. 7933 Bowling alleys. 7941 Professional sports clubs and promoters. 7948 Racing, including track operation. 7980 Other amusement and recreation services. 7991 Physical fitness facilities. Medical and health services: 8011 Offices and clinics of medical doctors (MDs). 8021 Offices and clinics of dentists. 8031 Offices of osteopathic physicians. 8041 Offices of chiropractors. 8042 Offices of optometrists. 8047 Other licensed health practitioners. 8048 Registered and practical nurses. 8050 Nursing and personal care facilities. 8060 Hospitals. 8072 Dental laboratories. 8098 Other medical and health services. Other services: 8111 Legal services. 8200 Educational services. 8351 Child day care. 8722 Certified public accountants. 8723 Other accounting, auditing, and bookkeeping services. 8740 Management, consulting, and public relations services. 8911 Engineering and architectural services. 8999 Other services not classified elsewhere.
Mining 1000 Metal mining. 1200 Coal mining. 1300 Oil and gas extraction. 1400 Nonmetallic minerals except fuel.	Wholesale Trade—Selling Goods to Other Businesses, Government, or Institutions, etc. Durable goods, including machinery, equipment, wood, metals, etc.: 5001 Selling for your own account. 5002 Agent or broker for other firms—more than 50% of gross sales on commission. Nondurable goods, including food, fiber, chemicals, etc.: 5101 Selling for your own account. 5102 Agent or broker for other firms—more than 50% of gross sales on commission.	Finance, Insurance, and Real Estate 6000 Banking. 6100 Credit agencies other than banks. Security and commodity brokers, dealers, exchanges, and services: 6212 Security underwriting syndicates. 6218 Security brokers and dealers, except underwriting syndicates. 6299 Commodity contracts brokers and dealers; security and commodity exchanges; and allied services. 6411 Insurance agents, brokers, and services. Real estate: 6511 Real estate operators (except developers) and lessors of buildings. 6520 Lessors of real property other than buildings. 6531 Real estate agents, brokers, and managers. 6541 Title abstract offices. 6552 Subdividers and developers, except cemeteries. 6553 Cemetery subdividers and developers. Holding and other investment companies: 6746 Investment clubs. 6747 Common trust funds. 6748 Other holding and investment companies.	Retail Trade Building materials, hardware, garden supply, and mobile home dealers: 5211 Lumber and other building materials dealers. 5231 Paint, glass, and wallpaper stores. 5251 Hardware stores. 5261 Retail nurseries and garden stores. 5271 Mobile home dealers. General merchandise: 5331 Variety stores. 5398 Other general merchandise stores. Food stores: 5411 Grocery stores. 5420 Meat and fish markets freezer provisioners. 5431 Fruit stores and vegetable markets. 5441 Candy, nut, and confectionery stores. 5451 Dairy products stores. 5460 Retail bakeries. 5490 Other food stores. Automotive dealers and service stations: 5511 New car dealers (franchised). 5521 Used car dealers. 5531 Auto and home supply stores. 5541 Gasoline service stations. 5551 Boat dealers. 5561 Recreational vehicle dealers. 5571 Motorcycle dealers. 5599 Aircraft and other automotive dealers. Apparel and accessory stores: 5611 Men's and boys' clothing and furnishings. 5621 Women's ready-to-wear stores. 5631 Women's accessory and specialty stores. 5641 Children's and infants' wear stores. 5651 Family clothing stores. 5661 Shoe stores. 5681 Furriers and fur shops. 5699 Other apparel and accessory stores.
Construction General building contractors and operative builders: 1510 General building contractors. 1531 Operative builders. Heavy construction contractors: 1611 Highway and street construction. 1620 Heavy construction, except highway. Special trade contractors: 1711 Plumbing, heating, and air conditioning. 1721 Painting, paperhanging, and decorating. 1731 Electrical work. 1740 Masonry, drywall, stone, tile. 1750 Carpentering and flooring. 1761 Roofing, siding, and sheet metal. 1771 Concrete work. 1781 Water well drilling. 1790 Other building trade contractors (excavation, glazing, etc.)	Manufacturing 2000 Food and kindred products. 2200 Textile mill products. 2300 Apparel and other textile products. 2400 Lumber and wood products, except furniture. 2500 Furniture and fixtures. 2700 Printing, publishing, and allied industries. 2800 Chemicals and allied products. 3000 Rubber and plastic products. 3100 Leather and leather products. 3200 Stone, clay, and glass products. 3300 Primary metal industries. 3400 Fabricated metal products. 3500 Machinery, except electrical. 3600 Electrical and electronic equipment. 3700 Transportation equipment. 3970 Other manufacturing industries.		

