Partner's Instructions for Schedule K-1 (Form 1065-B)
Partner's Share of Income (Loss) From an Electing Large Partnership
(For Partner's Use Only)

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

General Instructions

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

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

The amount of loss and deduction that you may claim on your tax return may be less than the amount reported on Schedule K-1. It is the partner's responsibility to consider and apply any applicable limitations. See Limitations on Losses, Deductions, and Credits beginning on page 2 for more information.

ELECTING LARGE PARTNERSHIPS
This partnership has elected simplified reporting requirements intended to make it simpler for you to report your share of partnership income, credits, deductions, etc. Generally, income, capital gains, credits, and deductions are combined at the partnership level so that the number of partnership items separately reported to partners is reduced. Most limitations and elections affecting partnership income are made by the electing large partnership. For limited partners, income and other items from the partnership's trade or business and rental activities are treated as being from a trade or business that is a single passive activity. These items are reported in boxes 1, 3, and 5, with most credits being reported in boxes 7 and 8. General partners must make their own determinations as to whether the activities are passive for them. Therefore, partnership items from trade or business, rental real estate, and other rental activities are separately reported for each activity in box 9. Income, etc., from other activities (investment and portfolio income and deductions) are reported in boxes 2, 4, and 6 for both limited and general partners.

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

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

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

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

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

If a partner is required to notify the partnership of a section 751(a) exchange but fails to do so, a $50 penalty may be imposed for each such failure. However, no penalty will be imposed if the partner can show that the failure was due to reasonable cause and not willful neglect.

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

A nominee who fails to furnish when due all the information required by Temporary Regulations section 1.6031(c)-1T, or who furnishes incorrect information, is subject to a $50 penalty for each statement for which a failure occurs. The maximum penalty is $100,000 for all such failures during a calendar year. If the nominee intentionally disregards the requirement to report correct information,
each $50 penalty increases to $100 or, if greater, 10% of the aggregate amount of items required to be reported, and the $100,000 maximum does not apply.

**International Boycotts**

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

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

**Definitions**

**General Partner**

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

**Limited Partner**

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

**Disqualified Person**

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

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

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

**Nonrecourse Loans**

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

**Elections**

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

- Section 108(b)(5) (income from the discharge of indebtedness).
- Section 901 (foreign tax credit).

**Additional Information**

For more information on the treatment of partnership income, credits, deductions, etc., see Pub. 541, Partnerships; Pub. 535, Business Expenses; and Pub. 925, Passive Activity and At-Risk Rules.

To get forms and publications, see the instructions for your tax return.

**Limitations on Losses, Deductions, and Credits**

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

**Basis Rules**

Generally, you may **not** claim your share of a partnership loss (including a capital loss) to the extent that it is greater than the adjusted basis of your partnership interest at the end of the partnership’s tax year.

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

Items that **increase** your basis are:

- Money and your adjusted basis in property contributed to the partnership.
- Your share of the increase in the partnership’s liabilities (or your individual liabilities caused by your assumption of partnership liabilities).
- Your share of the partnership’s income (including tax-exempt income).

Items that **decrease** your basis (but not below zero) are:

- Money and the adjusted basis of property distributed to you.
- Your share of the decrease in the partnership’s liabilities (or your individual liabilities assumed by the partnership).
- Your share of the partnership’s losses (including capital losses).
- Your share of the partnership’s nondeductible expenses.

**At-Risk Limitations**

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

The at-risk rules generally limit the amount of loss and other deductions that you can claim to the amount you could actually lose in the activity. However, if you acquired your partnership interest before 1987, the at-risk rules 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 properties does not qualify for this exception. The partnership should identify on an attachment to Schedule K-1 the amount of any losses that are not subject to the at-risk limitations.

Generally, you are not at risk for amounts such as the following:

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity, that are not secured by your own property (other than the property used in the activity).
- Cash, property, or borrowed amounts used in the activity (or contributed to the activity, or used to acquire your interest in the activity) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).
- Amounts borrowed for use in the activity from a person who has an interest in the activity, other than as a creditor, or who is related, under section 465(b)(3), to a person (other than you) having such an interest.

To help you complete Form 6198, the partnership should specify on an attachment to Schedule K-1 your share of the total pre-1976 losses from a section 465(c)(1) activity for which there existed a corresponding amount of nonrecourse liability at the end of the year in which the losses occurred. Also, you should get a separate statement of income, expenses, etc., for each activity from the partnership.

**Passive Activity Limitations**

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

- Are individuals, estates, trusts, closely held corporations, or personal service corporations, and
- Have a passive activity loss or credit for the tax year.
If you have a passive activity loss or credit, use Form 8582. Passive Activity Loss Limitations, to figure your allowable passive losses and Form 8582-CR, Passive Activity Credit Limitations, to figure your allowable passive credits. For a corporation, use Form 8810. Corporate Passive Activity Loss and Credit Limitations. See the instructions for these forms for more information.

Caution: If the publicly traded partnership box on Schedule K-1 is checked, do not report passive income (loss) from the partnership on Form 8582. See page 4 for the special rules for publicly traded partnerships.

For limited partners of an electing large partnership, all income, loss, deductions, and credits from trade or business and rental activities generally are reported as being from a trade or business that is a single passive activity. However, the determination of whether an activity is a passive activity must be made by any partner who is either a:
- General partner, or
- Limited partner who is a disqualified person (as defined on page 2) with respect to items of income, gain, loss, deduction, and credit attributable to partnership oil and gas properties.

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

Note: Except for the publicly traded partnership discussion on page 4, the following information on passive activity limitations applies only to general partners. Limited partners who are disqualified persons should see Pub. 925 for a complete discussion of the passive activity rules.

Generally, passive activities include:
1. Trade or business activities in which you did not materially participate, and
2. Activities that meet the definition of rental activities under Temporary Regulations section 1.469-1T(e)(3) and Regulations section 1.469-1(e)(3).

Passive activities do not include:
1. Trade or business activities in which you materially participated.
2. Rental real estate activities in which you materially participated if you were a real estate professional for the tax year.
You were a real estate professional for the tax year.

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For limited partners of an electing large partnership, all income, loss, deductions, and credits from trade or business and rental activities generally are reported as being from a trade or business that is a single passive activity. However, the determination of whether an activity is a passive activity must be made by any partner who is either a:
- General partner, or
- Limited partner who is a disqualified person (as defined on page 2) with respect to items of income, gain, loss, deduction, and credit attributable to partnership oil and gas properties.

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

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Generally, passive activities include:
1. Trade or business activities in which you did not materially participate, and
2. Activities that meet the definition of rental activities under Temporary Regulations section 1.469-1T(e)(3) and Regulations section 1.469-1(e)(3).

Passive activities do not include:
1. Trade or business activities in which you materially participated.
2. Rental real estate activities in which you materially participated if you were a real estate professional for the tax year.
You were a real estate professional for the tax year.

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

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

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

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

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

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

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

Corporations should refer to the Definitions of Material Participation activity rules for corporations and the Instructions for Form 8810 for the material participation standards that apply to them.

Individuals. If you are an individual (either a general partner or a limited partner who owned a general partnership interest at all times during the tax year), you materially participated in an activity only if one or more of the following apply:
1. You participated in the activity for more than 500 hours during the tax year.
2. Your participation in the activity for the tax year constituted substantially all the participation in the activity of all individuals (including individuals who are not owners of interests in the activity).
3. You participated in the activity for more than 100 hours during the tax year, and your participation in the activity for the tax year was not less than the participation in the activity of any other individual (including individuals who were not owners of interests in the activity) for the tax year.

4. The activity was a significant participation activity for the tax year, and you participated in all significant participation activities (including activities outside the partnership) during the year for more than 500 hours. A significant participation activity is any trade or business activity in which you participated for more than 100 hours during the year and in which you did not materially participate under any of the material participation tests (other than this test).
5. You materially participated in the activity for any 5 tax years (whether or not consecutive) during the 10 tax years that immediately preceded the tax year.

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

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

Work counted toward material participation. Generally, any work that you or your spouse does in connection with an activity held through a partnership (where you own your partnership interest at the time the work is done) is counted toward material participation. However, work in connection with the activity is not counted toward material participation if either of the following applies.
1. The work is not the sort of work that owners of the activity would usually do and one of the principal purposes of the work that you or your spouse does is to avoid the passive loss or credit limitations.
2. You do the work in your capacity as an investor and you are not directly involved in the day-to-day operations of the activity. Examples of work done as an investor that would not count toward material participation include:
   a. Studying and reviewing financial statements or reports on operations of the activity.
   b. Preparing or compiling summaries or analyses of the finances or operations of the activity for your own use.
   c. Monitoring the finances or operations of the activity in a nonmanagerial capacity.

Effect of determination. If you determine that you materially participated in (a) a trade or business activity of the partnership, or (b) if you were a real estate professional (defined above) in a
An estate is a qualifying estate if the decedent would have satisfied the active participation requirement for the activity for the tax year the decedent died. A qualifying estate is treated as actively participating if you participated for the activity during less than 2 years after the date of the decedent's death. 

The maximum special allowance that single individuals and married individuals filing a joint return can qualify for is $25,000. The maximum is $12,500 for married individuals who file separate returns who lived apart all times during the year. 

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

Modified adjusted gross income is your adjusted gross income figured without taking into account:

- Any passive activity loss.
- Any rental real estate loss allowed under section 469(c)(7) to real estate professionals (as defined on page 3).
- Any taxable social security or equivalent railroad retirement benefits.
- Any deductible contributions to an IRA or certain other qualified retirement plans under section 219.
- The student loan interest deduction.
- The deduction allowed under section 164(f) for one-half of self-employment taxes.
- The exclusion from income of interest from Series EE U.S. Savings Bonds used to pay higher education expenses.
- The exclusion of amounts received under an employer's adoption assistance program.

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

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

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

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

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

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

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

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

2. If you have an overall gain, the net gain portion (total gain minus total losses) is nonpassive income. On the form or schedule you normally use, report the net gain portion as nonpassive income and the remaining income and the total losses as passive income and loss. To the left of the entry space, write “From PTP.” It is important to identify the nonpassive income because the nonpassive portion is included in modified adjusted gross income for purposes of figuring on Form 8582 the “special allowance” for active participation in a non-PTP rental real estate activity. In addition, the nonpassive income is included in investment income when figuring your investment interest expense deduction on Form 4952, Investment Interest Expense Deduction.
Example. If you have Schedule E income of $8,000, and a Form 4797 prior year unallowed loss of $3,500 from the passive activities of a particular PTP, you have a $4,500 overall gain ($8,000 – $3,500). On Schedule E, Part II, report the $4,500 net gain as nonpassive income in column (k). In column (h), report the remaining Schedule E gain of $3,500 ($8,000 – $4,500). On the appropriate line of Form 4797, report the prior year unallowed loss of $3,500. Be sure to write “From PTP” to the left of each entry space.

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

Example. You have a Schedule E loss of $12,000 (current year losses plus prior year unallowed losses) and a Schedule D gain of $7,200. Report the $7,200 gain on the appropriate line of Schedule D. On Schedule E, Part II, report $7,200 of the losses as a passive loss in column (g). Carry forward to 1999 the unallowed loss of $4,800 ($12,000 – $7,200).

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

Tax tip. To allocate and keep a record of the unallowed losses, use Worksheets 4, 5, and 6 of Form 8582. List each activity of the PTP in Worksheet 4. Enter the overall loss from each activity in column (a). Complete column (b) of Worksheet 4 according to its instructions. Multiply the total unallowed loss from the PTP by each ratio in column (b) and enter the result in column (c) of Worksheet 4. Then complete Worksheet 5 if all the loss from the same activity is to be reported on one form or schedule. Use Worksheet 6 instead of Worksheet 5 if you have more than one loss to be reported on different forms or schedules for the same activity. Enter the net loss plus any prior year unallowed losses in column (a) of Worksheet 5 (or Worksheet 6 if applicable). The losses in column (c) of Worksheet 5 (column (e) of Worksheet 6) are the allowed losses to report on the forms or schedules. Report both these losses and any income from the PTP on the forms and schedules you normally use.

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

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

Specific Instructions
Publicly Traded Partnership
If the “publicly traded partnership” box is checked, you are a partner in a publicly traded partnership and must follow the rules starting on page 4 under Publicly traded partnerships.

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

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

Generally, you may use only the amounts shown next to “Qualified nonrecourse financing” and “Other” to compute your amount at risk. Do not include any amounts that are not at risk if such amounts are included in either of these categories.

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

Qualified nonrecourse financing 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 borrowed from a “qualified” person.

Qualified persons include any persons actively and regularly engaged in the business of lending money, such as a bank or savings and loan association. Qualified persons generally 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 Pub. 925 for more information on qualified nonrecourse financing.

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

See Limitations on Losses, Deductions, and Credits beginning on page 2 for more information on the at-risk limitations.

Tax Shelter Registration Number
If the partnership is a registration-required tax shelter or has invested in a registration-required tax shelter, it should have entered a tax shelter registration number in this box. If you claim or report any income, loss, deduction, or credit from a tax shelter, you must attach Form 8271, Investor Reporting of Tax Shelter Registration Number, to your tax return.

If the partnership has invested in a tax shelter, it must give you a copy of its Form 8271 with your Schedule K-1. Use the information on this Form 8271 to complete your Form 8271.

If the partnership itself is a registration-required tax shelter, use the information on Schedule K-1 (name of the partnership, partnership identifying number, and tax shelter registration number) to complete your Form 8271.

Boxes 1 Through 9
The amounts shown in boxes 1 through 9 reflect your share of income, loss, credits, deductions, or other income or activity. These amounts do not take into consideration the following limitations: 1. The adjusted basis of your partnership interest, 2. The amount for which you are at risk, or 3. The passive activity limitations.

For information on these provisions, see Limitations on Losses, Deductions, and Credits beginning on page 2.

If you are an individual, the following instructions will tell you how to report the amounts shown in the boxes. If you are not an individual, report the amounts in the boxes as instructed on your tax return.

The line numbers in these instructions are references to forms in use for calendar year 1998. If you file your tax return on a calendar year basis, but your partnership files a return for a fiscal year, enter the amounts shown in the boxes on your tax return for the year in which the partnership’s fiscal year ends. For example, if the partnership’s tax year...
ends in February 1999, report the
amounts in the boxes on your 1999 tax
return.

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

If you have amounts other than those
shown on Schedule K-1 to report on
Schedule E (Form 1040), enter each item
on a separate line of Part II of Schedule
E.

Box 1—Taxable Income (Loss)
From Passive Activities
Limited partners only. The amount
reported in box 1 is treated as being from
a trade or business that is a single
passive activity. Report this amount as
follows:
• If income is reported in box 1, report
the income on Schedule E (Form 1040), Part
II, column (h). However, if the publicly
traded partnership box is checked, report
the income following the rules for Publicly
Traded Partnerships starting on page 4.
• If a loss is reported in box 1, follow the
Instructions for Form 8582 to determine
how much of the loss can be reported on
Schedule E, Part II, column (k). However,
if the publicly traded partnership box is
checked, report the loss following the
rules for Publicly Traded Partnerships
starting on page 4.

Box 2—Taxable Income (Loss)
From Other Activities
The amount reported in box 2 is your
share of the income from other activities.
It is not subject to the passive activity
limitations. Report the amount in box 2
as follows:
• If the amount in box 2 is income, report
it on Schedule E, Part II, column (k).
• If the amount in box 2 is a loss, report
it on Schedule E, Part II, column (l).

Box 3—Net Capital Gain (Loss)
From Passive Activities
Limited partners only. The net capital
gain (loss) reported in box 3 is treated as
being from a trade or business that is a
single passive activity. If a net capital
gain is reported in box 3, report the
gain on Schedule D (Form 1040), line 12, column (f). If a loss is reported in box 3, report
the loss following the Form 8582
instructions to determine how much of the
loss can be reported on Schedule D, line 12, column (f). However, if the publicly
tradepartnership box is checked, report
the loss following the rules for Publicly
Traded Partnerships starting on page 4.
Box 4—Net Capital Gain (Loss)
From Other Activities
Net capital gain (loss) from other activities
is not subject to the passive activity
limitations. Report the gain (loss) on
Schedule D (Form 1040), line 12, column (f).

Box 5—Net Passive AMT
Adjustment
Limited partners only. Use the amount
reported in box 5 (as well as your
adjustments and tax preference items
from other sources) to prepare your Form
6251, Alternative Minimum Tax—
Individuals; Form 4626, Alternative
Minimum Tax—Corporations; or Schedule
I of Form 1041, U.S. Income Tax Return
for Estates and Trusts. The adjustment is
treated as being from a trade or business
that is a single passive activity.

Individuals should enter the amount on
line 11 of Form 6251, where it is taken
into account with adjustments and
tax preference items from other passive activities.

Box 6—Net Other AMT Adjustment
Individual general and limited partners
should enter the amount from box 6 on
line 14f of Form 6251.

Box 7—General Credits
Limited partners only. Enter the amount
from box 7 on line 10 of Form 3800,
General Business Credit. Because
general credits are treated as being from
a trade or business that is a single
passive activity, you must also include the
box 7 amount on line 3 of Form 3800.

Box 8—Low-Income Housing
Credit
Limited partners only. Enter the amount
from box 8 on line 5 of Form 8586,
Low-Income Housing Credit. This credit is
for property placed in service after 1989
and is treated as being from a single
passive activity.

Box 9—Other
Codes A Through C
General partners in an electing large
partnership must separately account for
any items attributable to passive loss
limitation activities to the extent necessary
to comply with the section 469 passive
loss rules. Therefore, the partnership is
required to report income (loss), capital
gain (loss), 28% rate gain (loss), credits,
and the alternative minimum tax
adjustment separately for all trade or
business activities, rental real estate
activities, and rental activities other than
rental real estate.

Code A1—General partner’s taxable
income (loss) from trade or business
activities. Report Code A1 income (loss)
from partnership trade or business
activities in which you materially
participated on Schedule E, Part II,
column (i) or (k). See the instructions
beginning on page 3 to determine whether
you materially participated in a trade or
business activity.

Report Code A1 income (loss) from
partnership trade or business activities in
which you did not materially participate
as follows:
1. Report income on Schedule E, Part
II, column (h). However, if the publicly
traded partnership box on Schedule K-1
is checked, report the income following the
rules for Publicly Traded Partnerships
starting on page 4.
2. Report a loss following the
Instructions for Form 8582 to determine
how much of the loss can be reported on
Schedule E, Part II, column (g). However,
if the publicly traded partnership box is
checked, report the loss following the
rules for Publicly Traded Partnerships
starting on page 4.

Code A2—General partner’s net capital
gain (loss) from trade or business
activities. If you did not materially
participate in the trade or business
activity, the net capital gain (loss) is a
passive activity amount. If the amount is
either (a) a loss that is not from a passive
activity or (b) a gain, report it on Schedule
D (Form 1040), line 12, column (f). If the
amount is a loss from a passive activity,
report it following the Instructions for
Form 8582 to determine how much of the
loss can be reported on Schedule D, line 12
column (f). However, if the publicly traded
partnership box is checked, report the
loss following the rules for Publicly
Traded Partnerships starting on page 4.

Code A3—General partner’s 28% rate
gain (loss) from trade or business
activities. If you did not materially
participate in the trade or business
activity, the 28% rate gain (loss) is a
passive activity amount. If the amount is
either (a) a loss that is not from a passive
activity or (b) a gain, report it on Schedule
D (Form 1040), line 12, column (g). However, if the publicly traded partnership box is
checked, report the loss following the rules for Publicly
Traded Partnerships starting on page 4.

Code A4—General partner’s general
credits from trade or business
activities. Report the general credits on
line 1o of Form 3800. If you did not
materially participate in the trade or
business activity, you must also include the
general credits on line 3 of Form 3800.

Code A5—General partner’s
nonconventional source fuel credit
from trade or business activities.
Report the credit for producing fuel from
a nonconventional source on line 48 of
Form 1040 or line 4c of Schedule J, Form
1120. If you did not materially participate in
the trade or business activity, the
nonconventional source fuel credit is a
passive activity credit. If the credit is from
a passive activity, complete Form 8582-CR (or Form 8810 for corporations) to determine how much of the credit is allowable. Enter the allowable amount on line 48 of Form 1040 or line 4c of Schedule J, Form 1120.

Code A6—General partner’s alternative minimum tax adjustment from trade or business activities. An AMT adjustment must be reported on line 14f of Form 6251. However, if the AMT adjustment is from a passive activity, it must be taken into account on line 11 with adjustments and preferences from other passive activities instead of being reported on line 14f.

Code B1—General partner’s taxable income (loss) from rental real estate activities. Generally, the income (loss) reported in box 9, Code B1, is a passive activity amount for all general partners. However, the income (loss) in box 9 is not from a passive activity if you were a real estate professional (defined on page 3) and you materially participated in the activity.

If you are filing a 1998 Form 1040, use the following instructions to determine where to enter the Code B1 amount:
1. If you have a loss from a passive activity in box 9, Code B1, and you meet all of the following conditions, enter the loss on Schedule E (Form 1040), Part II, column (g):
   a. You actively participated in the partnership rental real estate activities. See Active participation in a rental real estate activity on page 4.
   b. Rental real estate activities with active participation were your only passive activities.
   c. You have no prior year unallowed losses from these activities.
   d. Your total loss from the rental real estate activities was not more than $25,000 (not more than $12,500 if married filing separately and you lived apart from your spouse all year).
   e. If you are a married person filing separately, you lived apart from your spouse all year.
   f. You have no current or prior year unallowed credits from a passive activity.
   g. Your modified adjusted gross income was not more than $100,000 (not more than $50,000 if married filing separately and you lived apart from your spouse all year).
2. If you have a loss from a passive activity in box 9 and you do not meet all the conditions in 1 above, report the loss following the Instructions for Form 8582 to determine how much of the loss you can report on Schedule E (Form 1040), Part II, column (g). However, if the publicly traded partnership box is checked, report the loss following the rules for Publicly traded partnerships starting on page 4.
3. If you were a real estate professional and you materially participated in the activity, report box 9 income (loss) on Schedule E (Form 1040), Part II, column (i) or (k).
4. If you have income from a passive activity in box 9, Code B1, enter the income on Schedule E, Part II, column (h). However, if the AMT adjustment and you materially traded partnership box is checked, report the income following the rules for Publicly traded partnerships starting on page 4.

Code B2—General partner’s net capital gain (loss) from rental real estate activities. The net capital gain (loss) from a rental real estate activity is a passive activity amount unless you were a real estate professional (defined on page 3) and you materially participated in the activity. If the amount is either (a) a loss that is not from a passive activity or (b) a gain, report it on Schedule D (Form 1040), line 12, column (f). If the amount is a loss from a passive activity, report it following the Instructions for Form 8582 to determine how much of the loss can be reported on Schedule D, line 12, column (f). However, if the publicly traded partnership box is checked, report the loss following the rules for Publicly traded partnerships starting on page 4.

Code B3—General partner’s 28% rate gain (loss) from rental real estate activities. The 28% rate gain (loss) from a rental real estate activity is a passive activity amount unless you were a real estate professional (defined on page 3) and you materially participated in the activity. If the amount is either (a) a loss that is not from a passive activity or (b) a gain, report it on Schedule D (Form 1040), line 12, column (g). If the amount is a loss from a passive activity, report it following the Instructions for Form 8582 to determine how much of the loss can be reported on Schedule D, line 12, column (g). However, if the publicly traded partnership box is checked, report the loss following the rules for Publicly traded partnerships starting on page 4.

Code B4—General partner’s general credits from rental real estate activities. A general loss from rental real estate activities is a passive activity. Subtract the general credits on line 1o of Form 3800. Unless you were a real estate professional and materially participated in the rental real estate activity, you must also include the general credits on line 3 of Form 3800.

Code B5—General partner’s low-income housing credit (for property placed in service after 1989) from rental real estate activities. Report the low-income housing credit for property placed in service after 1989 on line 5 of Form 8816. Unless you were a real estate professional and materially participated in the rental real estate activity, the low-income housing credit is a passive activity credit.

Code B6—General partner’s rehabilitation credit from rental real estate activities. Report the rehabilitation credit on line 1d of Form 3468, Investment Credit. Unless you were a real estate professional and materially participated in the rental real estate activity, the credit is a passive activity credit, and you must also file Form 3800.

Code B7—General partner’s alternative minimum tax adjustment from rental real estate activities. An AMT adjustment must be reported on line 14f of Form 6251. However, if the AMT adjustment is from a passive activity, it must be taken into account on line 11 with adjustments and preferences from other passive activities instead of being reported on line 14f.

Code C1—General partner’s taxable income (loss) from other rental activities. Income (loss) reported in box 9, Code C1, is a passive activity amount for all general partners. Report a loss following the Instructions for Form 8582. Report income on Schedule E (Form 1040), Part II, column (h). However, if the box for publicly traded partnerships is checked, report the income (loss) following the rules for Publicly traded partnerships starting on page 4.

Code C2—General partner’s net capital gain (loss) from other rental activities. The net capital gain (loss) from other rental activities is a passive activity amount unless you were a real estate professional and materially participated in the activity. Subtract the general credits on line 12, column (f). If the amount is a loss from a passive activity, report it following the Instructions for Form 8582 to determine how much of the loss can be reported on Schedule D, line 12, column (f). However, if the publicly traded partnership box is checked, report the loss following the rules for Publicly traded partnerships starting on page 4.

Code C3—General partner’s 28% rate gain (loss) from other rental activities. The 28% rate gain (loss) from other rental activities is a passive activity amount for all general partners. Report the gain on Schedule D (Form 1040), line 12, column (f). Report a loss following the Instructions for Form 8582 to determine how much of the loss can be reported on Schedule D, line 12, column (f). However, if the publicly traded partnership box is checked, report the loss following the rules for Publicly traded partnerships starting on page 4.

Code C4—General partner’s general credits from other rental activities. Report the general credits on line 1o of Form 3800. Because general credits from other rental activities are passive activity credits for all general partners, you must also include the general credits on line 3 of Form 3800.

Code C5—General partner’s alternative minimum tax adjustment from other rental activities. An AMT adjustment must be reported on line 14f of Form 6251. However, if the AMT adjustment is from a passive activity, it must be taken into account on line 11 with adjustments and preferences from other passive activities instead of being reported on line 14f.
reduce certain tax attributes. File amount on Form 1040, line 8b. Increase Individual partners should report this by the partnership during the year. item of information, your share of the tax-exempt interest received or accrued by the partnership during the year. Individual partners should report this amount on Form 1040, line 8b. Increase the adjusted basis of your interest in the partnership by this amount.

Code I—Rehabilitation Credit From Rental Real Estate Activities
Limited partners only. The rehabilitation credit on line 1d of Form 3468. Because the credit is treated as being from a single passive activity, you must also file Form 3800.

Code J—Nonconventional Source Fuel Credit
Limited partners only. The nonconventional source fuel credit is treated as being from a single passive activity. Complete Form 8582-PR (or Form 8810 for corporations) to determine how much of the credit is allowable. Enter the allowable amount on line 48 of Form 1040 or line 4c of Schedule J, Form 1120.

Code K—Self-Employment
Code K1—Net earnings (loss) from self-employment. Enter this amount on Schedule SE (Form 1040), line 2, Section A or B, whichever is applicable. General partners should reduce this amount by unreimbursed partnership expenses claimed. General partners who are disqualified persons also should reduce this amount by depletion claimed on oil and gas properties. If this amount is a loss, enter only the deductible amount on Schedule SE. For purposes of self-employment tax, no income from an electing large partnership is treated as farming or fishing income.

Code K2—Gross nonfarm income. If you are an individual partner, use this amount to figure net earnings from self-employment under the nonfarm optional method on Schedule SE (Form 1040), Section B, Part II.

Codes L1 Through L6—Foreign Tax Credit Information
Use the information reported under Codes L1 through L6 to figure your foreign tax credit. For more information, see Form 1116, Foreign Tax Credit (Individual, Estate, Trust, or Nonresident Alien Individual) and related instructions: Form 1118, Foreign Tax Credit—Corporations, and related instructions; and Pub. 514, Foreign Tax Credit for Individuals.

Code L1—Type of income. Check the box for this category of income on Form 1116.

Code L2—Name of foreign country. Enter on Form 1116, Part I, item j.

Code L3—Total gross income from sources outside the United States. Enter this amount on line 1 of Form 1116. Enter “partnership income” on the dotted line to the left of the entry space for line 1.

Code L4—Total applicable deductions and losses. Enter this amount on line 2 of Form 1116.

Code L5—Total foreign taxes paid or accrued. Enter this amount in Part II of Form 1116.

Code L6—Reduction in taxes available for credit. Enter this amount on line 12 of Form 1116.

Code M—Oil and Gas Activities
Partnerships holding oil and gas properties generally follow the same simplified reporting rules as other electing large partnerships. However, they must provide the same information relating to their oil and gas activities to disqualified persons (defined on page 2) as other partnerships. That information will be provided here or on an attached schedule. A partner must notify the partnership of its status as a disqualified person.

Code N—Miscellaneous
Code N1—Other tax-exempt income. Increase the adjusted basis of your interest in the partnership by the amount shown in box 9, Code N1, but do not include it in income on your tax return.

Code N2—Nondeductible expenses. The nondeductible expenses paid or incurred by the partnership are not deductible on your tax return. Decrease the adjusted basis of your interest in the partnership by this amount.

Code N3—Unrelated business taxable income. The partnership will give you any information you need to figure unrelated business taxable income under section 512(a)(1) but excluding any modifications required by paragraphs (8) through (15) of section 512(b) for a partner that is a tax-exempt organization. Reminder: A partner is required to notify the partnership of its tax-exempt status.

Code N4—Health insurance. Any amounts paid during the tax year for insurance that constitutes medical care for you, your spouse, and your dependents. On line 28 of Form 1040, you may be allowed to deduct up to 45% of such amounts, even if you do not itemize deductions. If you do itemize deductions, enter on line 1 of Schedule A (Form 1040) any amounts not deducted on line 28 of Form 1040.

Code N5—Distributions of money (cash and marketable securities).
Box 9, Code N5, shows the distributions the partnership made to you of cash and certain marketable securities. The marketable securities are included at their fair market value on the date of distribution (minus your share of the partnership’s gain on the securities distributed to you). If the amount shown here exceeds the adjusted basis of your partnership interest immediately before the distribution, the excess is treated as gain from the sale or exchange of your partnership interest. Generally, this gain is treated as gain from the sale of a capital asset and should be reported on the Schedule D for your return. However,
the gain may be ordinary income. For details, see Pub. 541.

The partnership will separately identify both of the following:
- The fair market value of the marketable securities when distributed (minus your share of the gain on the securities distributed to you).
- The partnership’s adjusted basis of those securities immediately before the distribution.

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

Your basis in the distributed marketable securities (other than in liquidation of your interest) is the smaller of:
- The partnership’s adjusted basis in the securities immediately before the distribution increased by any gain recognized on the distribution of the securities, or
- The adjusted basis of your partnership interest reduced by any cash distributed in the same transaction and increased by any gain recognized on the distribution of the securities.

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

If, within 5 years of a distribution to you of marketable securities, you contributed appreciated property (other than those securities) to the partnership and the fair market value of those securities exceeded the adjusted basis of your partnership interest immediately before the distribution (reduced by any cash received in the distribution), you may have to recognize gain on the appreciated property. For property contributed after June 8, 1997, the 5-year period is generally extended to 7 years. See section 737 for details.

**Code N6—Distributions of property other than money.** Box 9, Code N6, shows the partnership’s adjusted basis of property other than money immediately before the property was distributed to you. In addition, the partnership will attach a statement showing the cost basis and fair market value of each property distributed. Decrease the adjusted basis of your interest in the partnership by the amount of your basis in the distributed property.

Your basis in the distributed property (other than in liquidation of your interest) is the smaller of:
- The partnership’s adjusted basis immediately before the distribution, or
- The adjusted basis of your partnership interest reduced by any cash distributed in the same transaction.

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

If you contributed appreciated property to the partnership within 5 years of a distribution of other property to you, and the fair market value of the other property exceeded the adjusted basis of your partnership interest immediately before the distribution (reduced by any cash received in the distribution), you may have to recognize gain on the appreciated property. For property contributed after June 8, 1997, the 5-year period is generally extended to 7 years. See section 737 for details.

**Code N7—Gain eligible for section 1202 exclusion.** This gain from the sale or exchange of qualified small business stock (as defined in the Instructions for Schedule D) is eligible for the 50% section 1202 exclusion. The partnership should also give you the name of the corporation that issued the stock, your share of the partnership’s adjusted basis and sales price of the stock, and the dates the stock was bought and sold. Corporate partners are not eligible for the section 1202 exclusion. The following additional limitations apply at the partner level:

1. You must have held an interest in the partnership during the entire period in which the partnership held the qualified small business stock.
2. Your distributive share of the gain eligible for section 1202 exclusion cannot exceed the amount that would have been allocated to you based on your interest in the partnership at the time the stock was acquired.

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

**Code N8—Gain eligible for section 1045 rollover—stock not replaced.** This gain is eligible for the section 1045 rollover. Replacement stock has not been purchased by the partnership. The partnership should also give you the name of the corporation that issued the stock, your share of the partnership’s adjusted basis and sales price of the stock, and the dates the stock was bought and sold. Corporate partners are not eligible for the section 1045 rollover. To qualify for the section 1045 rollover:

1. You must have held an interest in the partnership during the entire period in which the partnership held the qualified small business stock (more than 6 months prior to the sale).
2. Your distributive share of the gain eligible for the section 1045 rollover cannot exceed the amount that would have been allocated to you based on your interest in the partnership at the time the stock was acquired.
3. You must purchase other qualified small business stock (as defined in the Instructions for Schedule D (Form 1040)) during the 60-day period that began on the date the stock was sold by the partnership.

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

**Code O—Unrecaptured Section 1250 Gain**

Report this gain on line 11 of the Unrecaptured Section 1250 Gain Worksheet on page D-7 of the Instructions for Schedule D (Form 1040). Do not report the gain on line 4 as stated in the worksheet instructions.

**Other**

Any other information you may need to file your return not shown elsewhere on Schedule K-1. The partnership should give you a description and the amount of your share for each of these items.