



Instructions for Form 6198

At-Risk Limitations

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

General Instructions

Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping 1 hr., 12 min.

Learning about the law or the form 59 min.

Preparing the form 1 hr., 5 min.

Copying, assembling, and sending the form to the IRS 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to both the IRS and the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

Purpose of Form

Form 6198 is used to figure:

- The current year profit (loss) from an at-risk activity for 1994 (Part I).
- The amount at risk for 1994 (Part II or Part III).
- The deductible loss for 1994 (Part IV).

The at-risk rules of section 465 limit the loss you can deduct to the amount of the loss or your amount at risk, whichever is less.

For more details, get **Pub. 925**, *Passive Activity and At-Risk Rules*.

At-Risk Activities

Losses from the following activities are affected by the at-risk limitation rules.

1. Holding, producing, or distributing motion picture films or video tapes.
2. Farming as defined in section 464(e)(1).
3. Leasing any section 1245 property as defined in section 1245(a)(3).

Caution: *Certain equipment leasing activities by closely held C corporations*

are not subject to the at-risk rules. See sections 465(c)(4), (5), and (6).

4. Exploring for, or exploiting, oil and gas resources as a trade or business or for the production of income.

5. Exploring for, or exploiting, geothermal deposits as defined in section 613(e)(2).

6. Any other activity carried on as a trade or business or for the production of income that is not included in 1 through 5 above.

Exception. Holding real property placed in service before 1987 and the holding of an interest acquired before 1987 in a partnership, an S corporation, or other pass-through entity already engaged in an activity of holding real property before 1987 are not affected by the at-risk rules. This exception does not apply to holding mineral property.

Note: *A special exception to the at-risk rules applies to a qualifying business of a qualified C corporation. See Pub. 925 for more details.*

Who Must File

Form 6198 is filed by individuals (including Schedules C, E, and F (Form 1040) filers), estates, trusts, and certain closely held C corporations described in section 465(a)(1)(B), as modified by section 465(a)(3).

File Form 6198 if during the tax year you, a partnership in which you were a partner, or an S corporation in which you were a shareholder had any of the following amounts invested in an at-risk activity carried on as a trade or business or for the production of income in which you incurred a loss. You are not considered at risk for the following amounts:

1. Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity (unless the nonrecourse loan is secured by your own property that is not used in the activity). However, you are considered at risk for qualified nonrecourse financing secured by real property used in the holding of real property (other than mineral property). (See **Qualified Nonrecourse Financing** below.); **or**

2. Cash, property, or borrowed amounts used 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); **or**

3. 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)(C) to a person (except you) having such an interest. However, this does not apply to an interest as a shareholder in the case of amounts borrowed by a corporation from its shareholders. (See Pub. 925 for definitions.); **or**

4. Any cash or property contributed to the activity, or to your interest in the activity, that is covered by:

- Nonrecourse indebtedness or protected against loss by a guarantee, stop-loss agreement, or other similar arrangement; **or**
- Indebtedness from a person who has an interest in the activity, other than as a creditor, or who is related under section 465(b)(3)(C) to a person (except you) having such an interest. However, this does not apply to an interest as a shareholder in the case of amounts borrowed by a corporation from its shareholders. (See Pub. 925 for definitions.)

Subject to pending regulations, you may not have to file this form if you are engaged in an activity included in 6 under **At-Risk Activities** above and you only have borrowed amounts described in 3 under **Who Must File** above. Also, see Pub. 925 for transitional rules if you have an activity listed in 1 through 5 under **At-Risk Activities** above.

Qualified Nonrecourse Financing

Qualified nonrecourse financing is financing for which no one is personally liable for repayment and is:

- Borrowed by you in connection with holding real property,
- Secured by real property used in the activity,
- Not convertible from a debt obligation to an ownership interest, **and**
- Loaned or guaranteed by any Federal, state, or local government, or borrowed by you from a qualified person.

A qualified person is a person who actively and regularly engages in the business of lending money, such as a bank or savings and loan association. A qualified person is **not**:

- A person related to you (although a person related to you may be a qualified person if the nonrecourse financing is commercially reasonable and on the same terms as loans involving unrelated persons),
- The seller of the property (or a person related to the seller), or
- A person who receives a fee due to your investment in the real property (or a person related to that person).

Aggregation or Separation of Activities

The IRS has the authority to prescribe regulations to aggregate or separate activities for purposes of the at-risk rules. At the time these instructions went to print, regulations had not been issued for tax years beginning after 1992. Therefore, the rules that follow may change. The IRS will publicize these changes when additional information is available.

File one form if your activities are listed under the aggregation rules. File a separate form for each activity if your activities are listed under the separation rules.

Aggregation Rules.—All section 1245 properties that are leased or held for lease and placed in service in any tax year of a partnership or an S corporation are treated as one activity. Also, a partner in a partnership or an S corporation shareholder may aggregate and treat as a single activity all of the properties of that partnership or S corporation that are included within each of categories **1, 2, 4, and 5** under **At-Risk Activities** on page 1.

Activities described in **6** under **At-Risk Activities** on page 1 that constitute a trade or business are treated as one activity if **(a)** the taxpayer actively participates in the management of that trade or business, or **(b)** the business is carried on by a partnership or an S corporation and 65% or more of the losses for the tax year are allocable to persons who actively participate in the management of the trade or business. Similar rules apply to activities described in **1** through **5** under **At-Risk Activities** on page 1.

Separation Rules.—Your activity in each film, video tape, section 1245 property (that is leased or held for lease), farm, holding of real property, oil and gas property (as defined in section 614), or geothermal property (as defined in section 614) that is not aggregated with other activities under the above rules is treated as a separate activity.

Each investment that is not a part of a trade or business is treated as a separate activity.

Specific Instructions

If you are engaged in more than one at-risk activity or in one at-risk activity and in one non-at-risk activity, you must allocate income, gains, losses, and deductions to each activity.

Partnerships and S corporations must give their partners and shareholders a separate statement of income, expenses, and deductions for each at-risk and non-at-risk activity.

When filling in Parts I, II, and III, enter only amounts that relate to the activity included on this form. Use tax

accounting methods to figure the amounts to enter.

If you are a partner or an S corporation shareholder, enter any items for the activity that are from your investment in the activity or passed through to you on Schedule K-1 or a similar statement.

Description of activity.—After the description of the activity, enter the name and identifying number of the partnership or S corporation, if any.

Part I

Current Year Profit (Loss)

Taxpayers Other Than Partners or S Corporation Shareholders.—If you have a loss or a deduction from an earlier tax year that you could not deduct because of the at-risk rules, be sure to include those amounts on the appropriate form or schedule on your current year tax return before starting Part I. For example, if in 1993, your Schedule C had a \$1,500 loss on line 31, but because of the at-risk rules your loss was limited to \$500, include the \$1,000 on your 1994 Schedule C in Part V, Other Expenses and identify it as a prior year loss.

Partners and S Corporation

Shareholders.—If you have a loss or a deduction from an earlier tax year that you could not deduct because of the at-risk rules, these losses and deductions should be included in the current year amounts you enter in Part I, lines 1 through 4. For example, if in 1993, your Schedule K-1 had a \$1,500 loss on line 1, but because of the at-risk rules your loss was limited to \$500, include both the \$1,000 loss from 1993 and the amount from your 1994 Schedule K-1 on line 1 of Form 6198.

Line 1

Ordinary Income (Loss)

Taxpayers Other Than Partners or S Corporation Shareholders.—Enter your ordinary income or loss from the at-risk activity without regard to the at-risk limitations. This is the amount you get when you subtract your total deductions (including prior year deductions that were not allowed because of the at-risk rules) from your total income from the activity for the current year.

Do not include on line 1 capital or ordinary gains and losses from the sale or other disposition of assets used in the activity or an interest in the activity. These amounts, casualty or theft gains and losses, or investment interest expense, are entered on lines 2a, 2b, 2c, and 4.

Partners and S Corporation

Shareholders.—Enter the amount from line 1 of your current year Schedule K-1 (plus any prior year loss from Schedule K-1, line 1, that you could not deduct because of the at-risk rules).

Lines 2a, 2b, and 2c

Gain (Loss)

Combine long- and short-term capital gains and losses and ordinary gains and losses from the sale or other disposition of assets used in the activity or your interest in the activity. Enter gains and losses without regard to the at-risk limitations, the limitation on capital losses, or the passive activity loss limitations. If more than one item is included on a line, attach a statement describing each item.

Do not include amounts on lines 2a and 2b that are included on line 2c. Enter the form number or schedule letter to the left of the entry space for line 2c. For example, if you file **Form 4684**, Casualties and Thefts, and carry amounts from that form to **Form 4797**, Sales of Business Property, either enter **(a)** the amounts attributable to the activity from Form 4684 on line 2c and write "From Form 4684" to the left of the entry space, or **(b)** the amount attributable to the activity carried from Form 4684 to Form 4797 on line 2b. If you carry a loss from Form 4684 to Schedule A (Form 1040), show either the loss from Schedule A, or the loss from Form 4684 on line 2c.

Taxpayers Other Than Partners or S Corporation Shareholders.—Include on your current year forms and schedules, such as Form 4797 and Schedule D, prior year losses that you could not deduct because of the at-risk rules.

Partners and S Corporation

Shareholders.—Include on lines 2a, 2b, and 2c your current year gains and losses and prior year losses attributable to the activity that you could not deduct because of the at-risk rules.

Lines 3 and 4

Other Income, Gains, Deductions, (Losses)

If you are a partner or S corporation shareholder, include other income, gains, losses, and other deductions from Schedule K-1 that you did not include on lines 1 through 2c. All other taxpayers complete line 4 to report investment interest expense from an at-risk activity.

Line 4.—If you have investment interest expense from your at-risk activity, first use **Form 4952**, Investment Interest Expense Deduction, to figure your allowable investment interest deduction.

If you have investment interest expense from other activities on Form 4952, determine the allowable investment interest deduction attributable to the at-risk activity and enter that portion on line 4 of Form 6198. Be sure to reduce the allowable investment interest deduction figured on Form 4952 by the amount you carry to Form 6198. If you filed Form 6198 in 1993, include on line 4 of Form 6198

any investment interest expense from 1993 that was limited because of the at-risk rules.

Line 5

Current Year Profit (Loss)

If line 5 shows a current year profit, you may not have to complete the rest of this form. Report all of the income, gains, losses, and deductions shown on lines 1 through 4 on the appropriate forms and schedules you will attach to your tax return. Also, attach Form 6198 and keep a copy for your records.

If your current year profit is from a passive activity and you have a loss from any other passive activity, get **Form 8582**, Passive Activity Loss Limitations, or **Form 8810**, Corporate Passive Loss and Credit Limitations, whichever applies.

Note: *Even if you have a current year profit on line 5, you may have recapture income if you received a distribution or had a transaction during the year that reduced your amount at risk in the activity to less than zero. See Pub. 925 for information on the recapture rules.*

If line 5 shows a current year loss, your loss may be limited to the income or gains, if any, included on lines 1, 2, and 3. If lines 1, 2, and 3 include income, gains, and losses, separate the items. The income and gains are fully reportable on your tax return. The losses and deductions are allowable (subject to any other limitation such as the passive activity rules) to the extent of the income and gains. To determine the allowable portion of each loss or deduction, divide each loss or deduction from the activity by the total losses and deductions from the activity on line 5. Then, multiply the total income and gains by this fraction.

Complete the rest of the form to see how much, if any, of the excess loss can be deducted.

Example. If Mr. Green has a Schedule C loss of \$460 on line 1 and a Schedule D gain of \$310 on line 2a, line 5 would show a current year loss of \$150. Mr. Green would report the \$310 gain on Schedule D and include \$310 of the \$460 loss on Schedule C. Mr. Green would complete Part II or Part III of Form 6198 to see if the balance of the \$150 loss on line 5 is deductible. If it is, Mr. Green would include the remaining loss of \$150 on Schedule C.

Part II

Simplified Computation

Part II is a simplified method of figuring your amount at risk. It can only be used if you know your adjusted basis in the activity or the adjusted basis of your interest in the partnership's or S corporation's at-risk activity.

Part III is a longer method of figuring your amount at risk but may allow a

larger amount at risk. You do not need to complete Part II if you use Part III.

Line 6

Adjusted Basis on the First Day of Tax Year

Sole Proprietors.—Filers of Schedules C and F (Form 1040) should not reduce the amount on this line by any liabilities. Get **Pub. 551**, Basis of Assets, for rules on adjusted basis.

Partners.—To figure the adjusted basis, get **Pub. 541**, Tax Information on Partnerships.

S Corporation Shareholders.—To figure the adjusted basis, get **Pub. 589**, Tax Information on S Corporations.

Note: *If the partnership or S corporation is engaged in more than one at-risk activity or in both at-risk activities and non-at-risk activities, you must figure the part of your adjusted basis that is allocable to each at-risk activity. See **Aggregation or Separation of Activities** on page 2 to determine the number of at-risk activities in which your partnership or S corporation is engaged.*

Line 7

Increases for the Tax Year

Do not include the current year's income or gains shown on lines 1 through 3.

Enter amounts that increased your amount at risk during the current year such as:

1. Net fair market value of property you own (not used in the activity) that secures nonrecourse loans that were used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity. Include the nonrecourse loans on line 9. Generally, the net fair market value is determined when the property is pledged as security for the loan.

Do not enter an amount for this item if **(a)** the nonrecourse loan was from a person who has an interest in the activity, other than as a creditor, or who is related under section 465(b)(3)(C) to a person (except you) having such an interest; and **(b)** the activity is described in **1** through **5** under **At-Risk Activities** on page 1. However, **(a)** does not apply to an interest as a shareholder in the case of amounts borrowed by a corporation from its shareholders.

If the activity is described in **6** under **At-Risk Activities** on page 1, you may be able to include these amounts subject to pending regulations.

2. Cash and the adjusted basis of other property (determined at the time of the contribution) contributed to the activity during the tax year. If, however, you used your own assets to repay a nonrecourse debt and you included an amount in **1** above, the amount included as repayments should not be more than the amount by which the balance of the loan at the time of repayment exceeds

the net fair market value of property you own (not used in the activity) that secures the debt.

3. Loans used to finance the activity or to acquire property used in the activity for which you are personally liable, and qualified nonrecourse financing (defined on page 1). Do not enter amounts included in **2** above or on line 6.

4. Percentage depletion for this year deducted in excess of the adjusted basis of depletable property for the activity.

Line 9

Decreases for the Tax Year

Do not include the current year's losses or deductions shown on lines 1 through 4.

Enter amounts that decreased your amount at risk during the current tax year such as:

1. Nonrecourse loans (including recourse loans changed to nonrecourse loans) other than qualified nonrecourse financing (defined on page 1) used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity. Only amounts included on line 6 should be entered on line 9.

2. Amounts, including cash, property, or loans, protected against loss by a guarantee, stop-loss agreement, or other similar arrangement. Enter this amount only if it was included on line 6. Do not include items covered by casualty insurance or insurance against tort liability.

3. Amounts borrowed from a person who has an interest in the activity, other than as a creditor, or who is related under section 465(b)(3)(C) to a person (except you) having such an interest. However, this does not apply to an interest as a shareholder in the case of amounts borrowed by a corporation from its shareholders. Enter this amount only if it was included on line 6 and not included under **1** or **2** above. This may not apply (subject to pending regulations) to any activity other than those described in **1** through **5** under **At-Risk Activities** on page 1. See Pub. 925 for definitions and more details.

4. Withdrawals and distributions during the tax year, both cash and the adjusted basis of noncash items (less nonrecourse liabilities to which the noncash items are subject), including assets used in the activity to repay certain debts.

5. Nonrecourse liabilities to which property you contributed to the activity is subject if included on line 6.

6. Any cash or property contributed to the activity that is protected against loss by a guarantee, stop-loss agreement, or other similar arrangement; or that is covered by indebtedness from a person who has an interest in the activity, other

than as a creditor, or who is related under section 465(b)(3)(C) to a person (except you) having such an interest. However, this does not apply to an interest as a shareholder in the case of amounts borrowed by a corporation from its shareholders. This may not apply (subject to pending regulations) to any activity other than those described in items 1 through 5 under **At-Risk Activities** on page 1. Enter this amount only if it was included on line 6.

Line 10b

Amount At Risk

If the amount on this line is smaller than your overall loss from the activity (line 5), you may want to complete Part III to see if Part III gives you a larger amount at risk.

Note: If the amount on line 10b (or line 19b) is zero, you may be subject to the recapture rules. See Pub. 925.

Part III

Detailed Computation

If you completed Part III of Form 6198 for this activity for 1993:

1. Skip lines 11 through 14;
2. Check box **b** on line 15;
3. Enter the amount from line 19b of the 1993 form on line 15; and
4. See the instructions for lines 16 and 18 to determine the amounts to enter on these lines.

If the activity began **on or after** one of the effective dates shown below, **and**

you did not complete Part III of Form 6198 for this activity for 1993, do not complete lines 11 through 14. Enter zero on line 15 and complete the rest of Part III.

Effective Dates

Generally, the effective date is the first day of the first tax year beginning after 1975 if the activity is one of the following, and it does not meet the exceptions discussed in Pub. 925:

- Holding, producing, or distributing motion picture films or video tapes.
- Farming (as defined in section 464(e)(1)).
- Leasing any section 1245 property (as defined in section 1245(a)(3)).
- Exploring for, or exploiting, oil and gas resources.

If the activity is exploring for, or exploiting, geothermal deposits (as defined in section 613(e)(2)), the effective date is usually October 1, 1978, for wells started after September 30, 1978. Generally, if the well was started before October 1, 1978, you are not subject to the at-risk rules for that well.

The activity of holding real property is subject to the at-risk rules for property placed in service after 1986, and for an interest acquired after 1986, in an S corporation, partnership, or other pass-through entity engaged in an activity of holding real property. An activity of holding real property does not include the holding of mineral property.

Holding mineral property may be subject to the at-risk limitations (other than the special rules that apply to activities of holding real property).

In most cases, the effective date for all other at-risk activities is the first day of the first tax year beginning after 1978 unless the activity meets one of the exceptions discussed in Pub. 925.

However, if you are a partner or an S corporation shareholder, the date you became a partner or shareholder may determine whether you are subject to the at-risk rules and whether you meet one of the exceptions to the at-risk rules for certain activities. See Pub. 925 for more details.

Line 11

Investment in the Activity at the Effective Date

Use the Line 11 Worksheet below to figure your investment in the activity at the effective date. Enter all amounts as of the effective date. Do not complete the worksheet if you are a partner or an S corporation shareholder. Instead, enter on line 11 the basis of your investment in the partnership or S corporation at the effective date. If the partnership or S corporation is engaged in both at-risk and non-at-risk activities, allocate your investment between the at-risk and non-at-risk activities. Enter the part that is allocable to the at-risk activity on line 11.

Line 11 Worksheet—Figure Your Investment in the Activity at the Effective Date

(If the activity began on or after the effective date, do not complete this worksheet.)

1	Cash on hand and in banks for the activity				1		
2	Inventories for the activity				2		
3a	Cost or other basis of depreciable assets for the activity. (See instructions on next page.)	3a					
3b	Accumulated depreciation for the activity	3b					
4	Adjusted basis of depreciable assets for the activity. Subtract line 3b from line 3a				4		
5a	Cost or other basis of depletable assets at the time contributed to the activity	5a					
5b	Accumulated depletion taken on or after property was contributed to the activity	5b					
6	Adjusted basis of depletable assets for the activity. Subtract line 5b from line 5a				6		
7	Adjusted basis of land for the activity (net of any amortization)				7		
8	Other assets for the activity				8		
9	Cash basis taxpayer investment in the activity at the effective date. Add lines 1, 2, 4, 6, 7, and 8. Enter here and on Form 6198, line 11. (Accrual basis taxpayers also complete lines 10a through 14 below.)				9		
10a	Trade notes and accounts receivable for the activity	10a					
10b	Reserve for bad debts for the activity. (See instructions on next page.)	10b					
11	Net receivables for the activity. Subtract line 10b from line 10a				11		
12	Add lines 9 and 11				12		
13	Accounts payable for the activity				13		
14	Accrual basis taxpayer investment in the activity at the effective date. Subtract line 13 from line 12. Enter here and on Form 6198, line 11				14		

Line 11 Worksheet Instructions

Lines 3a and 3b of worksheet. See the instructions for line 16, item 2, on page 6 for the rules on basis. Generally, the amounts for lines 3a and 3b of the worksheet can be taken directly from your depreciation schedule. Be sure to use the depreciation schedule you filed at the effective date, not the schedule for the current tax year.

Line 10b of the worksheet. If you use a reserve for bad debts, subtract from your accounts receivable the balance of the reserve on the effective date. But only subtract up to the amount you were allowed as a deduction under repealed section 166(c) for years before the effective date.

Line 12

Increases at Effective Date

Enter your share of amounts such as the following:

1. Net fair market value of your own property (not used in the activity) that secures nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity that will be included on line 14. Generally, the net fair market value is determined when the property is pledged as security for a loan. Do not enter an amount for this item if (a) the nonrecourse loan was from a person who has an interest in the activity, other than as a creditor, or who is related under section 465(b)(3)(C) to a

person (except you) having such an interest; and (b) the activity is described in 1 through 5 under **At-Risk Activities** on page 1. However, (a) above does not apply to an interest as a shareholder in the case of amounts borrowed by a corporation from its shareholders. If the activity is described in 6 under **At-Risk Activities** on page 1, you may be able to include these amounts, subject to pending regulations.

2. Total losses from years before the effective date for which there were equal or greater amounts not at risk at year end. Use the Line 12 Worksheet and instructions below to figure this amount.

Make all entries on a year-by-year basis. Be sure to include amounts only for years before the effective date. Do not accumulate totals of earlier losses or nonrecourse debts.

Caution: *If you took a deduction for percentage depletion for an item of depletable property in excess of the adjusted basis of the property in a year for which you had a loss for the activity, subtract the amount of the excess from the loss for that year.*

Line 14

Decreases at Effective Date

Enter your share of amounts such as the following:

1. Nonrecourse loans outstanding at the effective date used to finance the activity, to acquire property used in the activity, or to acquire your interest in the

activity including recourse loans changed to nonrecourse loans. Enter this amount only if it was included on line 11.

2. Amounts, including cash, property, or loans, protected against loss by a guarantee, stop-loss agreement, or other similar arrangement outstanding at the effective date. Enter this amount only if it was included on line 11. Do not include items covered by casualty insurance or insurance against tort liability.

3. Amounts outstanding at the effective date borrowed from a person who has an interest in the activity, other than as a creditor, or who is related under section 465(b)(3)(C) to a person (except you) having such an interest. This does not apply to an interest as a shareholder in the case of amounts borrowed by a corporation from its shareholders. Enter these amounts only if they were included on line 11 and not included under 1 or 2 above. Subject to pending regulations, this may not apply to any activity other than those described in 1 through 5 under **At-Risk Activities** on page 1. See Pub. 925 for definitions and more details.

4. If you are **not** an S corporation shareholder, also include liens and encumbrances on property you contributed to the activity that are included on line 11. If you are an S corporation shareholder, do not include any loans that were assumed by the

Line 12 Worksheet—Figure Your Total Losses From Years Before the Effective Date for Which There Were Equal or Greater Amounts Not At Risk at Year End

(a) Year	(b) Amount of loss for the year	(c) Amount not at risk at end of year	(d) Total amounts from column (f) for all prior years	(e) Subtract (d) from (c)	(f) Smaller of (b) or (e)
Total (include on Form 6198, line 12)					▶

Worksheet Instructions

Use the first line of the worksheet for the first year in which you had a loss and amounts not at risk. List each subsequent year in order.

Column (d). For each year after the first year, enter the total amount in column (f) for all prior years.

Example. John had losses in 1970, 1971, and 1975. At the end of each of those years, John had outstanding amounts not at risk of \$1,000. John had losses of \$500 in 1970, \$300 in 1971, and \$500 in 1975.

For 1970, John would enter \$500 in column (b), \$1,000 in column (c), \$1,000 in column (e), and \$500 in column (f).

For 1971, John would enter \$300 in column (b), \$1,000 in column (c), \$500 in column (d) (the total amount from column (f) for all prior years), \$500 in column (e), and \$300 in column (f).

For 1975, John would enter \$500 in column (b), \$1,000 in column (c), \$800 in column (d) (the total amount from column (f) for all prior years (\$500 + \$300)), \$200 in column (e), and \$200 in column (f). Of the \$500 loss for 1975, only \$200 is a loss for which there was an equal or greater amount not at risk at year end.

John's total loss from years before the effective date for which there were equal or greater amounts not at risk at year end is \$1,000 (the total of the amounts in column (f)).

corporation or that were liens or encumbrances on property you contributed to the corporation if the corporation took the property subject to the debt.

5. Any cash or property contributed to the activity included on line 11 that is covered by nonrecourse indebtedness; protected against loss by a guarantee, stop-loss agreement, or similar arrangement; or covered by indebtedness from a person who has an interest in the activity, other than as a creditor, or who is related under section 465(b)(3)(C) to a person (except you) having such an interest. This does not apply to an interest as a shareholder in the case of amounts borrowed by a corporation from its shareholders (see item 3 above).

Line 15

Amount At Risk

If you completed Part III of Form 6198 for 1993:

- Check box **b**; and
- Enter the amount from line 19b of the 1993 form on this line.

Do not enter the amount from line 10b of the 1993 form. **Do not** include any amounts that are not at risk on this line.

Line 16

Increases

If you completed Part III of Form 6198 for 1993:

- Check box **b**; and
- Enter on this line any increases described in 1 through 9 below that occurred since the end of your 1993 tax year.

If you completed Part III of the 1993 form, "since effective date" means since the end of your 1993 tax year.

Enter your share of amounts such as the following:

1. Net fair market value of property you own (not used in the activity) that secures nonrecourse loans that were acquired since the effective date and used to finance the activity, to acquire

property used in the activity, or to acquire your interest in the activity. Generally, the net fair market value is determined when the property is pledged as security for the loan.

Do not enter the net fair market value if **(a)** the nonrecourse loan was from a person who has an interest in the activity, other than as a creditor, or was related under section 465(b)(3)(C) to a person (except you) having such an interest; and **(b)** the activity is described in 1 through 5 under **At-Risk Activities** on page 1. However, (a) does not apply to an interest as a shareholder in the case of amounts borrowed by a corporation from its shareholders. (See Pub. 925 for definitions.) If the activity is described in 6 under **At-Risk Activities** on page 1, you may be able to include these amounts, subject to pending regulations.

2. Cash and the adjusted basis of other property contributed to the activity since the effective date. Adjusted basis is the basis that would be used in determining the amount of loss if the property were sold immediately after you contributed it to the activity. See Pub. 551 for more details. If you are an S corporation shareholder and you contributed property to the corporation subject to a liability, including a liability you are personally required to repay, then you must reduce the total of the adjusted bases of all the property you contributed by the total of all liabilities the property was subject to. This applies whether the corporation took the property subject to, or assumed, the liabilities.

3. Loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity for which you are personally liable, and qualified nonrecourse financing (defined on page 1). (Do not include amounts included in 2 above.)

4. Total net income from this activity since the effective date (excess of all items of income received or accrued over the allowable deductions). Do not enter any amount less than zero. Do not

include the current year's income or gains.

If you are **not** an S corporation shareholder, enter the total net income from the activity since the effective date, taking into account only those years the activity had net income. For years since the effective date that the activity had a net loss, see the instructions for line 18, item 5.

If you are an S corporation shareholder, enter your total net income from the activity for profit years since the effective date. Income from the activity includes gain recognized under section 357(c) on contributions of property to the activity. Also included are distributions from the activity as well as your share of the activity's taxable income.

5. Gain recognized on the transfer or disposition of all or part of the activity or your interest in the activity since the effective date.

6. Amounts you had to include in income since the effective date because your amount at risk was less than zero.

7. All money from outside the activity used since the effective date to repay loans included on lines 14 and 18. If, however, you used your own assets to repay a nonrecourse debt and you included an amount in 1 above, the amounts included as repayments should not exceed the amount by which the balance of the loan at the time of repayment exceeds the net fair market value of property you own (not used in the activity) that secures the debt.

8. Percentage depletion deducted in excess of the adjusted basis of the depletable property for the activity since the effective date. Use the Line 16 Worksheet below to figure this amount. Be sure to include the amount for the current year.

9. If you are an S corporation shareholder, enter the loans you made to your S corporation since the effective date. Do not include notes that you have given to the activity that are still outstanding.

Line 16 Worksheet (Item 8)—Figure Percentage Depletion Deducted in Excess of the Adjusted Basis of Depletable Property

(a) Year	(b) Percentage depletion deduction	(c) Adjusted basis of depletable property before any depletion deduction for the year	(d) Excess percentage depletion (column (b) minus column (c)) but not less than zero
Total			

Line 18

Decreases

If you completed Part III of Form 6198 for 1993:

- Check box **b**; and
- Enter on this line any decreases described in **1** through **9** below that occurred since the end of your 1993 tax year.

If you completed Part III of the 1993 form, "since the effective date" in **1** through **9** below means since the end of your 1993 tax year.

Enter your share of amounts such as the following:

1. Cash, property, or borrowed amounts protected against loss by a guarantee, stop-loss agreement, or other similar arrangement entered into since the effective date. Do not include items covered by casualty insurance or insurance against tort liability. Enter this amount only if it was included on line 16. See the instructions at the beginning of Part III on page 4 for information on effective dates.

2. Amounts borrowed since the effective date from a person who has an interest in the activity, other than as a creditor, or is related under section 465(b)(3)(C) to a person (except you) having such an interest. However, this does not apply to an interest as a shareholder in the case of amounts borrowed by a corporation from its shareholders. Enter this amount only if it was included on line 16 and the amount was not included under **1** above. This may not apply (subject to pending regulations) to any activity other than those described in **1** through **5** under **At-Risk Activities** on page 1. See the instructions at the beginning of Part III on page 4 for information on effective dates.

3. Cash and adjusted basis of other property withdrawn or distributed since the effective date. The adjusted basis is the basis that would be used to figure the loss if the property had been sold by the activity at the time you withdrew it or it was distributed to you.

If you are an S corporation shareholder and the property is subject to debt that would be included on line 14 (or on this line except for the fact that there are liens or encumbrances on the property in the activity), reduce the basis of the distributed property by the amount of the debt.

If you are **not** an S corporation shareholder, reduce the adjusted basis

of property withdrawn by the amount, at the time of withdrawal, of any nonrecourse liability to which the property is subject.

Do not include any money from the activity used to repay loans described in the instructions for line 14. Include amounts that were withdrawn and recontributed. Recontributed amounts should also be included on line 16.

Partners and S corporation shareholders who recognize gain on distributions from the partnership or S corporation should include these distributions on line 18. They should also take them into account as income from the activity on line 16 unless the gain is recognized in the current year.

4. Recourse loans (and qualified nonrecourse financing) changed to nonrecourse loans since the effective date.

5. Total losses from this activity deducted since the effective date. Take into account only those years in which you had a net loss. Do not include the current year's losses or deductions. Also, do not include losses or deductions you could not deduct because of the at-risk rules.

Note: *The 1993 line 21 deductible loss reduces your at-risk investment as of the beginning of your 1994 tax year.*

6. Any nonrecourse liabilities to which property you contributed to the activity since the effective date is subject.

7. Any other at-risk amounts included on line 15 that changed to amounts that are not at risk since the effective date.

8. If you are an S corporation shareholder, do not include any loans that were assumed by the corporation or that were liens or encumbrances on property you contributed to the corporation since the effective date if the corporation took the property subject to the debt.

9. Any cash or property contributed to the activity since the effective date that is protected against loss by a guarantee, stop-loss agreement, or other similar arrangement; or that is covered by indebtedness from a person who has an interest in the activity, other than as a creditor, or is related under section 465(b)(3)(C) to a person (except you) having such an interest. However, this does not apply to an interest as a shareholder in the case of amounts borrowed by a corporation from its shareholders.

Note: *For loans, enter the amount of the loan you incurred, not the current balance of the loan.*

Line 19b

Amount At Risk

If the amount on this line is zero, you may be subject to the recapture rules. See Pub. 925.

Part IV

Deductible Loss

Line 21

Deductible Loss

Note: *When comparing lines 5 and 20, treat the loss on line 5 as a positive number only for purposes of determining the amount to enter on line 21.*

If the loss on line 5 is **equal to or less than** the amount on line 20, report the items in Part I in full on your return, subject to any other limitations such as the passive activity and capital loss limitations. Follow the instructions for your tax return.

If the loss on line 5 is **more than** the amount on line 20, you must limit your deductible loss to the amount on line 20, subject to any other limitations.

Examples. A. If line 5 is a loss of (\$400) and line 20 is \$1,000, enter (\$400) on line 21. **B.** If line 5 is a loss of (\$1,600) and line 20 is \$1,200, enter (\$1,200) on line 21. **C.** If line 5 is a loss of (\$800) and line 20 is zero, enter zero on line 21.

If the amount on line 21 is made up of only one deduction or loss item, report on your return the amount shown on line 21, subject to any other limitations. Follow the instructions for your tax return to determine where to report the amount on your return.

If the amount on line 21 is made up of more than one loss item in Part I (such as a Schedule C loss and a Schedule D loss), a portion of each such deduction or loss item is allowed (subject to other limitations) for the year. Determine this portion by multiplying the loss on line 21 by a fraction. You figure the fraction by dividing each item of deduction or loss from the activity by the total of all deduction and loss items from the activity on line 5. The remaining portion of each deduction or loss item from the activity is disallowed and must be carried over to next year.

