Partner’s Instructions for Schedule K-1 (Form 1065)  
Partner’s Share of Income, Deductions, Credits, etc.  
(For Partner’s Use Only)

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

General Instructions

What’s New for 2007

Tax credits. The work opportunity credit and tax credit for taxes paid on employee cash tips are no longer reported on Form 3800. Report your share of the work opportunity credit on Form 5884. Report your share of the tax credit for taxes paid on employee cash tips on Form 8846.

Sale of qualified small business stock. New reporting requirements may apply if the partnership sells qualified small business stock. For details, see page 7.

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.

Although the partnership generally is not subject to income tax, 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.

Inconsistent Treatment of Items

Generally, 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. This rule does not apply if your partnership is within the “small partnership exception and does not elect to have the tax treatment of partnership items determined at the partnership level.

If the treatment on your original or amended return is inconsistent with the partnership’s treatment, or if the partnership was required to but has not filed a return, you must file Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR), with your original or amended return to identify and explain any inconsistency (or to note that a partnership return has not been filed).

If you are required to file Form 8082 but fail to do so, 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.

Errors

If you believe the partnership has made an error on your Schedule K-1, notify the partnership and ask for a corrected Schedule K-1. Do not change any items on your copy of Schedule K-1. Be sure that the partnership sends a copy of the corrected Schedule K-1 to the IRS. If you are a partner in a partnership that does not meet the small partnership exception and you report any partnership item on your return in a manner different from the way the partnership reported it, you must file Form 8082.

Sale or Exchange of Partnership Interest

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

The written notice to the partnership must include the names and addresses of both parties to the exchange, the identifying numbers of the transferor and (if known) of the transferee, and the exchange date. An exception to this rule is made for sales or exchanges of publicly traded partnership interests for which a broker is required to file Form 1099-B, Proceeds From Broker and Barter Exchange Transactions. If a partner is required to notify the partnership of a section 751(a) exchange but fails to do so, a $50 penalty may be imposed for each such failure. However, no penalty will be imposed if the partner can show that the failure was due to reasonable cause and not willful neglect.

Nominee Reporting

Any person who holds, directly or indirectly, an interest in a partnership as a nominee for another person must furnish a written statement to the partnership by the last day of the month following the end of the partnership’s tax year. This statement must include the name, address, and identifying number of the nominee and such other person, description of the partnership interest held as nominee for that person, and other information required by Temporary Regulations section 1.6031(c)-1T. A nominee 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 entity as 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, a national boycott. See Form 5713 and its instructions for more information.

Definitions

General Partner

A general partner is a partner who is personally liable for partnership debts.
Limited Partner
A limited partner is a partner in a partnership formed under a state limited partnership law, whose personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership. Some members of other entities, such as domestic or foreign business trusts or limited liability companies that are classified as partnerships, may be treated as limited partners for certain purposes. See, for example, Temporary Regulations section 1.469-5T(e)(3), which treats all members with limited liability as limited partners for purposes of section 469(h)(2).

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, certain 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 59(e) (deduction of certain qualified expenditures ratably over the period of time specified in that section). For more information, see the instructions for code I in box 13.
- Section 109(b)(5) (income from the discharge of indebtedness).
- Section 263A(d) (reproductive expenses). See the instructions for code O in box 13.
- Section 617 (deduction and recapture of certain mining exploration expenses).
- Section 901 (foreign tax credit).

If the partnership previously changed its tax year and you elected to report your share of the partnership's income or gain (including tax-exempt income) and deductions (for example, the section 179 deductions) for the prior tax year, see the instructions on the return for that tax year for amounts shown in box 13.

Additional Information
For more information on the treatment of partnership income, deductions, credits, etc., see Pub. 535, Business Expenses.

To get forms and publications, see the instructions for your tax return or visit the IRS website at www.irs.gov.

Limitations on Losses, Deductions, and Credits
There are three separate potential limitations on the amount of partnership losses that you can 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.

Other limitations may apply to specific deductions (for example, the section 179 expense deduction). Generally, specific limitations apply before the basis, at-risk, and passive loss limitations.

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. Any losses and deductions not allowed this year because of the basis limit can be carried forward indefinitely and deducted in a later year subject to the basis limit for that year. (See Pub. 541, At-Risk Limitations, for more details on the basis rules, see Pub. 541.)

The partnership is not responsible for keeping the information needed to figure the basis of your partnership interest. Although the partnership does provide an analysis of the changes to your capital account in Item L of Schedule K-1, that information is based on the partnership's books and records and cannot be used to figure your basis.

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.

Use the worksheet below to figure the basis of your interest in the partnership.

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. These losses and deductions include a loss on the disposition of assets and the section 179 expense deduction. 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.

Worksheet for Adjusting the Basis of a Partner's Interest in the Partnership

Keep for Your Records

| 1. Your adjusted basis at the end of the prior year. Do not enter less than zero. Enter -0- if this is your first tax year. | 1. | |
| 2. Money and your adjusted basis in property contributed to the partnership less the associated liabilities (but not less than zero). | 2. | |
| 3. Your increased share of or assumption of partnership liabilities (Subtract your share of liabilities shown in Item M of your 2006 Schedule K-1 from your share of liabilities shown in Item K of your 2007 Schedule K-1 and add the amount of any partnership liabilities you assumed during the tax year). | 3. | |
| 4. Your share of the partnership's income or gain (including tax-exempt income). | 4. | |
| 5. Any gain recognized this year on contributions of property. Do not include gain from transfer of liabilities. | 5. | |
| 6. Your share of the excess of the deductions for depletion (other than oil and gas depletion) over the basis of the property subject to depletion. | 6. | |
| 7. Withdrawals and distributions of money and the adjusted basis of property distributed to you. Do not include the amount of property distributions included in the partner's income (taxable income). | 7. | |
| 8. Your share of the partnership's nondeductible expenses that are not capital expenditures. | 8. | |
| 9. Your share of the partnership's losses and deductions (including capital losses). However, include your share of the partnership's section 179 expense deduction for this year even if you cannot deduct all of it because of limitations. | 9. | |
| 10. The amount of your deduction for depletion of any partnership oil and gas property, not to exceed your allocable share of the adjusted basis of that property. | 10. | |
| 11. Your adjusted basis in the partnership at the end of this tax year. (Add lines 1 through 9 and subtract line 10, if greater, less, enter -0-). | 11. | |

Caution: The deduction for your share of the partnership's losses and deductions is limited to your adjusted basis in your partnership interest. If you entered zero on line 11 and the amount figured for line 11 was less than zero, a portion of your share of the partnership losses and deductions may not be deductible. (See Basis Rules above for more information.)
partnership. The activity of holding mineral property does not qualify for this exception. The partnership should identify on an attachment to Schedule K-1 the amount of any losses that are not subject to the at-risk limitations.

Generally, you are not at risk for amounts such as the following: 
- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity, that are not secured by your own property (other than the property used in the activity). See the instructions for Item K on page 5 of Schedule K-1 for the exception for qualified nonrecourse financing secured by real property.
- Capital 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.

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.

Generally, passive activities include: 
1. Trade or business activities in which you did not materially participate and
2. Rental real estate activities in which you materially participated.

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 but you were not a real estate professional for the tax year.
3. 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).

Material participation
Material participation standards for partners are based on the activities in which the partnership engaged. As a partner or limited partner, you are not passive if you materially participated in an activity unless you meet one of the tests in paragraphs 1, 5, or 6 above.

1. You participated in the activity for any 5 tax years (whether or not consecutive) preceding the tax year.
2. Your participation in the activity for any 3 tax years (whether or not consecutive) during the 10 tax years that constituted substantially all of your participation in the activity.
3. You participated in the activity for more than 100 hours during the tax year, and your participation in the activity for the tax year was not less than the participation in the activity in any other year (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 (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 who 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 preceded the tax year.
6. The activity was a personal service activity and you materially participated in the activity for any 3 tax years (whether or not consecutive) preceding the tax year. A personal service activity involves the performance of personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other trade or business in which capital is not a material income-producing factor.
7. Based on all the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis during the tax year.

Limited partners. If you are a limited partner, you are not considered to materially participate in an activity unless you meet one of the tests in paragraphs 1, 5, or 6 above.

Work counted toward material participation. Generally, any work that you or your spouse does in connection with an activity held through a partnership (where you own your partnership interest at the time the work is done) is counted toward material participation. However, work in connection with the activity is not counted toward material participation if either of the following applies.
1. The work is not the type of work that owners of the activity would usually do and one of the principal purposes of the work that you or your spouse does is to avoid the passive loss or credit limitations.
2. You do the work in your capacity as an investor and you are not directly involved in the day-to-day operations of the activity.

Examples of work done as an investor that would not count toward material participation include:

a. Studying and reviewing financial statements or reports on operations of the activity.
b. Preparing or compiling summaries or analyses of the finances or operations of the activity.
c. Monitoring the finances or operations of the activity in a nonmanagerial capacity.
Effect of determination. Income (loss), deductions, and credits from an activity are nonpassive if you determine that:

- You materially participated in a trade or business activity of the partnership or
- You were a real estate professional (defined on page 3) in a rental real estate activity of the partnership.

If you determined 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 as a real estate professional), the amounts from that activity are passive. Report passive income (loss), 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 these instructions.

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 (including prior year unallowed losses) on Form 8582 or Form 8582-CR (or Form 8810) to see if you have deductions, losses, and credits limited under the passive activity rules.

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

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

Do not report passive income, gains, or losses from a PTP on Form 8582. Instead, use the PTP worksheet and use the appropriate line of Worksheet 7 to report the portions of your gain or loss as follows:

1. If you have a $4,500 overall gain ($8,000 gain of $3,500 from a non-PTP rental real estate activity, and a Form 4797 prior year unallowed loss of $4,500). On the face of Schedule E (Form 1040) line 28, report the $4,500 net gain as nonpassive income in column (j). In column (g), report the remaining Schedule E (Form 1040) gain of $3,500. On the appropriate line of Schedule F (Form 1040), report the prior year unallowed loss of $3,500. Be sure to enter “From PTP” to the left of each entry space.

2. If you have an overall gain (the excess of the income of the PTP or from the activity of the partnership (other than a non-PTP rental real estate activity) of $8,000, and a Form 4952. On the face of Schedule F (Form 1040) line 28, report the $7,200 of the losses in column (c) of Worksheet 6 (defined below) as nonpassive losses, if married filing separately) in column (e) of Worksheet 6 (or Worksheet 7 if applicable) as follows:

- The income (loss), entry space, enter “From PTP.” It is important to identify the nonpassive income because the nonpassive income is included in investment income when figuring your investment interest expense deduction on Form 4952.

Example. If you have Schedule E (Form 1040) income of $6,000, and a Form 4979 prior year unallowed loss of $3,500 from a non-PTP passive activity, report the $3,500 as nonpassive income in column (g) of Schedule F (Form 1040). If you have Schedule E (Form 1040) income of $10,000, and a Form 4979 prior year unallowed loss of $4,500, report the $4,500 net gain as nonpassive income in column (j). In column (g), report the remaining Schedule E (Form 1040) gain of $5,500. On the appropriate line of Schedule F (Form 1040), report the prior year unallowed loss of $3,500. Be sure to enter “From PTP” to the left of each entry space.

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

Special allowance for a rental real estate activity. If you actively participated in a rental real estate activity of the partnership or if you have income (loss), deductions, or credits from 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 married filing separately, file 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. Limited partners cannot actively participate unless future regulations provide an exception.

You are not considered to actively participate in a rental real estate activity if at any time during the tax year your investment interest expense deduction is only included in a fully taxable transaction during the year, your losses (including prior year unallowed losses) 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

Part I. Information About the Partnership

Item D
If the box in Item D is checked, you are a partner in a publicly traded partnership and must follow the rules discussed on page 4 under Publicly traded partnerships.

Part II. Information About the Partner

Item K
Item K should show your share of the partnership’s nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other recourse liabilities as of the end of the partnership’s tax year. If you have losses, 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.

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.

- Self-charged interest.
The partnership will report any “self-charged” interest income or expense that resulted from loans between you and the partnership (or between the partnership and another partnership or S corporation if both entities have the same owners with the same proportional ownership interest in each entity). If there was more than one activity, the partnership will provide a statement allocating the interest income or expense with respect to each activity.

- 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.

Part III. Partner’s Share of Current Year Income, Deductions, Credits, and Other Items

The amounts shown in boxes 1 through 20 reflect your share of income, loss, deductions, credits, etc. from partnership business or rental activities without reference to limitations on losses or adjustments that may be required of you because of:

- The adjusted basis of your partnership interest,
- The amount for which you are at risk,
- The passive activity limitations,
- Any other limitations that must be taken into account at the shareholder level in figuring taxable income (for example, the section 179 expense limitation).

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

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
Box 3. Other Net Rental Income (Loss)
The amount in box 3 is a passive activity amount for all partners. If the partnership had more than one rental activity, it will attach a statement that will identify the amount of income or loss from each activity. Report the income or loss as follows:

1. If box 3 is a loss, 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 box in item D is checked, report the loss following the rules for Publicly traded partnerships on page 4.

Box 4. Guaranteed Payments
Generally, amounts on this line are not passive income, and you should report them on Schedule E (Form 1040), line 28, column (g) for example, guaranteed payments for personal services.

Portfolio Income
Portfolio income or loss (shown in boxes 5 through 7b and in box 11, code A) is not subject to the passive activity limitations. Portfolio income includes income (not derived in the ordinary course of a trade or business) from interest, ordinary dividends, annuities, or royalties and gain or loss on the sale of property that produces such income or is held for investment.

Box 5. Interest Income
Report interest income on line 8a of Form 1040.

Box 6a. Ordinary Dividends
Report ordinary dividends on line 9a of Form 1040.

Box 6b. Qualified Dividends
Report any qualified dividends on line 9b of Form 1040.

Note. Qualified dividends are excluded from investment income, but you may 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 7. Royalties
Report royalties on Schedule E (Form 1040), Part I, line 4.

Box 8. Net Short-Term Capital Gain (Loss)
Report the net short-term capital gain (loss) on Schedule D (Form 1040), line 5, column (f).

Box 9a. Net Long-Term Capital Gain (Loss)
Report the net long-term capital gain (loss) on Schedule D (Form 1040), line 12, column (f).
Box 9b. Collectibles (28%) Gain (Loss)
Include your share of any collectibles gain or loss on line 4 of the 28% Rate Gain Worksheet in the instructions for Schedule D (Form 1040), line 18.

Box 9c. Unrecaptured Section 1250 Gain
There are three types of unrecaptured section 1250 gain: ordinary, capital, and mining exploration costs. Report this unrecaptured gain on the Unrecaptured Section 1250 Gain Worksheet in the instructions for Schedule D (Form 1040) as follows:
• Report unrecaptured section 1250 gain from the sale or exchange of the partnership's business assets on line 5.
• Report unrecaptured section 1250 gain from the sale or exchange of an interest in a partnership on line 10.
• Report unrecaptured section 1250 gain from an estate, trust, regulated investment company (RIC), or real estate investment trust (REIT) on line 11.

If the partnership reports ordinary unrecaptured section 1250 gain from the sale or exchange of its business assets, it will enter a dollar amount in box 9c. If it reports the other two types of unrecaptured gain, it will provide an attached statement that shows the amount for each type of unrecaptured section 1250 gain.

Box 10. Net Section 1231 Gain (Loss)
The amount in box 10 is generally passive if it is from a:
• Rental activity or
• Trade or business activity in which you did not materially participate.

However, an amount from a rental real estate activity is not from a passive activity if you were a real estate professional (defined on page 3) and you materially participated in the activity. The partnership will report any information you need to complete Form 4797. However, if the box Code D items may include the following: level: if item D is checked, report the loss following the rules for Publicly traded partnerships on page 4. If the partnership had net section 1231 gain (loss) from more than one activity, it will attach a statement that will identify the amount of section 1231 gain (loss) from each activity.

Box 11. Other Income (Loss)

Code A. Other portfolio income (loss).
The partnership will report portfolio income other than interest, ordinary dividend, royalty, and capital gain (loss) income. It will attach a statement to tell you what kind of portfolio income is reported.

If the partnership has a residual interest in a real estate mortgage investment conduit (REMIC), it will report on the statement your share of REMIC taxable income (net loss) that you report on Schedule E (Form 1040), line 38, column (d). The statement will also report your share of any "excess inclusion" that you report on Schedule E (Form 1040), line 38, column (c), and your share of section 212 expenses that you report on Schedule E (Form 1040), line 38, column (e). If you itemize your deductions on Schedule A (Form 1040), you may also deduct section 212 expenses as a miscellaneous deduction subject to the 2% limit on Schedule A (Form 1040), line 23.

Code B. Involuntary conversions.
This is your net gain (loss) from involuntary conversions due to casualty or theft. The partnership will give you a schedule that shows the amounts to be entered on Form 4884, Casualties and Thefts, line 34, columns b(i), b(ii), and (c).

If there was a gain (loss) from a casualty or theft to property not used in a trade or business or for income-producing purposes, the partnership will provide you with the information you need to complete Form 4884.

Code C. Section 1256 contracts & straddles.
The partnership will report any net gain or loss from section 1256 contracts. Report this amount on Form 4781, Gains and Losses From Section 1256 Contracts and Straddles.

Code D. Mining exploration costs recapture.
The partnership will give you a schedule that shows the information needed to report certain mining exploration costs (section 617). See Pub. 535 for more information.

Code E. Cancellation of debt.
Generally, this gain is included in your gross income (Form 1040, line 21). Under section 108(b)(5), you may elect to apply any portion of this cancellation of debt to the reduction of the basis of depreciable property. See Form 982 for more details.

Code F. Other income (loss).
Amounts with code F are other items of income, gain, or loss not included in boxes 1 through 10 or reported in box 11 using codes A through E. The partnership should give you a description and the amount of your share for each of these items.

Report loss items that are passive activity amounts to you following the Instructions for Form 8824. However, if the box Code D is checked, report the loss following the rules for Publicly traded partnerships on page 4.

Code F items may include the following:
• Partnership gains from the disposition of farm recapture property (see the instructions for line 27 of Form 4797) and other items to which section 1252 applies.
• Income from recoveries of tax benefit items. An item benefit item is an amount you deducted in a prior tax year that reduced your income tax. Report this amount on line 21 of Form 1040 to the extent it reduced your tax.
• Gambling gains and losses.

1. If the partnership was not engaged in the trade or business of gambling, (a) report gambling winnings on Form 1040, line 21 and (b) deduct gambling losses to the extent of winnings on Schedule A (Form 1040), line 28.

2. If the partnership was engaged in the trade or business of gambling, (a) report gambling winnings on line 28 of Schedule E (Form 1040) and (b) deduct gambling losses (to the extent of winnings) on line 28 of Schedule E (Form 1040), column (h).

• Gain (loss) from the disposition of an interest in oil, gas, geothermal, or other mineral properties. The partnership will attach a statement that provides a description of the property, your share of the amount realized from the disposition, your share of the partnership's adjusted basis in the property (for other than oil or gas properties), and your share of the total intangible drilling costs, development costs, and mining exploration costs (section 59(e) expenditures) passed through for the property. You must figure your gain or loss from the disposition by increasing your share of the adjusted basis by the amount of intangible drilling costs, development costs, or mine exploration costs for the property that you capitalized (that is, costs that you did not elect to deduct under section 59(e)). Report a loss in Part I of Form 4797. Report a gain in Part III of Form 4797 in accordance with the instructions for line 28. See Regulations section 1.1254-5 for more information.

• Any income, gain, or loss to the partnership under section 751(b) (certain distributions treated as sales or exchanges). Report this amount on Form 4797, line 10.

• Specially allocated ordinary gain (loss). Report this amount on Form 4797, line 10.

• Net short-term capital gain (loss) and net long-term capital gain (loss) from Schedule D (Form 1065) that is not portfolio income. An example is gain or loss from the disposition of nondepreciable personal property used in a trade or business activity of the partnership. Report total net short-term gain (loss) on Schedule D (Form 1040), line 5, column (f). Report the total net long-term gain (loss) on Schedule D (Form 1040), line 12, column (f).

• Gain from the sale or exchange of qualified small business (QSB) stock (as defined in the Instructions for Schedule D) that is eligible for the partial section 1202 exclusion. The partnership should also give you (a) the name of the corporation that issued the QSB stock, (b) your distributive share of the partnership's adjusted basis and sales price of the QSB stock, and (c) the dates the QSB 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 QSB stock and at all times thereafter until the partnership disposed of the QSB 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 at the time the QSB 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.
• Gain eligible for section 1045 rollover.

Replacement stock purchased by the partnership. The partnership should give you (a) the name of the corporation that issued the qualified small business (QSB) stock, (b) your share of the partnership’s adjusted basis and sales price of the QSB stock, (c) the dates the QSB stock was bought and sold, and (d) your distributive share of gain from the sale of the QSB stock, and (e) your distributive share of the gain that was deferred by the partnership under section 1045. 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 QSB 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 QSB 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.

Opting out of partnership election. You can opt out of the partnership’s section 1045 election and either (1) recognize the gain or (2) elect to purchase different replacement QSB stock, either directly or through ownership in a partnership that acquired replacement QSB stock. You satisfy the requirement to purchase replacement QSB stock if you own an interest in a partnership that purchases QSB stock during the 60-day period. You also must notify the partnership, in writing, if you opt out of the partnership’s section 1045 election. If you elect to opt out, you must notify the partnership, in writing, of the amount of the gain that you are recognizing. If the partnership provides you with information that the contribution was replacement QSB stock, either directly or through ownership of a partnership that acquired replacement QSB stock, the date the stock in Pub. 526. 2. Your distributive share of the gain that the QSB stock. The partnership will also report your partners' share of the cost of the QSB stock, and the date the stock was purchased by the partnership.

Distribution of replacement QSB stock to a partner that reduces another partner’s interest in replacement QSB stock. You must recognize gain upon a distribution of replacement QSB stock to another partner that reduces your share of the replacement QSB stock held by a partnership. The amount of gain that you must recognize is based on the amount of gain that you would recognize upon a sale of the distributed replacement QSB stock for its fair market value on the date of the distribution, but not to exceed 1040). Form 1040). The partnership should give you a Form 8283, see the Instructions for Schedule D (Form 1040). gain and the amount of the allowable stock that was purchased by the partnership.

For more information see Regulations section 1.1045-1.

Deductions

Box 12. Section 179 Deduction

Use this amount, along with the total cost of section 179 property placed in service during the year from other sources, to complete Part I of Form 4562, Depreciation and Amortization. The partnership will report on an attached statement your allowable share of the cost of any qualified enterprise zone, renewal community, New York Liberty Zone, or section 179 Gulf Opportunity Zone property it placed in service during the tax year. Report the amount from line 12 of Form 4562 allocable to a passive activity from the partnership using the Instructions for Form 8582. If the amount is not a passive activity deduction, report it on Schedule E (Form 1040), line 28, column (i).

However, if the box in item D is checked, Do not report this amount following the rules for Publicly traded partnerships on page 4.

Box 13. Other Deductions

Contributions. Codes A through F. The partnership will report on an attached statement your allowable charitable contributions. See Pub. 526, Charitable Contributions, and the instructions for Schedule A (Form 1040). If your contributions are subject to more than one of the AGI limitations, see Worksheet 2. Applying the Deduction Limits in Pub. 526.

Charitable contribution deductions are not taken into account in figuring your passive activity loss for the year. Do not enter them on Form 8582.

Code A. Cash contributions (50%). Enter this amount subject to the 50% AGI limitation on line 16 of Schedule A (Form 1040).

Code B. Cash contributions (30%). Report this amount, subject to the 30% AGI limitation, on line 16 of Schedule A (Form 1040).

Code C. Noncash contributions (50%). If property other than cash is contributed and if the claimed deduction for one item or group of similar items of property exceeds $5,000, the partnership must give you a copy of Form 8283, Noncash Charitable Contributions, to attach to your tax return. Do not deduct the amount shown on this form. It is the partnership’s contribution. Instead, deduct the amount identified by code C, box 13, subject to the 50% AGI limitation, on line 17 of Schedule A (Form 1040).

If the partnership provides you with information that you have the property other than cash and does not give you a Form 8283, see the Instructions for Form 8283 for filing requirements. Do not file Form 8283 unless the total claimed deduction for all contributed items of property exceeds $500.

Food inventory contributions. The partnership will report on an attached statement your allowable share of qualified food inventory contributions. The food inventory contribution is not included in the amount reported in box 13, subject to the 50% AGI limitation. The partnership will also report your distributive share of the partnership’s net income from the business activity that made the food inventory contribution(s). Your deduction for food inventory contributions cannot exceed 10 percent of your aggregate net income for the tax year from the business activities from which the food inventory contribution was made (including your share of net income from partnership or corporation businesses that made food inventory contributions). Report the deduction for the food inventory contribution on line 17 of Schedule A (Form 1040).

Qualified conservation contributions of property used in agriculture or
livestock production. The partnership will report on an attached statement your distributive share of qualified conservation contributions of property used in agriculture or livestock production. This contribution is not included in the amount reported in box 13 using code C. If you are a farmer or rancher, you qualify for a 100% AGI limitation for this contribution. Otherwise, your deduction for this contribution is subject to a 50% AGI limitation. Report this deduction on line 17 of Schedule A (Form 1040). See Pub. 526 for more information on qualified conservation contributions.

Code F. Capital gain property (20%). Report this amount, subject to the 30% AGI limitation, on line 17 of Schedule A (Form 1040). See Special 30% Limit for Capital Gain Property in Pub. 526.

Code G. Investment interest expense. Enter the total amount on Form 4952, line 1. If the partnership has investment income or other investment expense, it will report your share of the items in box 20 using codes A and B. Include investment income and expenses from other sources to figure how much of your total investment interest is deductible. You will also need this information to figure your investment interest expense deduction.

If the partnership paid or accrued interest on debts properly allocable to investment property, the amount of interest you are allowed to deduct may be limited.

For more information on the special provisions that apply to investment interest expense, see Form 4952 and Pub. 550.

Code H. Deductions—royalty income. Enter deductions allocable to royalties on Schedule E (Form 1040), line 18. For this type of expense, enter “From Schedule K-1 (Form 1065).” These deductions are not taken into account in figuring your passive activity loss for the current year. Do not enter them on Form 8582.

Code I. Section 59(e)(2) expenditures. On an attached statement, the partnership will show the type and the amount of qualified expenditures for which you may make a section 59(e) election. The statement will also identify the property for which the expenditures were paid or incurred. If there is more than one type of expenditure, the amount of each type will also be listed.

If you deduct these expenditures in full in the current year, they are treated as adjustments or tax preference items for purposes of alternative minimum tax.

However, you may elect to amortize these expenditures over the number of years in the applicable period rather than deduct the full amount in the current year. If you make this election, these items are not treated as adjustments or tax preference items. Under this election, you may deduct circulation expenditures ratably over a 3-year period. Research and experimental expenditures and mining exploration and development costs may be amortized over a 10-year period. Intangible drilling and development costs may be amortized over a 60-month period. The amortization period begins with the month in which such costs were paid or incurred.

Make the election on Form 4562. If you make the election, report the current year amortization of section 59(e) expenditures from Part VI of Form 4562 on line 28 of Schedule A (Form 1040). If you do not make the election, report the section 59(e)(2) expenditures on line 28 of Schedule E (Form 1040) and figure the result using adjustment or tax preference item (see Form 2621, Alternative Minimum Tax—Individuals). Whether you deduct the expenditures or elect to amortize them, report the amount on a separate line in column (h) of line 28 if you materially participated in the partnership activity. If you did not materially participate, follow the Instructions for Form 8582 to figure how much of the deduction can be reported in column (f).

Code J. Deductions—portfolio (2%). Enter the amount entered with code J are deductions that are clearly and directly allocable to portfolio income (other than investment interest expense and section 212 expenses from a REMIC). Generally, you should enter these amounts on Schedule A (Form 1040), line 23. See the instructions for Schedule A (Form 1040), lines 23 and 28, for more information.

These deductions are not taken into account in figuring your passive activity loss for the year. Do not enter them on Form 8582.

Code K. Deductions—portfolio (other). Generally, you should enter these amounts on Schedule A (Form 1040), line 23. See the instructions for Schedule A, lines 23 and 28, for more information. These deductions are not taken into account in figuring your passive activity loss for the year. Do not enter them on Form 8582.

Code L. Amounts paid for medical insurance. Any amounts paid during the tax year for insurance that constitutes medical care for you, your spouse, and your dependents. On line 28 of Form 1040, you may be allowed to deduct 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 M. Educational assistance benefits. Deduct your educational assistance benefits on a separate line of Schedule E (Form 1040), line 28, up to the $5,250 limitation. If your benefits exceed $5,250, you may be able to use the excess amount on Form 8863 to figure the education credits.

Code N. Dependent care benefits. The partnership will report the dependent care benefits you received. You must use Form 2441, line 14, to figure the amount, if any, of the benefits you may exclude from your income.

Code O. Preproductive period expenses. You may be eligible to elect to deduct these expenses currently or capitalize them under section 263A. See Pub. 225, Farmer’s Tax Guide, and Regulations section 1.263A-4.

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

Code Q. Pensions and IRAs. Payments made on your behalf to an IRA, qualified plan, simplified employee pension (SEP), or a SIMPLE IRA plan. See Form 1040 instructions for line 32 to figure your IRA deduction. Enter payments made to a qualified plan, SEP, or SIMPLE IRA plan on Form 1040, line 28. If the payments to a qualified plan were to a defined benefit plan, the partnership should give you a statement showing the amount of the benefit accorded for the current tax year.

Code R. Reforestation expense deduction. The partnership will provide a statement that describes the qualified timber property for these reforestation expenses. Generally, the expense deduction is limited to $10,000 (or separately) for each qualified timber property, including your distributive share of the partnership’s expense. Amounts of reforestation expenses you separately paid or incurred during the tax year.

However, the limitation for the reforestation expense deduction is increased for qualified timber property located in the Gulf Opportunity Zones (GO Zones) for hurricanes Katrina, Rita, and Wilma. The $10,000 limitation for each property is increased by the lesser of (a) $10,000 or (b) the amount of qualified reforestation expenses paid or incurred by the partnership during the 6-year period beginning with the month in which such costs were paid or incurred.

Amounts entered with code J are deductible. You will also need this information to figure your investment interest expense deduction. The $10,000 limitation for this contribution. Otherwise, begins with the month in which such costs were paid or incurred. The partnership will provide a statement that describes the qualified timber property located in the Gulf Opportunity Zones (GO Zones) for hurricanes Katrina, Rita, and Wilma. The $10,000 limitation for each property is increased by the lesser of (a) $10,000 or (b) the amount of qualified reforestation expenses paid or incurred by the partnership during the 6-year period beginning with the month in which such costs were paid or incurred. The $10,000 limitation for this contribution. Otherwise, begins with the month in which such costs were paid or incurred. The partnership will provide a statement that describes the qualified timber property located in the Gulf Opportunity Zones (GO Zones) for hurricanes Katrina, Rita, and Wilma. The $10,000 limitation for each property is increased by the lesser of (a) $10,000 or (b) the amount of qualified reforestation expenses paid or incurred by the partnership during the 6-year period beginning with the month in which such costs were paid or incurred. The $10,000 limitation for this contribution. Otherwise, begins with the month in which such costs were paid or incurred.

The partnership will provide a statement that describes the qualified timber property located in the Gulf Opportunity Zones (GO Zones) for hurricanes Katrina, Rita, and Wilma. The $10,000 limitation for each property is increased by the lesser of (a) $10,000 or (b) the amount of qualified reforestation expenses paid or incurred by the partnership during the 6-year period beginning with the month in which such costs were paid or incurred. The $10,000 limitation for this contribution. Otherwise, begins with the month in which such costs were paid or incurred.

The partnership will provide a statement that describes the qualified timber property located in the Gulf Opportunity Zones (GO Zones) for hurricanes Katrina, Rita, and Wilma. The $10,000 limitation for each property is increased by the lesser of (a) $10,000 or (b) the amount of qualified reforestation expenses paid or incurred by the partnership during the 6-year period beginning with the month in which such costs were paid or incurred. The $10,000 limitation for this contribution. Otherwise, begins with the month in which such costs were paid or incurred.

The partnership will provide a statement that describes the qualified timber property located in the Gulf Opportunity Zones (GO Zones) for hurricanes Katrina, Rita, and Wilma. The $10,000 limitation for each property is increased by the lesser of (a) $10,000 or (b) the amount of qualified reforestation expenses paid or incurred by the partnership during the 6-year period beginning with the month in which such costs were paid or incurred. The $10,000 limitation for this contribution. Otherwise, begins with the month in which such costs were paid or incurred.

The partnership will provide a statement that describes the qualified timber property located in the Gulf Opportunity Zones (GO Zones) for hurricanes Katrina, Rita, and Wilma. The $10,000 limitation for each property is increased by the lesser of (a) $10,000 or (b) the amount of qualified reforestation expenses paid or incurred by the partnership during the 6-year period beginning with the month in which such costs were paid or incurred. The $10,000 limitation for this contribution. Otherwise, begins with the month in which such costs were paid or incurred.
The partnership will give you a description and the amount of your share for each of these items.

**Box 14. Self-Employment Earnings (Loss)**

If you and your spouse are both partners, each of you must complete and file your own Schedule SE (Form 1040), Self-Employment Tax, to report your partnership net earnings (loss) from self-employment.

**Code A. Net earnings (loss) from self-employment.** If you are a general partner, reduce this amount before entering it on Schedule SE (Form 1040) by any section 179 expense deduction claimed, unreimbursed partnership expenses claimed, and depletion claimed on oil and gas properties. Do not reduce net earnings from self-employment by any separately stated deduction for health insurance expenses.

If the amount on this line is a loss, enter only the deductible amount on Schedule SE (Form 1040). See Schedule L on page 3 for a definition of material participation. If the proceeds were used in an investment activity, enter the interest on Schedule E (Form 4952). If you materially participated in the activity, report the interest on line 28 of Schedule E (Form 1040). On a separate form, enter “Interest expense” and the name of the partnership in column (a) and the amount in column (h).

**Code B. Gross farming or fishing income.** If you are an individual partner, enter the amount from this line, as an item of information, on Schedule E (Form 1040), line 42. Also use this amount to figure net earnings from self-employment under the farm optional method on Schedule E (Form 1040), Section B, Part II.

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

**Box 15. Credits**

If you have credits that are passive activity credits to you, you must complete Form 8582-CR (or Form 8610 for corporations) in addition to the credit forms identified below. See Passive Activity Limitations on page 3 and the Instructions for Form 8582-CR (or Form 8810) for more information.

In general, partners whose only source for credits listed on Form 3800 are pass-through entities are not required to complete the source credit form or attach it to Form 3800. However, there are two exceptions. When applicable, all partners must complete and attach the following credit forms to Form 3800:

- Form 3468, Investment Credit (line 1a of Form 3800)
- Form 8664, Biodiesel and Renewable Diesel Fuels Credit (line 1m of Form 3800)
- Codes A and B. Low-income housing credit. The partnership will report your share of the low-income housing credit using code A if section 42(j)(5) applies. If section 42(j)(5) does not apply, your share of the credit will be reported using code B. Any allowable low-income housing credit (reported as code A or code B) is entered on line 4 of Form 8586, Low-Income Housing Credit, or line 1d of Form 3800 (see TIP above).

Keep a separate record of the amount of low-income housing credit from each of these sources so that you can correctly figure any recapture of low-income housing credit that may result from the disposition of all or part of your partnership interest. For more information on recapture, see the instructions for Form 8582-CR and Form 8586 on the calculation of Low-Income Housing Credit.

**Code C. Qualified rehabilitation expenditures (rental real estate).** The partnership will report your share of the qualified rehabilitation expenditures and other information you need to complete Form 3468 related to rental real estate activities using code C. Your share of qualified rehabilitation expenditures from property not related to rental real estate activities will be reported in box 20 using code D. See Form 3468 for details. If the partnership reported qualified rehabilitation expenditures from more than one activity, the attached statement will separately identify the amount of expenditures from each activity.

Combine the expenditures (for Form 3468 reporting) from box 15, code C and box 20, code D. The expenditures related to rental real estate activities (box 15, code C) are reported on Schedule K-1 separately from other qualified rehabilitation expenditures (box 20, code D) because they are subject to different passive activity limitation rules. See the instructions for Form 8582-CR for details.

**Code D. Other rental real estate credits.** The partnership will identify the type of credit and any information you need to figure these credits from rental real estate activities (other than the low-income housing credit and qualified rehabilitation expenditures). These credits may be limited by the passive activity limitations. If the credits are from more than one activity, the partnership will identify the amount of credits from each activity on an attached statement. See Passive Activity Limitations on page 3 and Form 8582-CR for details.

**Code E. Other rental credits.** The partnership will identify the type of credit and any other information you need to figure these rental credits. These credits may be limited by the passive activity limitations. If the credits are from more than one activity, the partnership will identify the amount of credits from each activity on an attached statement. See Passive Activity Limitations on page 3 and Form 8582-CR for details.

**Code F. Undistributed capital gains credit.** Code F represents taxes paid on undistributed capital gains by a regulated investment company or real estate investment trust. Form 1040 filers enter your share of these taxes on line 70 of Form 1040, check box "x" for Form 2439, and enter the words "Form 1065."
report this amount on line 5 of Form 6478, Credit for Alcohol Used as Fuel. If a statement is attached, see the instructions for Form 6478, line 5.

Code H. Work opportunity credit. Report this amount on line 3 of Form 5884, Work Opportunity Credit.

Code I. Welfare-to-work credit. Report this amount on line 3 of Form 8861; Welfare-to-Work Credit; or line 1b of Form 3800 (see TIP above).

Code J. Disabled access credit. Report this amount on line 7 of Form 8826; Disabled Access Credit, or line 1e of Form 3800 (see TIP above).

Code K. Empowerment zone and renewal community employment credit. Report this amount on line 3 of Form 8844, Empowerment Zone and Renewal Community Employment Credit.

Code L. Credit for increasing research activities. Report this amount on line 60 of Form 4797, Partnership for Increasing Research Activities, or line 1c of Form 3800 (see TIP above).

Code M. New markets credit. Report this amount on line 2 of Form 8874, New Markets Credit, or line 1l of Form 3800 (see TIP above).

Code N. Credit for employer social security and Medicare taxes. Report this amount on line 5 of Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips.

Code O. Backup withholding. Credit for backup withholding on dividends, interest income, and other types of income. Include the amount the partnership reports to you in the total you enter on Form 1040, line 64.

Code P. Other credits. On an attachment to Schedule K-1, the partnership will identify the type of credit and any other information you need to figure credits other than those reported with codes A through O. Most credits identified by code P will be reported on Form 3800 (see TIP above).

Credits that may be reported with code P include the following:

- Nonconventional source fuel credit (Form 8907).
- Qualified railroad track maintenance credit (Form 8900).
- Unused investment credit from cooperatives (Form 3468, line 5).
- Nuclear, geology, refined coal, and Indian coal production credit. The partnership will provide a statement showing separately the amount of credit from section A and section B of Form 8835.
- Indian coal production credit (Form 8845).
- Orphan drug credit (Form 8820).
- Credit for contributions to selected community development corporations (Form 8847).
- Credit for small employer pension plan startup costs (Form 8881).
- Credit for employer-provided child care facilities and services (Form 8882).
- Biodiesel and renewable diesel fuels credit. If this credit includes the small agri-biodiesel producer credit, the partnership will provide additional information on an attached statement. If no statement is attached, report this amount on line 9 of Form 8864. If a statement is attached, see the instructions for Form 8864, line 9.
- Low sulfur diesel fuel production credit (Form 8896).
- General credits from an electing large partnership. Report these credits on Form 3800, line 1x.
- Distilled spirits credit (Form 8896).
- Energy efficient home credit (Form 8908).
- Energy efficient appliance credit (Form 8909).
- Alternative motor vehicle credit (Form 8910).
- Alternative fuel vehicle refueling property credit (Form 8911).
- Clean renewable energy bond credit. Report this amount on Form 8921.
- Gulf tax credit bond credit. Report this amount on Form 8912.
- Mine rescue team training credit (Form 8923).

Box 16. Foreign Transactions

Codes A through N. Use the information reported as codes A through N, code Q, and attached schedules to figure your foreign tax credit. For more information, see Form 1116, Foreign Tax Credit, and its instructions; Form 1118, Foreign Tax Credit—Corporations, and its instructions; and Pub. 514, Foreign Tax Credit for Individuals.

Codes O and P. Extraterritorial income exclusion.

1. Partnership did not claim the exclusion. If the partnership reports your distributive share of foreign trading gross receipts (code O) and the extraterritorial income exclusion (code P), 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. To qualify for this exclusion, report the exclusion amount in accordance with the instructions for Income (Loss) on page 6 for box 1, 2, or 3, whichever applies. See Form 8873, Extraterritorial Income Exclusion, for more information.

2. Partnership claimed the exclusion. If the partnership reports your distributive share of foreign trading gross receipts 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 its partnership’s Form 8873 if there is a reduction for international boycott operations, illegal bribes, kickbacks, etc.

Code Q. Other foreign transactions. On an attachment to Schedule K-1, the partnership will report any other information on foreign transactions that you may need using code Q.

Box 17. Alternative Minimum Tax (AMT) Items

Use the information reported in box 17 as (with as your adjustments and tax preference items from other sources) to prepare your Form 6251, Alternative Minimum Tax—Individuals; Form 4662, Alternative Minimum Tax—Corporations; or Schedule I of Form 1041, U.S. Income Tax Return for Estates and Trusts.

Note. A partner that is a corporation subject to alternative minimum tax must report the partnership as a basis for purposes of the alternative minimum tax.

Code A. This amount is your share of the partnership’s post-1986 depreciation adjustment. If you are an individual partner, report this amount on line 17 of Form 6251.

Code B. This amount is your share of the partnership’s adjusted gain or loss. If you are an individual partner, report this amount on line 16 of Form 6251.

Code C. This amount is your share of the partnership’s depletion adjustment. If you are an individual partner, report this amount on line 9 of Form 6251.

Codes D and E. Oil, gas, and geothermal properties—gross income and deductions. The amounts reported on these lines include only the gross income (code D) from, and deductions (code E) allocable to, oil, gas, and geothermal properties that are included in boxes 2 through 13, 18, and 20 of Schedule K-1. The partnership should have attached a schedule that shows any income from or deductions allocable to such properties that are included in boxes 2 through 13, 18, and 20 of Schedule K-1. Use the amounts reported and the amounts on the attached schedule to help you figure the net amount to enter on line 25 of Form 6251.

Codes F and G. AMT items. Enter the information on the statement attached by the partnership on the applicable lines of Form 6251; Form 4662, or Schedule I of Form 1041.

Box 18. Tax-Exempt Income and Nondeductible Expenses

Code A. 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 B. Other tax-exempt income. Increase the adjusted basis of your interest in the partnership by the amount shown, but do not include it in income on your tax return.

Code C. Nondeductible expenses. The nondeductible expenses paid or incurred by

Partner’s Instructions for Schedule K-1 (Form 1065) -11-
Box 19. Distributions

Code A. Cash and marketable securities. Code A shows the distributions the partnership made with cash and certain marketable securities. The marketable securities are included at their fair market value. The FMV of cash and any marketable securities (minus your share of the partnership’s gain on the securities distributed to you). If the amount shown as code A 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, if you receive cash or property in exchange for any part of a partnership interest, the amount of the distribution attributable to your share of the partnership’s unrealized receivable or inventory items results in ordinary income (see Regulations section 1.751-1(a) and Sale or Exchange of Partnership Interest on page 1). For details, see Pub. 541.

The partnership will separately identify both of the following:

- The FMV of the marketable securities when distributed (minus your share of the gain on the securities distributed to you).
- The partnership’s adjusted basis of those securities immediately before the distribution.

Decrease the adjusted basis of your interest in the partnership (but not below zero) by the amount of cash distributed to you and the partnership’s adjusted basis of the distributed securities.

Advances or drawings of money or property against your distribution increased by any gain recognized on the distribution of the securities.

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

If, within 7 years of a distribution to you of marketable securities, you contributed appreciated property (other than those securities) to the partnership and the FMV of those securities exceeded the adjusted basis of your partnership interest immediately before the distribution (reduced by any cash received in the distribution), you may have to recognize gain on the appreciated property. See section 737 for details.

Code B. Other property. Code B shows the partnership’s adjusted basis of property other than money immediately before the property was distributed to you. In addition, the partnership should report the adjusted basis and FMV of each property distributed. Decrease the adjusted basis of your interest in the partnership by the amount of your basis in the distributed property. Your basis in the distributed property (other than in liquidation of your interest) is the smaller of:

- The partnership’s adjusted basis immediately before the distribution or
- The adjusted basis of your partnership interest reduced by any cash distributed in the same transaction.

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

If you contributed appreciated property to the partnership within 7 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. See section 737 for details.

If you receive cash or property in exchange for any part of a partnership interest, the amount of the distribution attributable to your share of the partnership’s unrealized receivable or inventory items results in ordinary income (see Regulations section 1.751-1(a) and Sale or Exchange of Partnership Interest on page 1).

Box 20. Other Information

Code A. Investment income. Report this amount on line 4a of Form 4952.

Code B. Investment expenses. Report this amount on line 5 of Form 4952.

Code C. Fuel tax credit information. The partnership will report the number of gallons of each fuel sold or used during the tax year for a nontaxable use qualifying for the credit decreased by any cash distributed to you. Use this information to complete Form 4136, Credit for Federal Tax Paid on Fuels.

Code D. Qualified rehabilitation expenditures (other than rental real estate). The partnership will report your share of the qualified rehabilitation expenditures and other information you need to complete Form 3468 for property not related to rental real estate activities in box 20 using code C. Your share of qualified rehabilitation expenditures related to rental real estate activities is reported in box 15 using code C. See Form 3468 for details. If the partnership is reporting expenditures from more than one activity, the attached statement will separately identify the amount of expenditures from each activity.

Combine the expenditures (for Form 3468 reporting) from box 15, code C and box 20, code D. The expenditures related to rental real estate activities (box 15, code C) are reported on Schedule K-1 separately from other qualified rehabilitation expenditures (box 20, code D) because they are subject to different passive activity limitation rules. See the Instructions for Form 8582-CR for details.

Code E. Basis of energy property. If the partnership provides an attached statement for code E, report the information shown on the attached statement on Form 3468, lines 2c-2d, as applicable.

Codes F and G. Recapture of low-income housing credit. A section 42(j)(5) partnership will report recapture of a low-income housing credit with code F. All other partnerships will report recapture of a low-income housing credit with code G. Keep a separate record of recapture from each of these sources so that you will be able to correctly figure any recapture of low-income housing credit that may result from the disposition of all or part of your partnership interest. For more information, see Form 8611.

Code H. Recapture of investment credit. A partnership will provide any information you need to complete Form 4255, Recapture of Investment Credit. See the Form 3468 on which you took the property credit for other information you need to complete Form 4255.

You may also need Form 4255 if you disposed of more than one-third of your interest in a partnership.

Code I. Recapture of other credits. On an attachment to Schedule K-1, the partnership will report any information you need to figure the recapture of the new markets credit; qualified electric vehicle credit (see Form 8834); Indian employment credit (see section 45A(d)); any credit for employer-provided childcare facilities and services; alternative motor vehicle credit (see section 30B(h)(1)); or alternative fuel vehicle refueling property credit (see section 30C(c)(4)).

Code J. Look-back interest—completed long-term contracts. The partnership will report any information you need to figure the interest due or to be reported under the look-back method of section 460(b)(2) on certain long-term contracts. Use Form 8897, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to report any such interest.

Code K. Look-back interest—income forecast method. The partnership will report any information you need to figure the interest due or to be reported under the look-back method of section 167(g)(2) for certain property placed in service after September 13, 1995, and depreciated under the income forecast method. Use Form 8866, Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method, to report any such interest.

Code L. Dispositions of property with section 179 deductions. The partnership will report your distributive share of gain or loss on the sale, exchange, or other disposition of property for which a section 179 expense deduction was passed through to partners with code L. If the partnership passed through a section 179 expense deduction to its partners for the property,
you must report the gain or loss and any recapture of the section 179 expense deduction from Form 1040, line 63. Enter the amount of the interest basis in qualified investment inthrough for the property and the" CCf". integrated gasification combined cyclepartnership’s tax year(s) in which the

179 expense deduction (if any) passed through for the property and the partnership’s tax year(s) in which the amount was passed through. To figure the amount of depreciation allowed or allowable for the 1251 property, subtract the total from item 6 above the amount of your distributive share of the section 179 expense deduction. If the disposition is due to a casualty or theft, a statement providing the information you need to complete Form 4684.

4. The partnership will report each 4. Basis in qualifying gasificationbasis of each partnership oil or gas property for which you are required to capitalize participates. If the partnership participates in a partnership has changed. The partnership will report 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 will report:transactions, your tax ... on Form 1040, line 63. Enter "1260(b)" and the amount of section 179 expense you are an individual, report the interest on Form 1040, line 63. Enter "1260(b)" and the amount of the interest on the dotted line to the left of line 63. See the instructions for Form 6252 for more information. Also see section 453A(c) for details on making the computation.

5. Your distributive share of the partnership’s liabilities is amortizable basis of reforestation section 409A. See section 409A(a)(1)(B) to carryover of the deduction for this property. This amount may be different than the amount of section 179 expense you deducted for the property if your interest in the partnership has changed.

1. If the disposition is due to a casualty or theft, a statement providing the information you need to complete Form 4684.

2. The partnership will report any information you need to complete the partnership’s tax year(s) in which the partnership has changed. The partnership will report 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 will report:transactions, your tax ... on Form 1040, line 63. To the left of line 63, enter the amount of tax and interest and "CCf".

3. Your distributive share of the profit or loss of the partnership is limited to $10,000 ($5,000 if married filing separately), including your share of the partnership’s liabilities. A partner is required to notify the partnership of its tax-exempt status. The partnership will notify you if the partnership has changed. The partnership will report:transactions, your tax ... on Form 1040, line 63. Enter "1260(b)" and the amount of section 179 expense you are an individual, report the interest on Form 1040, line 63. Enter "1260(b)" and the amount of the interest on the dotted line to the left of line 63. See the instructions for Form 6252 for more information. Also see section 453A(c) for details on making the computation.

4. Your distributive share of the partnership’s liabilities is amortizable basis of reforestation section 409A. See section 409A(a)(1)(B) to carryover of the deduction for this property. This amount may be different than the amount of section 179 expense you deducted for the property if your interest in the partnership has changed.

6252, Installment Sale Income. The partnership also must separately report your share of all payments received for the property in the following tax years. See the instructions for Form 6252 for details.

Code M. Recapture of section 179 deduction. The partnership will report your distributive share of the recapture of section 179 expense deduction if business use of any property for which the section 179 expense deduction was passed through to partners dropped to 50 percent or less. If business use of the property dropped to 50 percent or less, the partnership must provide all the following information.

1. Your distributive share of the depreciation allowed or allowable (not including the section 179 expense deduction).

2. Your distributive share of the section 179 expense deduction (if any) passed through for the property and the partnership’s tax year(s) in which the amount was passed through. Reduce this amount by the portion, if any, of your unused (carryover) section 179 expense deduction for this property.

Code N. Interest expense for corporate partners. The partnership will report each corporate partner’s distributive share of the partnership’s interest expense. This amount is reported elsewhere on Schedule K-1 and the total is reported here for information only. Your distributive share of interest income is reported in box 5 and your share of the partnership’s liabilities is reported in Item K, Part II. A corporate partner’s distributive share of interest income, interest expense, and partnership liabilities are treated as income, expense, and liabilities of the corporation for purposes of the limitation on the deduction for interest under section 163(j).

1. Description of the property.

2. Date the property was acquired and placed in service.

3. Date of the sale or other disposition of the property.

4. Your distributive share of the gross sales price or amount realized.

5. Your distributive share of the cost or other basis plus the expense of the sale.

6. Your distributive share of the depreciation allowed or allowable.

7. Your distributive share of the section 179 expense deduction (if any) passed through for the property and the partnership’s tax year(s) in which the amount was passed through. To figure the amount of depreciation allowed or allowable for the 1251 property, subtract the total from item 6 above the amount of your distributive share of the section 179 expense deduction. If the disposition is due to a casualty or theft, a statement providing the information you need to complete Form 4684.

8. The partnership will report any information you need to figure the interest due under section 1260(b). If the partnership had gain from certain constructive ownership transactions, your tax liability must be increased by the interest charge on any deferred gain recognition under section 1260(b). Report the interest on Form 1040, line 63. Enter "1260(b)" and the amount of the interest on the dotted line to the left of line 63. See the instructions for Form 6252 for more information. Also see section 453A(c) for details on making the computation.

9. If the sale was an installment sale made during the partnership’s tax year, any information you need relating to interest due under section 453(l)(3) is reported elsewhere on Schedule K-1 and 5. Interest and additional tax on reforestation activity, report the deduction on line 28, column (h), of Schedule E (Form 1040).

1.263A-8 through 1.263A-15 for more information.

Code S. CCF nonqualified withdrawals. The partnership will report your share of nonqualified withdrawals by the partnership from a capital construction fund (CCF). These withdrawals are taxed separately from your other gross income at the highest marginal ordinary income or capital gains tax rate. Attach a statement to your federal income tax return to show your computation of both the tax and interest for a nonqualified withdrawal. Include the tax and interest on Form 1040, line 63. To the left of line 63, enter the amount of tax and interest and "CCf".

Code T. Information needed to figure depletion—oil and gas. This is your share of gross income from the property, share of production for the tax year, etc., needed to figure your depletion deduction for oil and gas wells. The partnership should also allocate to you a share of the adjusted basis of each partnership oil or gas property. See Pub. 535 for how to figure your depletion deduction.

Code U. Amortization of reforestation costs. The partnership will provide a statement identifying your share of the amortizable basis of reforestation expenditures paid or incurred before October 23, 2004. The partnership will separately report your share of the amortizable basis for reforestation expenditures for 2000 through 2004. Your amortizable basis of reforestation expenditures for each tax year from all properties is limited to $10,000 ($5,000 if married filing separately), including your distributive share of the partnership’s expenditures and any qualified reforestation expenditures you separately paid or incurred. To figure your allowable amortization, see section 194 and Pub. 535.

Follow the Instructions for Form 8852 to report a deduction allocable to a passive activity. If you materially participated in the reforestation activity, report the deduction on line 28, column (h), of Schedule E (Form 1040).

5. Your distributive share of interest income is reported in box 5 and your share of the partnership’s liabilities is reported in Item K, Part II. A corporate partner’s distributive share of interest income, interest expense, and partnership liabilities are treated as income, expense, and liabilities of the corporation for purposes of the limitation on the deduction for interest under section 163(j).

The partnership will report any information you need to figure the interest due under section 1260(b). If the partnership had gain from certain constructive ownership transactions, your tax liability must be increased by the interest charge on any deferred gain recognition under section 1260(b). Report the interest on Form 1040, line 63. Enter "1260(b)" and the amount of the interest on the dotted line to the left of line 63. See the instructions for Form 6252 for more information. Also see section 453A(c) for details on making the computation.

Note. A partner is required to notify the partnership of its tax-exempt status.

Code W. Other information. The partnership will report:

1. Any information a publicly traded partnership needs to determine whether it meets the 90% qualifying income test of section 7704(c)(2).

Note. A partner is required to notify the partnership of its status as a publicly traded partnership.

2. 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 will report:transactions, your tax ... on Form 1040, line 63. To the left of line 63, enter the amount of tax and interest and "CCf".

3. Your distributive share of all payments received for the transaction that must be disclosed on Form 8886 for the transaction. The 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 partnership. You may have to pay a penalty if you are required to file Form 8886 and fail to do so. See the instructions for Form 8886 for details.

3. Basis in qualifying advanced coal project property. The partnership will provide an attached statement that shows your distributive share of the partnership’s (a) basis in certified and qualified investment in integrated gasification combined cycle property placed in service during the tax year, and (b) basis in qualified investment in other advanced coal project property placed in service during the tax year. Report these amounts on lines 3a and 3b of Form 3468, respectively.

4. Basis in qualifying gasification project property. Report this amount on Form 3468, line 4.

5. Interest and additional tax on compensation deferred under a section 409A nonqualified deferred compensation plan that does not meet the requirements of section 409A. See section 409A(a)(1)(B) to figure the interest and additional tax on this income. Report this interest and tax on line

Page 13 of 14 Partner’s Instructions for Schedule K-1 (Form 1065) 14:03 - 11-DEC-2007
63 of Form 1040. This income is included in the amount in box 4, Guaranteed Payments. 6. Inversion gain. The partnership will 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 W 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 NOL that can be carried over to each tax year, (b) may limit 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.

7. Any other information you may need to file your return not shown elsewhere on Schedule K-1.

The partnership should give you a description and the amount of your share for each of these items.