Partner’s Instructions for Schedule K-1 (Form 1065-B) – 2005

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, deductions, credits, 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 can 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 (ELPs)
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 (ELP).

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, 4a, 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, 3, 4b, 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 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 public 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,
The type and rule above prints on all proofs including departmental reproduction proofs. MUST be removed before printing.

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. For example, see 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) (relating to the passive activity 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 613(d)(2) or crude oil refiner described in section 613(d)(4).
- 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.
- You are an oil or natural gas retailer described in section 613(d)(2) or crude oil refiner described in section 613(d)(4). If the publicly traded partnership (PTP) box on Schedule K-1 is checked, do not report passive income (loss) from the partnership on Form 8582-CR. See page 5 for the special rules for PTPs.

Note.
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 ELPs 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).
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.

Except for the PTP discussion on page 5, the following information applies only to general partners.

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 only if you met both of the following conditions:
   a. More than half of the personal services you performed in trades or businesses were performed in real property trades or businesses in which you materially participated 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 469(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 on making this election, see the Instructions for Schedule E (Form 1040).

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 (a) materially participated in each trade or business activity held through the partnership and (b) were a real estate professional (defined above), in each rental real estate activity held through the partnership during the partnership’s tax year.

Determinations of material participation are made based on your participation during the partnership’s tax year.

Material participation standards for partnerships 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 8810 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). 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. You participated 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 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 you and materially participated in the activity for any 3 tax years (whether or not consecutive) preceding the tax year. A personal service activity involves the performance of services primarily 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 you or your spouse do 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 limitation.

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 finances or operations of the activity in a nonmanagerial capacity.

Effect of determination. Income (loss), deductions, and credits from an activity are not passive if you determine that:

- You materially participated in a trade or business activity of the partnership.
- You were a real estate professional in a rental real estate activity of the partnership.
- 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, 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 all passive activities 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.

Special allowance for rental real estate activities. If you actively participated in a rental real estate activity, you may be entitled to deduct up to $25,000 of losses 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 qualify for a special allowance 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 tax year your interest (including your spouse’s interest) in the activity was less than 10% (by value) of all interests in the activity. Active participation is a less stringent requirement than material participation. You may be treated as actively participating if you performed, for example, in making management decisions or arranging for others to provide services (such as repairs) in a significant and bona fide sense. Management decisions that can count as active participation include approving new tenants, deciding rental terms, approving capital or repair expenditures, and other similar decisions.

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 for tax years ending 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 and who live apart all times during the year. The maximum special allowance for which an estate can qualify is $25,000 reduced by the special allowance for which the surviving spouse qualifies.

If your modified adjusted gross income (defined below) is $100,000 or less ($50,000 or less if married filing separately), your loss is deductible up to the amount of the maximum special allowance allowed to the preceding paragraph. If your modified adjusted gross income is more than $100,000 (more than $50,000 if married filing separately), the special allowance is limited to 25% of the difference between $100,000 ($75,000 if married filing separately) and your modified adjusted gross income. When modified adjusted gross income is more than $150,000 (more than $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 previously).
- 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 tuition and fees deduction.
- The deduction for one-half of self-employment taxes.
- The exclusion from income of interest from Series EE and I and U.S. Savings Bonds used to pay higher education expenses.
- The exclusion of amounts received under an employer’s adoption assistance program.

Commercial revitalization deduction. The special $25,000 allowance for the commercial revitalization deduction from rental real estate activities is not subject to the active participation rules or modified adjusted gross income limits discussed above. See Code Sec. F — Commercial Revitalization Deduction on page 10.

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 recategorization 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.
Qualified persons. The partnership must report any "self-charged" interest income or expense that resulted from loans between you and the partnership (or between the partnership and another partnership in which you have an interest). If there was more than one activity, the partnership will provide a statement allocating the interest income or expense with respect to each activity. The portion (total gain minus total losses) does not apply to your partnership interest if the partnership made an election under Regulation section 1.469-7(g) to avoid the application of these rules. See the Instructions for Form 8582 for more information.

Publicly traded partnerships (PTPs). 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, (losses), and any prior year unallowed losses to see if you have an overall gain from a PTP. Include only the same types of income and losses you would include in your net income or loss from your nonpassive activity. See Pub. 925 for more details.

2. If you have an overall gain, the net gain (including related party gains) is nonpassive income. On the form or schedule you normally use, report the net gain as nonpassive income and the remaining income and the total losses as passive income and loss. To the left of the entry space, enter “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 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 unrealized gain of $3,500, you have a total gain from the passive activities of a particular PTP, you have a $4,500 overall gain (8,000 – 3,500). On Schedule E (Form 8582), line 28, report the $4,500 net gain as nonpassive income in column (f).

In column (g), report the Schedule E gain of $3,500 (8,000 – 4,500). On the appropriate line of Form 4797, report the prior year unrealized gain of $3,500. Be sure to enter “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), your loans for use in a future year when you have income to offset it. Report it 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 (Form 1040), line 28, report the $7,200 of the losses as a passive loss in column (f). Carry forward to 2006 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.

To allocate and keep a record of the unallowed losses, use Worksheets 5, 6, and 7 of Form 8582. Last activity of the PTP, Worksheet 5. Enter the overall loss from each activity in column (a). Complete column (b) of Worksheet 5 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 5. Then, complete Worksheet 6 if all the loss from the same activity is to be reported on one form or schedule. Use Worksheet 7 instead of Worksheet 6 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 6 (or Worksheet 7 if applicable). The losses in column (c) of Worksheet 6 (column (e) of Worksheet 7) are the allowed losses to report on the forms or schedules. Report both these losses and any income from the losses 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 (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 (PTP)

If the “publicly traded partnership” box is checked, you disposed from a publicly traded partnership (PTP) and must follow the rules under Publicly traded partnerships discussed above.

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 the partner is personally liable.

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

Generally, you can 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.

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 that is treated as an at-risk activity.

Qualified persons.

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

A partnership that is a registration-required tax shelter or has invested in a tax shelter, 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.

A partnership that has invested in a tax shelter must provide you with a copy of its Form 8271 with your Schedule K-1. If the partnership itself is a registration-required tax shelter, use the information on Schedule K-1 (that is, 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, deductions, credits, 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.
3. The passive activity limitations.

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

For individuals, the following instructions explain how to report the amounts shown in the boxes. For all other entities, report the amounts in the boxes as instructed on your income tax return.

The line numbers in these instructions are references to forms in use for calendar year 2005. 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 on June 30, 2006, report the amounts in the boxes on your 2006 income 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.

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

Box 1. Taxable Income (Loss) From Passive Activities

Limited partners only. Any 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), line 28, column (g). However, if the PTP box is checked, report the income following the rules for Publicly traded partnerships on page 5.
- 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 (Form 1040), line 28, column (f). However, if the PTP box is checked, report the loss following the rules for Publicly traded partnerships.

Box 2. Taxable Income (Loss) From Other Activities

This amount is not subject to the passive activity limitations. Report the amount as follows:

- If the amount is income, report it on Schedule E (Form 1040), line 28, column (f).
- If the amount is a loss, report it on Schedule A (Form 1040), line 27.

Box 3. Qualified Dividends

Report this amount on lines 9a and 9b of Form 8949.

Note. Qualified dividends are excluded from investment income, but you can elect to include part or all of these amounts in investment income. See the instructions for line 4g of Form 4952, Investment Interest Expense Deduction, for important information on making this election.

Box 4a. Net Capital Gain or (Loss) From Passive Activities

Limited partners only. The net capital gain (loss) reported in box 4a, is treated as being from a trade or business that is a single passive activity. If a net capital gain is reported on Schedule D (Form 1040), line 12, column (f), if a loss is reported in box 4a, report it following the Form 8582 instructions to figure how much of the loss can be reported on Schedule D (Form 1040), line 12, column (f). However, if the PTP box is checked, report the loss following the rules for Publicly traded partnerships.

Box 4b. Net Capital Gain or (Loss) From Other Activities

Net capital gain or (loss) from other activities is not subject to the passive activity limitations. Report the gain or (loss) on Schedule D (Form 1040), line 12, column (f).

Box 5. Net Passive AMT Adjustment

Limited partners only. Use this amount (as well as your adjustments and tax preference items from Schedule K-1) to complete your Form 8251, Alternative Minimum Tax—Individuals; Form 8626, 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 19 of Form 8251, where it is taken into account with adjustments and preferences from other passive activities.

Box 6. Net Other AMT Adjustment

Individual partners and limited partners should enter this amount on line 15 of Form 8251.

Box 7. General Credits

Limited partners only. Enter this amount from box 2, line 11 of Form 8949, 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 this amount on line 4 of Form 8586, Low-Income Housing Credit. This credit is treated as being from a single passive activity.

Box 9. Other

Codes A Through C

General partners in an ELP 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 or (loss), capital gain or (loss), 26% rate gain or (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 (Form 1040),
line 28, column (h) or (j). See the instructions to determine whether you materially participated in a trade or business activity.

Report Code A1 income or (loss) from partnership trade or business activities in which you did not materially participate as follows:

1. Report any income on Schedule E (Form 1040), line 11, column (f).
2. Report a loss following the Instructions for Form 8582 to figure how much of the loss can be included on Schedule D (Form 1040), line 11, column (f). However, if the PTP box is checked, report the loss following the rules for Publicly traded partnerships.

Code A2. General partner’s net capital gain or (loss) from trade or business activities.

If you did not materially participate in the trade or business activity, the net capital gain or (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 figure how much of the loss can be reported on Schedule D (Form 1040), line 12, column (f). However, if the PTP box is checked, report the loss following the rules for Publicly traded partnerships.

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 or (loss) is a passive activity amount. If the amount is either:

(a) a gain that is not from a passive activity; or
(b) a gain, include it on line 4 of the 28% Rate Gain Worksheet on page D-7 of the Instructions for Schedule D (Form 1040).

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 included on Schedule D (Form 1040), line 12, column (f). However, if the PTP box is checked, report the loss following the rules for Publicly traded partnerships.

Code A4. General partner’s general credits from trade or business activities.

Report the general credits on line 1y 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 this amount on line 13 of Form 8907, Nonconventional Source Fuel Credit.

Code A6. General partner’s alternative minimum tax adjustment from trade or business activities.

Generally, an AMT adjustment must be reported on line 15 of Form 6251. However, if the AMT adjustment is from a passive activity, it must be taken into account on line 18 with adjustments and preferences of other passive activities.

Code B1. General partner’s taxable income or (loss) from rental real estate activities.

Generally, the income or (loss) reported in box 9, Code B1, is a passive activity amount for all general partners. However, the income or (loss) in box 9 is not from a passive activity if you were a real estate professional 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), line 28, column (f).
   a. You actively participated in the partnership rental real estate activities. See Special allowance for rental real estate activities 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. 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. 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 figure how much of the loss you can report on Schedule E (Form 1040), line 28, column (f). However, if the PTP box is checked, report the loss following the rules for Publicly traded partnerships.
   i. If you were a real estate professional and you materially participated in the activity, report box 9 income on line 28, column (h).
   j. If you were an active partner in a rental real estate activity and your income is from a rental real estate activity that 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 line 28, column (f).
   k. If the amount is a loss from a passive activity, report it following the rules for Form 8582 to figure how much of the loss can be reported on Schedule D (Form 1040), line 12, column (f).
   l. If the amount is a loss from a passive activity, report it following the rules for Form 8582 to figure how much of the loss can be included on line 4 of the 28% Rate Gain Worksheet on page D-7 of the Instructions for Schedule D (Form 1040).
   m. If you were a real estate professional and you 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 from rental real estate activities.

The net for all general partners. Report the general credits on Form 8582 to figure how much of the loss can be included on line 4 of the 28% Rate Gain Worksheet on page D-7 of the Instructions for Schedule D (Form 1040).

Code B6. General partner’s rehabilitation credit from rental real estate activities.

The rehabilitation credit on line 1e of Form 8968, Investment Credit. Unless you were a real estate professional and materially participated in the rental real estate activity, you must also file Form 3800.

Code B7. General partner’s alternative minimum tax adjustment from rental real estate activities.

The alternative minimum tax adjustment must be reported on line 15 of Form 6251. However, if the AMT adjustment is from a rental real estate activity, it must be taken into account on line 18 with other passive activities instead of being reported on line 15.

Code C1. General partner’s taxable income or (loss) from rental real estate activities (for the entire year).

The net capital gain or (loss) from a rental real estate activity is a passive activity amount unless you were a real estate professional 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).

The type and rule above prints on all proofs including departmental reproduction proofs. MUST be removed before printing.
Code C2. General partner’s net capital gain or (loss) from other rental activities. The net capital 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 figure how much of the loss can be reported on Schedule D (Form 1040), line 12, column (f). However, if the PTP box is checked, report the loss following the rules for Publicly traded partnerships.

Code C3. General partner’s 28% rate gain or (loss) from other rental activities. The 28% rate gain (or loss) from other rental activities is a passive activity amount for all general partners. If the amount is a gain, include it on line 4 of the 28% Rate Gain Worksheet on page D-7 of the Instructions for Schedule D (Form 1040). Report a loss following the Instructions for Form 8582 to figure how much of the loss can be included on line 4 of the 28% Rate Gain Worksheet on page D-7 of the Instructions for Schedule D (Form 1040). However, if the PTP box is checked, report the loss following the rules for Publicly traded partnerships.

Code C4. General partner’s general credits from other rental activities. Report the general credits on line 1y 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 applied on line 15 of Form 6251. However, if the AMT adjustment is from a passive activity, it must be taken into account on line 15 with adjustments and preferences from other passive activities instead of being reported on line 15.

Code D. Limited Partner’s 28% Rate Gain or (Loss) From Passive Activities

Limited partners only. The 28% rate gain (or loss) is treated as being from a trade or business that is a single passive activity. If a gain is reported, include it on line 4 of the 28% Rate Gain Worksheet on page D-7 of the Instructions for Schedule D (Form 1040).

If a loss is reported, report the loss following the Instructions for Form 8582 to figure how much of the loss can be included on line 4 of the 28% Rate Gain Worksheet on page D-7 of the Instructions for Schedule D (Form 1040). However, if the PTP box is checked, report the loss following the rules for Publicly traded partnerships.

Code E. Limited Partner’s 28% Rate Gain or (Loss) From Other Activities

The 28% gain (or loss) from other activities is not subject to the passive activity limitations. Include it on line 4 of the 28% Rate Gain Worksheet on page D-7 of the Instructions for Schedule D (Form 1040).

Code F. Guaranteed Payments
Generally, these amounts are not passive income. Report them on Schedule E (Form 1040), line 28, column (j) (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 farm 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 8901, 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 (Form 1040), line 28, column (g) or (j).

Code H. Tax-Exempt Interest Income
Report on your income tax 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 this amount on line 1e of Form 3468. Because the credit is treated as being from a single passive activity, you must also file Form 3800.

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. Report this amount on line 13 of Form 8907.

Codes K1 and K2. Self-Employment

Code K1. Net earnings or (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 ELP is treated as farming or fishing income.

Code K2. Gross nonfarm income. Indicate this income on the line that gives the amount of the tax you are to figure net earnings from self-employment under the nonfarm optional 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 (Individuals, Estates, Trusts, and Nonresident Alien Individual) and its instructions; Form 1116, Foreign Tax Credit—Corporations, and its instructions; and Pub. 514, Foreign Tax Credit for Individuals. See page 5 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 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(s) 1116. A separate Form 1116 is needed 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 (that is, the Forms 1116 for each category of income provided to you).


• 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. Include this amount on line 4b of the applicable Forms 1116.
Code L6. Other expenses allocated and apportioned at the partner level. Include this amount on line 2 of the applicable Forms 1116.

Note. For Codes L5 and L6, do not include any expenses allocated and apportioned to U.S. source income on any line of Part I of Form 1116.

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 income. Include these amounts on line 2 of the applicable Forms 1116 (that is, 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 foreign source income.
• Code L7(c). Deductions allocated and apportioned at partnership level to 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 oil 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 in accordance with the regular partnership rules, here or on an attached schedule.

Note. A partner must notify the ELP 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 this amount, but do not include it in income on your income tax return.

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

Code N3. Unrelated business taxable income. The partnership must give you any information you need to figure unrelated business taxable income under section 512(b)(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. Include any amounts paid during the tax year for insurance that constitutes medical care for you, your spouse, and your dependents. Enter this amount on line 29 of your 2005 Form 1040. You may be allowed to deduct 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 29 of Form 1040.

Code N5. Distributions of money (cash and marketable securities). This amount includes the distribution the partnership made to you of cash and certain marketable securities. The marketable securities are included at their fair market value (FMV) on the date of distribution (minus your share of the partnership’s gain on the securities distributed to you). If this amount exceeds the adjusted basis of your partnership interest increased by any gain recognized on the appreciation of the securities distributed to you, the excess is treated as gain from the sale or exchange of your partnership interest.

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 should attach a statement showing the cost basis and FMV of each property distributed. Decrease the adjusted basis of your partnership interest by the amount of your basis in the distributed property.

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 partial section 1202 exclusion. The partnership must also provide you with:

• The name of the corporation that issued the stock.
• Your share of the partnership’s adjusted basis.
• Your share of the partnership’s 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 sold the qualified small business stock.

2. Your distributive share of the eligible section 1202 gain cannot exceed the amount that would have been allocated to you based on your interest in the partnership's gain on the securities (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 five years of a distribution of other property to you, and the FMV 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 N8. 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 should attach a statement showing the cost basis and FMV of each property distributed. Decrease the adjusted basis of your partnership interest by the amount of your basis in the distributed property.

Code N9. 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 partial section 1202 exclusion. The partnership must also provide you with:

• The name of the corporation that issued the stock.
• Your share of the partnership’s adjusted basis.
• Your share of the partnership’s 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 sold the qualified small business stock.

2. Your distributive share of the eligible section 1202 gain cannot exceed the amount that would have been allocated to you based on your interest in the partnership's gain on the securities (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 five years of a distribution of other property to you, and the FMV 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 N10. Other tax-exempt income. Increase the adjusted basis of your interest in the partnership by this amount, but do not include it in income on your income tax return.

Code N11. Health insurance. Include any amounts paid during the tax year for insurance that constitutes medical care for you, your spouse, and your dependents. Enter this amount on line 29 of your 2005 Form 1040. You may be allowed to deduct 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 29 of Form 1040.

Code N12. Distributions of money (cash and marketable securities). This amount includes the distribution the partnership made to you of cash and certain marketable securities. The marketable securities are included at their fair market value (FMV) on the date of distribution (minus your share of the partnership’s gain on the securities distributed to you). If this amount exceeds the adjusted basis of your partnership interest increased by any gain recognized on the appreciation of the securities distributed to you, the excess is treated as gain from the sale or exchange of your partnership interest.

Code N13. 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 should attach a statement showing the cost basis and FMV of each property distributed. Decrease the adjusted basis of your partnership interest by the amount of your basis in the distributed property.

Code N14. 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 partial section 1202 exclusion. The partnership must also provide you with:

• The name of the corporation that issued the stock.
• Your share of the partnership’s adjusted basis.
• Your share of the partnership’s 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 sold the qualified small business stock.

2. Your distributive share of the eligible section 1202 gain cannot exceed the amount that would have been allocated to you based on your interest in the partnership’s gain on the securities (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 five years of a distribution of other property to you, and the FMV 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.
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 exclusion.

**Code N8. Gain eligible for section 1045 rollover—stock replaced.** This gain is eligible for the section 1045 rollover. Replacement stock has been purchased by the partnership. The partnership must also provide you with:

- The name of the corporation that issued the stock,
- Your share of the partnership’s adjusted basis,
- Your share of the partnership’s 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. 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.

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 must also provide you with:

- The name of the corporation that issued the stock,
- Your share of the partnership’s adjusted basis,
- Your share of the partnership’s 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. 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, 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.

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-8 of the Instructions for Schedule D (Form 1040). Do not report the gain on line 5 as stated in the worksheet instructions.

**Codes P1 and P2. Extraterritorial Income Exclusion**

a. **Partnership did not claim the exclusion.** If the partnership reports your distributive share of foreign trading gross receipts (Code P1) and the extraterritorial income exclusion (Code P2), the partnership was not entitled to claim the exclusion because it did not meet the foreign economic process requirements. You may still qualify for your distributive share of this exclusion if the partnership’s foreign trading gross receipts for the tax year were $5 million or less.

**Limited partners who qualify for the exclusion must report the extraterritorial exclusion amount (Code P2) as a deduction reducing the amount reported in box 1 (see the box 1 instructions on page 6)**

**General partners who qualify for the exclusion must report the Code P2 amount in accordance with the instructions for box 9. Code A1, B1, or C1, whichever applies. See Form 8873, Extraterritorial Income Exclusion, for more information.**

b. **Partnership claimed the exclusion.** If the partnership reports your distributive share of foreign trading gross receipts (Code P1) but not the amount of the extraterritorial income exclusion, the partnership met the foreign economic process requirements and claimed the exclusion when figuring your distributive share of partnership income. You also may need to know the amount of your distributive share of foreign trading gross receipts from this partnership to determine if you met the $5 million or less exception discussed above for purposes of qualifying for an extraterritorial income exclusion from other sources.

**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. Inversion Gain**

The partnership must provide a statement showing the amounts of each type of income or gain that is included in inversion gain. The partnership has included inversion gain in income elsewhere on Schedule K-1. Inversion gain is also reported under Code G because your taxable income and alternative minimum taxable income cannot be less than the inversion gain. Also, your inversion gain (a) is not taken into account in figuring the amount of net operating loss (NOL) for the tax year or the amount of your credits, and (c) is treated as income from sources within the U.S. for the foreign tax credit. See section 7874 for details.

**Code R. Commercial Revitalization Deduction**

Follow the instructions on Form 8582 for commercial revitalization deductions from rental real estate activities to figure how much of the deduction can be reported on Schedule E (Form 1040), line 28, column (f).

**Code S1. Domestic Production Activities Information**

The partnership must attach a statement to Schedule K-1 that provides the information you need to figure the domestic production activities deduction. Use Form 8993, Domestic Production Activities Deduction, to figure this deduction. See the instructions for Form 8993 for details.

**Code S2. Qualified Production Activities Income (QPAI)**

Report the QPAI reported to you by the partnership (in box 9 using code S2) on line 7 of Form 8993.

**Code S3. Employer’s W-2 Wages**

Report the portion of W-2 wages reported to you by the partnership (in box 9 using code S3) on line 13 of Form 8993.

**Code T. Section 409A Income**

This is compensation to partners deferred under a section 409A nonqualified deferred compensation plan that does not meet the requirements of section 409A. This amount is also reported in box 8 (Form 1040) for details. See the Instructions for Schedule D (Form 1040). Any other information you may need to figure the domestic production activities deduction. Use Form 8993, Domestic Production Activities Deduction, to figure this deduction. See the instructions for Form 8903 for details.

**Disclosure of Reportable Transactions**

The partnership will report any information you need to complete a disclosure statement for reportable transactions in which the partnership participates. If the partnership participates in a transaction that must be disclosed on Form 8886, Reportable Transaction Disclosure Statement, both you and the partnership may be required to file Form 8886 for the transaction. The IRS determination of whether you are required to disclose a transaction of the partnership is based on the category(s) under which the transaction qualifies for disclosure and is determined by the IRS. See the instructions for Form 8886 for details.

**Other**

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