Partner’s Instructions for Schedule K-1 (Form 1065-B) 16:25 - 18-JAN-2002

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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 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 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 that 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 person 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 and the order in which you must apply them are as follows: the basis rules, the at-risk limitations, and the passive activity limitations. Each of these limitations is discussed separately below.

Basis Rules

Generally, you 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 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.

Additional basis adjustments may apply to partners claiming deductions for depletion. See Pub. 541 for more details.

At-Risk Limitations

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

The at-risk rules generally limit the amount of loss and other deductions that you can claim to the amount you could actually lose in the activity. However, if you acquired your partnership interest before 1987, the at-risk rules 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. The partnership should identity 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). See the instructions for Partner's Share of Liabilities on page 5 for the exception for qualified nonrecourse financing secured by real property.
- Cash, property, or borrowed amounts used in the activity (or contributed to the activity, or used to acquire your interest in the activity) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).
- Amounts borrowed for use in the activity from a person who has an interest in the activity, other than as a creditor, or who is related, under section 465(b)(3), to a person (other than you) having such an interest.

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.
If the publicly traded partnership box on Schedule K-1 is checked, your return must be filed on Form 1065-B.

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 with 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 limitations.

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.
3. Trade or business activities in which the activity is a passive activity must be made by any partner who is either a:
   a. More than half of the personal services you performed in trades or businesses in which you materially participated and
   b. You performed more than 750 hours of services in real property trades or businesses in which you materially participated.

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. For details, see Special rules for certain interests in rental real estate activity in which you materially participated.

A real property trade or business is any real property trade or business activity. Examples of work done as an investor and you are not materially participating in the activity are not a material income-producing activity.

A personal service activity involves the performance of personal services in the fields of health, law, engineering, architecture, accounting, actuarial, actuarial, science, performing arts, consulting, or any other trade or business in which capital is not a material income-producing factor.

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

Material participation. You must determine if you materially participated in each trade or business activity held through the partnership and whether 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 based on your participation during the partnership’s tax year.

Material participation standards for partners who are individuals are listed below. Special rules apply to certain retired or disabled farmers and to the surviving spouses of farmers. See the Instructions for Form 1065 for details.

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

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

1. You participated in the activity for more than 500 hours during the tax year.
2. Your participation in the activity for the tax year constituted substantially all the participation in the activity of all individuals (including individuals who are not owners of interests in the activity for the tax year).
3. You participated in the activity for more than 100 hours during the tax year, and your participation in the activity for the tax year was not less than the participation in the activity of any other individual (including individuals who were not owners of interests in the activity for the tax year).
4. The activity was a significant participation activity for the tax year, and you participated in all significant participation activities (including activities outside the partnership) during the year for more than 500 hours. A significant participation activity is any trade or business activity in which you participated for more than 100 hours during the tax year and in which you did not materially participate under any of the material participation tests (other than this test 4).
5. You materially participated in the activity for any 5 tax years (whether or not consecutive) during the 10 tax years that immediately precede the tax year.
6. The activity was a personal service activity and you materially participated in the activity for any 3 tax years (whether or not consecutive) preceding the tax year.

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.

Work counted toward material participation. Generally, any work that you or your spouse do in connection with an activity held through a partnership (where you own your partnership interest) for the tax year 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 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 an activity held through the partnership or if you were a real estate professional (defined above) in a rental real estate activity of the partnership, report the income (loss), deductions, and credits from that activity as indicated in

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the instructions for the boxes in which those items were reported. If you determine that you did not materially participate in a trade or business activity of the partnership or if you have income (loss), deductions, or credits from a rental activity of the partnership (other than a rental real estate activity in which you materially participated during the tax year), the amounts from that activity are passive. Report passive income (losses), deductions, and credits as follows:

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

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

Active participation in a rental real estate activity. If you actively participated in a rental real estate activity, you may be able to deduct up to $25,000 of the loss from the activity from nonpassive income. This “special allowance” is an exception to the general rule disallowing losses in excess of income from passive activities. The special allowance is not available if you were married, filed a separate return for the year, and did not live apart from your spouse at all times during the year. Only individuals and qualifying estates can actively participate in a rental real estate activity. Estates (other than qualifying estates), trusts, and corporations cannot actively participate. You are not considered to actively participate in a rental real estate activity if at any time during the year for your interest (including your spouse’s interest) in the activity was less than 10% (by value) of all interests in the activity.

If you have an overall gain (the excess of income over deductions and losses, including any prior year unallowed loss) from a rental real estate activity, the amounts from that activity are passive. Report passive income (losses), deductions, and credits as follows:

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

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

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

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

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If you have an overall gain (the excess of income over deductions and losses, including any prior year unallowed loss) from a rental real estate activity, the amounts from that activity are passive. Report passive income (losses), deductions, and credits as follows:

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

2. If you have an overall loss (the excess of deductions and losses, including any prior year unallowed loss, over income) or credits from a passive activity, report the income, deductions, losses, and credits from the activity using the Instructions for Form 8582 or Form 8582-CR (or Form 8810), to see if your deductions, losses, and credits are limited under the passive activity rules.
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 2002 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 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.

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 losses 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 losses 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, etc., from the partnership. 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 2001. 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 2002, report the
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 figure 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.

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 figure 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.

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 preferences 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 1p 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 other 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 figure 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). 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 (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 A4—General partner’s general credits from trade or business activities. Report the general credits on line 1p 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 51 of Form 1040 or line 8c 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 figure how much of the credit is allowable. Enter the allowable amount on line 51 of Form 1040 or line 8c of Schedule J, Form 1120.

Code A6—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 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.

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 had 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).
   h. 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 figure 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.
   i. If you have a loss from a passive activity in box 9, Code B1, enter the income on Schedule E, 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.

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 figure 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 figure 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. Report the general credits on line 1p of Form 3800. However, if 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 8586. Report the low-income housing credit for property placed in service after 1989 on line 5 of Form 8586. If 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 1e 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 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 for all general partners. Report a loss following the Instructions for Form 8582. Report the gain on Schedule D (Form 1040), line 12, column (f). Report a loss following the Instructions for Form 8582 to figure 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 a gain on Schedule D (Form 1040), line 12, column (g). Report a loss following the Instructions for Form 8582 to figure 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 1p 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 other passive activities instead of being reported on line 14f.
Code D—Limited Partner’s 28% Rate Gain (Loss) From Passive Activities

Limited partners only. The 28% rate gain (loss) is treated as being from a trade or business that is a single passive activity. If a gain is reported, report it on Schedule D (Form 1040), line 12, column (g). If a loss is reported, report the loss following the Instructions for Form 8582 to figure 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 E—Limited Partner’s 28% Rate Gain (Loss) From Other Activities

The 28% 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 (g).

Code F—Guaranteed Payments

Generally, these amounts are not passive income, and you should report them on Schedule E (Form 1040), Part II, column (k) (for example, guaranteed payments for personal services).

Code G—Income From Discharge of Indebtedness

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

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

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

For a discharge of indebtedness not described above, you must include this amount in income on Schedule E, Part II, Column (h) or (k).

Code H—Tax-Exempt Interest Income

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

Code I—Limited Partner’s Rehabilitation Credit From Rental Real Estate Activities

Limited partners only. Report the rehabilitation credit on line 1e of Form 3468. Because the credit is treated as being from a single passive activity, you must also file Form 8804.

Code J—Limited Partner’s Nonconventional Source Fuel Credit

Limited partners only. The nonconventional source fuel credit is treated as being from a single passive activity. Complete Form 8582-CR (or Form 8810 for corporations) to figure how much of the credit is allowable. Enter the allowable amount on line 51 of Form 1040 or line 6c of Schedule J, Form 1120.

Codes K1 and K2—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 option method on Schedule SE (Form 1040), Section B, Part II.

Codes L1 Through L9—Foreign Tax Credit Information

Use the information reported under Codes L1 through L9 to figure your foreign tax credit. For more information, see Form 1116, Foreign Tax Credit (Individual, Estate, Trust, or Nonresident Alien Individual) and its instructions; Form 1118, Foreign Tax Credit—Corporations, and its instructions; and Pub. 514, Foreign Tax Credit for Individuals. See page 4 of the Instructions for Form 1116 for detailed instructions for reporting foreign tax information from partnerships. Note: The line references in this section of the Form 1116 instructions do not apply to the Schedule K-1 of Form 1065-B.

Code L1—Name of foreign country or U.S. possession. Include on Form 1116, Part I, item I. For each country reported, the partnership must give you the amount and a description of your share of the following items for Codes L2 through L9.

For each country or possession being reported, a separate column in Part I and a separate line in Part II is needed on Form 1116.

Code L2—Gross income from all sources. Enter this amount on line 3e of Form 1116.

Code L3—Gross income sourced at partner level. Although all this income reported has been apportioned to foreign source categories of income, you must nevertheless determine whether the income being reported is U.S. source income or foreign source income. See page 4 of the Instructions for Form 1116 for the rules to source the income reported to you. Enter only foreign source income on lines 1 and 3d of Form 1116. A separate Form 1116 or 1118 is required for each foreign source category of income. Do not include income that you determined to be U.S. source income.

Codes L4(a) Through L4(c)—Foreign gross income sourced at partnership level. The following types of income have already been sourced for you by the partnership. Include these amounts on lines 1 and 3d of the applicable Forms 1116 (i.e., the Forms 1116 for each category of income provided to you).

• Code L4(a)—Passive foreign source income.

• Code L4(b)—Listed foreign categories of income.

• Code L4(c)—General limitation foreign source income.

Code L5—Interest expense allocated and apportioned at the partner level. Enter this amount on line 2 of the applicable Form 1116. Do not include any interest expense allocated and apportioned to U.S. source income.

Code L6—Other expenses allocated and apportioned at the partner level. Enter this amount on line 2 of the applicable Form 1116. Do not include any expenses allocated and apportioned to U.S. source income.

Codes L7(a) Through Codes L7(c)—Deductions allocated and apportioned at partnership level to foreign source income. The following codes report the expenses allocated and apportioned by the partnership to foreign source categories of income. Include these amounts on line 6b of the applicable Forms 1116 (i.e., the Forms 1116 for each category of income provided to you).

• Code L7(a)—Deductions allocated and apportioned at partnership level to foreign source income.

• Code L7(b)—Deductions allocated and apportioned at partnership level to limited foreign categories of income.

• Code L7(c)—Deductions allocated and apportioned at partnership level to general limitation foreign source income.

Code L8(a)—Total foreign taxes paid. Include this amount in Part II of Form 1116.

Code L8(b)—Total foreign taxes accrued. Include this amount in Part II of Form 1116.
Code L9—Reduction in taxes available for credit. Enter this amount on line 12 of Form 1116.

Code M—Oil and Gas Activities
Generally, oil and gas income, deductions, credits, and other items are included in your distributive share of income or loss from passive loss limitation activities, general credits, and the alternative minimum tax adjustment. However, distributive shares of all oil and gas income, deductions, credits, and other items are separately reported to partners who are disqualified persons (defined on page 2) in distributions in the regular partnership rules, here or on an attached schedule.

A partner must notify the partnership of its status as a disqualified person.

Codes N1 Through N9—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 partnership 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 your 2001 Form 1040, you may be allowed to deduct up to 80% 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. 

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 when the partnership acquired the qualified small business stock and at all times thereafter until the partnership disposed of the qualified small business stock.
2. Your distributive share of the eligible section 1202 gain (determined without exceeding the amount that would have been allocated to you based on your interest in the partnership at the time the stock was acquired) is eligible for the 50% section 1202 exclusion.

Code N8—Gain eligible for section 1045 rollover stock replaced. This gain is eligible for the section 1045 rollover. Replacements stock has 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), and
2. You 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.

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 N9—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 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, and
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.

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

**Code Q—Qualified 5-year Gain**

Report the qualified 5-year gain on line 4 of the **Qualified 5-year Gain Worksheet** for Schedule D (Form 1040), line 29.

**Other**

Any other information you may need to file with 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.