

# Instructions for Form 8582

## Passive Activity Loss Limitations

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

### General Instructions

#### Paperwork Reduction Act Notice

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

#### Purpose of Form

Form 8582 is used to figure the amount of any passive activity loss for the current tax year for all activities and the amount of the passive activity loss allowed on your tax return.

#### Who Must File

Form 8582 is filed by individual taxpayers, estates, trusts, personal service corporations and closely held C corporations who have passive activities with net losses.

#### Overview of Form

The form consists of three parts.

**Part I.—Computation of 1987 Passive Activity Loss.** Use Part I to combine the net income and net loss from all passive activities to determine if you have a passive activity loss for 1987.

If the net losses from all passive activities exceeds the net income from all passive activities, you will have a passive activity loss for 1987.

**Part II.—Computation of the Special Allowance for Rental Real Estate With Active Participation.** Use Part II to figure the maximum amount of loss allowed if you have a net loss from a rental real estate activity with active participation. (See **Rental Activities** on page 2 for details.)

**Part III.—Computation of Passive Activity Loss Allowed.** Use Part III to figure the amount of the passive activity loss (as determined in Part I) that is allowed for 1987 for all passive activities.

#### Passive Activities

A passive activity is any activity involving the conduct of any trade or business (including a research and experimentation activity) in which you did not materially participate. See the **Trade or Business Activities** section on page 2 for details on what is considered material participation.

In general, any rental activity (real property or personal property) is a passive activity even if you materially participated. See the **Rental Activities** section on page 2 for special rules that apply.

Under regulations, a passive activity may also include an activity conducted for profit (within the meaning of section 212), including an activity that is not a trade or business.

**Caution:** At the time these instructions went to print, regulations were being written which would further define “passive activity,” “separate activity,” and “material participation.” Get **Publication 925, Passive Activity and At-Risk Rules**, and the regulations under section 469.

See page 3 of the instructions for forms and schedules that may be affected by the passive loss rules.

#### Activities That Are Not Passive Activities

##### Working Interest in Oil and Gas Property.

—A working interest in oil and gas property that you hold directly or through an entity that does not limit your liability is not a passive activity even if you do not materially participate. This exception from the definition of passive activity does not apply to a working interest owned directly or indirectly through an interest as a limited partner in a limited partnership or as a shareholder in an S corporation.

**Home Mortgage Interest.**—Home mortgage interest on your principal home or qualified second home is not subject to the limitation under the passive loss rules as long as the interest meets the definition of qualified residence interest under section 163(h). For example, if you rent out a vacation home and a portion of the mortgage interest is allocable to rental use of the home that would otherwise be treated as a passive activity, that interest expense is not subject to the passive loss rules if the vacation home was selected as your second home and the mortgage interest meets the definition of qualified residence interest.

If you rented out a home that you also used as a residence during the year for a number of days which exceeds the greater of 14 days or 10 percent of the number of days during the year that the home was rented at a fair rental, any income, deductions, gain or loss from the rental are not taken into account in computing passive activity income or loss for the taxable year.

**Low-Income Housing.**—Transitional relief is provided in the case of low-income housing activities. Losses from certain investments after 1983 in low-income housing are not treated as from a passive activity for a period of up to 7 years from the taxpayer's original investment. See Publication 925 for more details.

#### Passive Activity Losses

Passive activity losses cannot be used to offset income from nonpassive activities. A special allowance for rental real estate activities with active participation allows additional losses even if the losses exceed passive income. These rules are discussed in more detail on page 2.

Passive activity losses that are not allowed in the current year are carried forward until they are allowed either against passive activity income or against the special allowance, if applicable. They are also used when you sell or exchange your entire interest in the activity in a fully taxable transaction to an unrelated party.

**Transitional Phase-In Rule.**—For tax years 1987 through 1990, interests acquired before October 23, 1986, are eligible for a gradual phase-in of the passive activity loss limitations. For 1987, 65% of the current year passive activity loss from these activities is allowed to offset nonpassive income.

The phase-in rule also applies to activities acquired after October 22, 1986, if there was a written binding contract to acquire the interests in effect on October 22, 1986, and at all times thereafter. To qualify for the phase-in rule, the activity must have commenced before October 23, 1986, unless the property used in the activity was acquired under a written binding contract in effect on August 16, 1986, and at all times thereafter, or the construction of property used in the activity began by August 16, 1986.

The phase-in also applies to certain credits. Use **Form 8582-CR, Passive Activity Credit Limitations**, to figure the amount of the credits allowable under the phase-in rule.

**At-Risk Rules.**—Losses from passive activities may also be subject to the at-risk rules. If so, apply the at-risk rules first. When the loss becomes deductible under the at-risk rules, the passive activity loss rules then apply. Get **Form 6198, Computation of Deductible Loss From an Activity Described in Section 465(c)**, for details on the at-risk rules.

**Income That Is Not Passive Activity Income.**—The following are not considered income from a passive activity:

- Personal service income, including salaries, wages, commissions, self-employment income from a trade or business in which you materially participated, taxable social security and other retirement benefits, and payments from a partnership to a partner for the performance of services.
- Portfolio income, including interest, dividends (including dividends from a Regulated Investment Company or Real Estate Investment Trust), annuities, and royalties not derived in the ordinary course of a trade or business, and gain or loss from a disposition of property that produces portfolio income or is held for investment. See Publication 925 for a further definition of portfolio income. **Note:** *Portfolio gross income is reduced by expenses (other than interest) which are clearly and directly allocable to such gross income, and interest expense properly allocable to such gross income under section 1.163-8T of the regulations. This interest and other expenses are not treated as deductions from a passive activity.*

- Any income, gain, or loss which is attributable to an investment of working capital, such as a temporary investment of excess funds of an active business.

- Income from a working interest in oil and gas property if any loss for any taxable year from the working interest was treated as a loss not from a passive activity under the exception for a working interest (see

## **“Working Interest in Oil and Gas Property”** earlier).

- Income from any low-income housing activity if losses from the activity would not be treated as losses from a passive activity for the taxable year (see **“Low-Income Housing”** earlier).
- Income from the rental of a home that you also used as a residence during the taxable year (see **“Home Mortgage Interest”** earlier).

## **Trade or Business Activities**

The material participation standard applies to activities involving the conduct of any trade or business (including a research or experimentation activity).

**Individuals.**—You will be treated as materially participating in an activity only if you are involved in the operations of the activity on a regular, continuous, and substantial basis.

Except as otherwise provided in regulations, you do not materially participate in an activity that you own through an interest in a limited partnership. This applies even if you own the limited partnership interest through a tiered entity arrangement. For example, if you own a general partnership interest, or stock in an S corporation, and that partnership or corporation owns a limited partnership interest in another entity, you will not be considered a material participant except as otherwise provided by regulations.

Certain retired or disabled taxpayers are treated as materially participating in a farming activity if they materially participated for an aggregate of 5 years out of the 8 years preceding retirement or disability. Similarly, a surviving spouse is treated as materially participating in a farming activity if the real property used in the activity meets the estate tax rules for special valuation of farm property passed from a qualifying decedent and the surviving spouse actively manages the farm.

**Corporations.**— Personal service corporations and closely held C corporations are treated as materially participating in an activity if 1 or more shareholders holding stock representing more than 50% (by value) of the outstanding stock of the corporation materially participate in the activity. In addition, a closely held C corporation that is not a personal service corporation is treated as materially participating in an activity if the corporation satisfies the requirements of section 465(c)(7)(C) (without regard to (iv)) for the “qualifying business” exception from the at-risk limitations. These tests are satisfied if: (1) for the prior 12-month period ending on the last day of the taxable year, substantially all the services of at least one full-time employee of the corporation was in the active management of the activity, (2) during the same period, substantially all of the services of at least three full-time, nonowner employees were directly related to the activity, and (3) the amount of the taxpayer’s business deductions attributable to the activity exceeds 15 percent of the gross income from the activity for the taxable year.

**Trusts and Estates.**—The participation of the fiduciary determines the character of

the income and deductions of the trust or estate for purposes of computing the trust or estate’s taxable income. Any net loss from a trade or business activity in which the fiduciary does not materially participate or a net loss from a rental activity is subject to the limitations of section 469. The fiduciary must complete Form 8582 to determine the passive activity loss allowed for purposes of computing the taxable income of the trust or estate.

## **Rental Activities**

In general, all rental activities are treated as passive activities even if you materially participated in the activity. Rental activities include the rental of real estate or of tangible personal property, such as equipment.

If you rented out a home that you also used as a residence during the year for a number of days which exceeds the greater of 14 days or 10 percent of the number of days during the year that the home was rented at a fair rental, any income, deductions, gain or loss from the rental are not taken into account in computing passive activity income or loss for the taxable year.

**Active Participation.**—The active participation requirement can be met without regular, continuous, and substantial involvement in operations, as long as you participated in making management decisions or arranging for others to provide services (such as repairs), in a significant and bona fide sense. Management decisions that are relevant in this context include approving new tenants, deciding on rental terms, approving capital or repair expenditures, and other similar decisions.

For example, if you own and rent out an apartment that formerly was your primary residence, you may be treated as actively participating, even if you hire a rental agent and others provide services, such as repairs, if you participate in management decisions such as those described above.

You do not actively participate in a rental real estate activity if your interest (including any interest of your spouse) in the activity at any time during the year is less than 10% (by value) of all interests in the activity. Except as provided by regulations, you do not actively participate in a rental real estate activity you own through an interest as a limited partner in a limited partnership.

## **Special Allowance for Rental Real Estate Activities With Active Participation**

Generally, individuals may offset excess losses from rental real estate activities in which they actively participate against up to \$25,000 of nonpassive income. The estate of a deceased taxpayer can also qualify for the special allowance for the first two taxable years following the death of the taxpayer if the decedent was actively participating in the activity in the year of death. Trusts, corporations, and, except as provided by regulations, limited partners do not qualify for the special allowance.

Married individuals who lived apart at all times during the tax year may each qualify for up to \$12,500 of the allowance.

However, married individuals who file separate tax returns but did not live apart at all times during the taxable year do not qualify for any of the special allowance.

An estate that files a joint return with the surviving spouse is entitled to up to \$25,000 of the allowance. If the estate and the surviving spouse file separate returns, each may qualify for up to \$12,500 of the allowance if they qualify as active participants in rental real estate activities.

Complete Part I first to determine if you have a net loss from all rental real estate activities with active participation and a passive activity loss. If you do, complete Part II to figure the special allowance.

The allowance is reduced by 50% of the amount that your modified adjusted gross income exceeds \$100,000 (\$50,000 if married filing separately and you lived apart for the entire year). If modified adjusted gross income exceeds \$150,000 (\$75,000 if married filing separately and you lived apart for the entire year), none of the special allowance is available. See the specific instructions for line 6 on page 5 for the definition of modified adjusted gross income.

If the special allowance exceeds the passive activity loss from rental real estate activities in which you actively participated, certain credits from these activities may be allowable. Figure the allowable amount of these credits on Form 8582-CR.

## **Disposition of a Passive Activity**

**Disposition of an entire interest.**—When you dispose of your entire interest in a passive activity in a fully taxable disposition to an unrelated party, any loss allocable to the activity (including any loss disallowed in a previous year, current year loss, and loss on the disposition) is allowed.

**Entire interest in an activity.**—Your entire interest in an activity includes any interest you hold in any property used or created in the activity. This applies whether you hold the interest directly or through an entity in which you hold any interest directly or through one or more other entities. An entity includes any partnership, corporation, estate, or trust. For example, a disposition of your entire interest in a partnership is not a disposition of your entire interest in any activity the partnership conducts if you continue to hold (directly or indirectly) any interest in property used or created in the activity. See the regulations under section 469 for examples of property used or created in an activity.

**Fully taxable disposition.**—A disposition is a fully taxable disposition if, and only if, all gain or loss realized on the disposition is recognized. See the regulations under section 469 for more information on qualifying dispositions.

Gains on the disposition of an entire interest and income from the current year operations of that activity can be used to offset other passive activity losses.

**Disposition of less than an entire interest.**—Gains and losses on the disposition of less than an entire interest are gains and losses from a passive activity and are subject to the passive activity loss rules.

# Specific Instructions

## Forms and Schedules That May Be Affected by the Passive Loss Provisions

**Note:** *If you disposed of your entire interest in a passive activity in a fully taxable disposition to an unrelated party, also see the instructions for Special rules for disposition of an entire interest, below.*

### Schedule A (Form 1040), Itemized

**Deductions.**—Interest expense from a passive activity is limited under the passive loss rules instead of under the investment interest limitation rules. Figure the amount of your allowable interest expense on Form 8582. Include the amount allowed from Form 8582 on Schedule A, line 11. Next to this total, write “Form 8582” and show the amount.

### Schedule C (Form 1040), Profit or (Loss) From Business or Profession.

—If you have a net loss on Schedule C from a passive activity, complete Form 8582 to see how much of the loss is allowed. If part of the loss is not allowed, enter the amount allowed on line 31 of Schedule C and to the left of the entry space, write “Form 8582.”

If you have a net profit from a passive activity reported on Schedule C and you also have other passive activities with losses, file Form 8582 so that the net profit from Schedule C can offset the other passive activity losses. Enter the net profit amount from line 31 of Schedule C on Form 1040, line 13, and also enter it in the applicable income column of Worksheet 2 on page 4 of the instructions for Form 8582.

### Schedule D (Form 1040), Capital Gains and Losses and Reconciliation of Forms

**1099-B.**—A capital gain on the sale or exchange of your entire interest in a passive activity in a fully taxable disposition to an unrelated party is reported on Schedule D (Form 1040). The gain (reduced by any current year operating loss from that activity) is also included on Form 8582 if you have other passive activity losses.

Capital losses from a fully taxable disposition of an entire interest in a passive activity to an unrelated party are allowed in full under the passive activity loss rules, but may be subject to the capital loss limitations. Enter the loss on Schedule D, but do not enter it on Form 8582.

Capital gains and losses from a disposition of less than an entire interest in a passive activity are treated the same as any other passive activity gain or loss. The gain is entered on Schedule D and also on Form 8582 as passive activity income if you have other passive activity losses. The loss is not entered on Schedule D until the passive activity loss allowed is figured on Form 8582. The amount allowed on Form 8582 is the amount to be entered on Schedule D.

### Schedule E (Form 1040), Supplemental Income Schedule.

—See the Form 1040 instructions for line 24 of Schedule E to see if you must file Form 8582. If you use Form 8582 to figure the amount of your loss allowed, follow the instructions for Schedule E (Form 1040) to see how to report it on that schedule. If you have a net profit from a passive activity reported on Schedule E, and you also have other passive activity losses, report the income on Schedule E and also include it on Form 8582.

**Schedule F (Form 1040), Farm Income and Expenses.**—If you have a passive activity loss on Schedule F, complete Form 8582 to see how much of the loss is allowed. If part of the loss is not allowed, enter the amount allowed on line 37 of Schedule F and to the left of the entry space, write “Form 8582.”

If you have a net profit from a passive activity reported on Schedule F and you also have other passive activities with losses, file Form 8582, so that the net farm profit can offset the other passive activity losses. Enter the net profit amount from line 37 of Schedule F on Form 1040, line 18, and also enter it in the applicable income column of Worksheet 2 on page 4 of the instructions for Form 8582.

### Form 4797, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions.

—Any gain on the sale or exchange of your entire interest in a passive activity in a fully taxable disposition to an unrelated party that was used in your trade or business is reported on Form 4797. The gain (reduced by any current year operating loss from that activity) is also included on Form 8582 if you have other passive activity losses. This includes section 1231 gains and any ordinary income, including ordinary income from recapture, reported on Form 4797.

Losses from a fully taxable disposition of an entire interest in a passive activity to an unrelated party plus any current year operating loss from that activity are allowed in full. Report the loss on the disposition on Form 4797, but do not enter the loss on Form 8582. If you also have net profit from this activity’s current year operations, reduce the net profit to the extent of the loss on disposition before entering the net profit on Form 8582.

Losses and gains from a disposition of less than an entire interest in a passive activity are treated like any other passive activity loss or gain. The gain is entered on Form 4797 and also on Form 8582 as passive activity income if you have other passive activity losses. The loss is not entered on Form 4797 until the passive activity loss allowed is figured on Form 8582. The amount allowed on Form 8582 is the amount entered on Form 4797.

**Form 4835, Farm Rental Income and Expenses.**—Figure your passive activity loss allowed on Form 8582 before transferring line 33b of Form 4835 to Schedule E. If part of the loss is disallowed on Form 8582, enter the amount allowed on line 33b of Form 4835 and to the left of the entry space, write “Form 8582.” Then enter that amount on Schedule E, line 28.

If Form 4835 has a net farm rental profit and you have other passive activity losses, file Form 8582 so that the net profit can offset the other passive activity losses. Enter the net profit from Form 4835 on Schedule E, line 28 and also enter it in the applicable income column of Worksheet 2 on page 4 of the Form 8582 instructions.

**Form 4952, Investment Interest Expense Deduction.**—Income and loss from passive activities generally are not treated as investment income or loss when calculating the amount of the investment interest limitation. However, any passive losses allowed by reason of the phase-in of the passive loss provision reduce your net

investment income for purposes of the investment interest limitation. Also see the Form 4952 instructions.

### Form 6198, Computation of Deductible Loss From an Activity Described in

**Section 465(c).**—Losses from passive activities may also be subject to the at-risk rules. If so, the at-risk rules apply first. When the loss becomes deductible under the at-risk rules, the passive activity rules apply. Figure your deductible loss for the activity on Form 6198 and then bring that amount over to Form 8582 to see how much of the loss is allowed under the passive activity loss rules. Report the amount allowed on Form 8582 on the applicable form or schedule.

### Form 6251, Alternative Minimum

**Tax—Individuals.**—Your passive activity losses are an adjustment for alternative minimum tax purposes. See the instructions for Form 6251.

### Form 6252, Computation of Installment

**Sale Income.**—Gain from an installment sale of a disposition either of an entire interest in a passive activity or of less than an entire interest in a passive activity is treated as income from a passive activity to the extent of the gain reported this year. If you have other passive activity losses or a loss from the disposition of an entire interest in a passive activity, include the gain on Form 8582 (to the extent that it exceeds a current year operating loss from that activity) and also include the gain in full on Form 4797 or Schedule D, whichever is appropriate.

**Form 8582-CR, Passive Activity Credit Limitations.**—Use Form 8582-CR if you have credits from a passive activity.

**Special rules for disposition of an entire interest.**—If you disposed of your entire interest in the passive activity in a fully taxable disposition to an unrelated party and you have losses from other passive activities, follow these instructions for whichever situation applies:

1. If you have a net loss from current operations and a gain on the disposition, all of the loss is allowed on the form or schedule on which you usually report the loss. The gain on the disposition is reported on the applicable form or schedule but must be reduced to the extent of the current year operating loss before it is entered on Form 8582.
2. If you have net profit from current year operations and a loss on the disposition, report the net profit and the loss on disposition on the applicable form or schedule. The loss from the disposition is not entered on Form 8582, but the net profit from current year operations is reduced to the extent of the loss on disposition before it is then entered on Form 8582.
3. If you have net profit from current year operations and a gain on the disposition, report the net profit and gain on the applicable form or schedule and also enter the net profit and gain on Form 8582.
4. If you have a net loss from current year operations and a loss on the disposition, the losses are reported on the applicable form or schedule, but neither of the losses are entered on Form 8582.

## Part I

**Lines 1a through 1g.**—Individuals and qualifying estates (described below) who actively participated in rental real estate activities should include the income or loss from these activities on lines 1a–1g. Use Worksheet 1 to figure the amounts to enter on lines 1a, 1b, 1d, and 1e if you had more than one rental real estate activity in which you actively participated or more than one source of income or loss from the activity (e.g., a Schedule E loss and a loss on Form 4797 from a disposition of less than an entire interest in the activity). **Caution:** Include the income or loss on lines 2a–2g if you were married filing a separate return and lived with your spouse at any time during the year, even if you actively participated in the activity.

A qualifying estate is one that is treated as actively participating for the 2 years following the death of the taxpayer if the taxpayer actively participated in the rental real estate activity in the taxable year in which the taxpayer died. See **Rental**

**Activities** for the definition of active participation.

**Lines 2a through 2g.**—Individuals should include on lines 2a–2g income or loss from rental real estate activities in which they did not actively participate and all other passive activities. Estates (other than those described above), trusts, and corporations should include income or loss from **ALL** passive activities on lines 2a–2g. Use Worksheet 2 to figure the amounts to enter on lines 2a, 2b, 2d, and 2e if you had more than one passive activity or more than one source of income or loss from the activity (e.g., a Schedule C loss and a loss on Form 4797 from a disposition of less than an entire interest in the activity).

**Note:** *If you had only one passive activity from only one source for the activity (e.g., only a Schedule C loss from a passive activity) enter the loss on the appropriate line in Part I of Form 8582. You do not need to complete the following worksheets. Complete Parts II and III of the form if applicable, and see the instructions for line 19.*

**Lines 1 and 2.**—If you are using a different form or schedule on which to report gain or loss from the same activity, keep them separate by listing the activity each time a different form or schedule is used. For example, if you had income or loss from Schedule E and also had a gain or loss from Form 4797 for the same activity, list each on a separate line of the appropriate worksheets. If you have more than one transaction to report on Schedule D or Form 4797, list each transaction separately in the worksheets.

## Parts II and III

When a line instruction asks for the “smaller of,” treat the line entries as if they were positive numbers when taking into consideration which is the smaller number. For example, the instruction on line 11b says to “enter the smaller of line 1c or line 8.” If line 1c had a loss of (\$32,000) and the line 8 entry was the \$25,000 allowance, the smaller amount would be \$25,000.

**Lines 1a, 1b, 1d, and 1e.**—Use Worksheet 1 to figure the amounts to enter on lines 1a, 1b, 1d, and 1e. Lines 1a and 1b are used for rental real estate activities with active participation that were acquired before 10-23-86. Lines 1d and 1e are used for rental real estate activities with active participation acquired after 10-22-86.

After you complete the worksheet below, enter the totals of columns (a) through (d) on the corresponding lines of Form 8582 and then complete lines 1c, 1f, and 1g.

### Worksheet 1 for Lines 1a, 1b, 1d, and 1e (Keep for your records.)

Name of Activity	Form or Schedule To Be Reported on	Activities acquired before 10-23-86		Activities acquired after 10-22-86	
		(a) Income line 1a	(b) (Loss) line 1b	(c) Income line 1d	(d) (Loss) line 1e
<b>Totals.</b> Enter on lines 1a, 1b, 1d, and 1e of Form 8582. . ▶					

**Lines 2a, 2b, 2d, and 2e.**—Use Worksheet 2 to figure the amounts to enter on lines 2a, 2b, 2d, and 2e. Lines 2a and 2b are used for activities acquired before 10-23-86 and lines 2d and 2e are used for activities acquired after 10-22-86.

**Note:** *Form 1120 filers see the special instructions in the Form 1120 instructions before entering amounts in Worksheet 2.*

After you complete the worksheet below, enter the total in columns (a) through (d) on the corresponding lines of Form 8582 and then complete lines 2c, 2f, and 2g.

### Worksheet 2 for Lines 2a, 2b, 2d, and 2e (Keep for your records.)

Name of Activity	Form or Schedule To Be Reported on	Activities acquired before 10-23-86		Activities acquired after 10-22-86	
		(a) Income line 2a	(b) (Loss) line 2b	(c) Income line 2d	(d) (Loss) line 2e
<b>Totals.</b> Enter on lines 2a, 2b, 2d and 2e of Form 8582 . . ▶					

**Line 2—Closely held C corporations.**—Closely held C corporations can offset the loss on line 2g with net active income. See the Form 1120 instructions for how to figure net active income. The Form 1120 instructions also have special instructions for how to complete Form 8582 and where to enter the allowed loss on Form 1120.

**Line 3.**—If line 3 shows net income, add any losses shown on lines 1b, 1e, 2b, and 2e and enter the result on line 19. All of your passive losses are allowed. Take the amount of each individual loss entered on Worksheets 1 and 2 in columns (b) and (d) and report the losses on the form or schedule you usually report them on.

**Line 6.**—Modified adjusted gross income for purposes of line 6 is computed without regard to taxable social security and railroad retirement benefits, without regard to the allowable deduction under section 219 for qualified retirement contributions for the taxable year, and without regard to any passive activity loss.

**Line 10.**—Combine lines 1c and 2c and enter the result. If the result is -0- or income, skip to line 16. For example, if line 1c shows a loss of (\$10,000) and line 2c shows income of \$15,000, enter -0- on line 10 and then go to line 16.

**Line 19.**—If you did not need to use Worksheet 1 or 2 on page 4, the amount on

line 19 is the actual loss allowed for the year. This amount should be entered on the form or schedule that it is normally reported on, such as Schedule C or Schedule E. Your unallowed amount would be the loss shown on line 1b, 1e, 2b, or 2e minus the amount on line 19.

If you used Worksheet 1 or 2, you will have to figure how much of the amount of loss on line 19 is allowed for each activity. Use the worksheets that follow to figure the amount of allowed loss for each activity. You must keep a record of this unallowed amount and the activity to which it belongs in order to take the loss when it becomes deductible in a subsequent year.

**Instructions for Worksheet 3**

Complete Worksheet 3 if you have a loss on line 1g. If line 1g shows income, all of the losses on lines 1b and/or 1e are allowed. Enter the losses in columns (b) and (d) of Worksheet 1 on the forms or schedules you usually report the losses on and go on to Worksheet 4 if you have losses on line(s) 2b and/or 2e of Form 8582.

**Column (a).**—The losses shown in column (a) should be the same as the losses shown in columns (b) and (d) of Worksheet 1 on page 4 of the instructions.

**Column (b).**—Divide each of the individual losses shown in column (a) by the total of all of the losses in column (a) and enter the ratio for each of the activities in column (b). The total of all of the ratios should equal 1.00.

**Column (c).**—Complete the following computation:

- A. Income, if any, from line 1a of Form 8582 . . . . . \_\_\_\_\_
- B. Income, if any, from line 1d of Form 8582 . . . . . \_\_\_\_\_
- C. Enter the amount from line 9 of Form 8582 . . . . . \_\_\_\_\_
- D. Add lines A through C . . . . . \_\_\_\_\_

Multiply line D by the ratios in column (b) and enter the results in column (c). If the total of this column is the same as the total of column (a), all of the losses for the activities in column (a) of this worksheet are allowed. Report them on the forms and schedules you usually report them on and complete Worksheet 4 if you have losses shown in Worksheet 2. If the total of column (a) is more than the total of column (c), complete column (d).

**Column (d).**—Subtract column (c) from column (a) and enter the results in this column. Also enter the name of the activities and the form or schedule the loss is to be reported on in Worksheet 4 and enter the amounts from column (d) of this worksheet in column (a) of Worksheet 4. Also complete Worksheet 4 if lines 2b and/or 2e of Form 8582 have losses.

**Worksheet 3 for Losses on Lines 1b and/or 1e (Keep for your records.)**

Name of Activity	Form or Schedule To Be Reported on	(a) Loss (See instructions.)	(b) Ratio (See instructions.)	(c) Income and Special Allowance (See instructions.)	(d) Subtract column (c) from column (a) (See instructions.)
<b>Totals</b> . . . . . ▶			<b>1.00</b>		

**Instructions for Worksheet 4**

Complete Worksheet 4 if you have amounts in column (d) of Worksheet 3 and/or a loss on line 2b or 2e of Form 8582.

**Column (a).**—Enter the amounts, if any, from column (d) of Worksheet 3. Also enter the losses, if any, shown in columns (b) and (d) from Worksheet 2 in this column.

**Column (b).**—Divide each of the individual losses shown in column (a) by the total of all of the losses in column (a) and enter the ratio for each of the activities in column (b). The total of all of the ratios should equal 1.00.

**Column (c).**—Complete the following computation:

- A. Enter line 3 of Form 8582 . . . . . \_\_\_\_\_
- B. Enter line 17 of Form 8582 . . . . . \_\_\_\_\_
- C. Subtract line B from line A . . . . . \_\_\_\_\_

Multiply line C by the ratios in column (b) and enter the results in column (c).

Complete Worksheet 5 to determine the losses allowed and unallowed for 1987.

**Worksheet 4—Allocation of Unallowed Losses (Keep for your records.)**

Name of Activity	Form or Schedule To Be Reported on	(a) Loss (See instructions.)	(b) Ratio (See instructions.)	(c) Unallowed Loss (See instructions.)
<b>Totals</b> . . . . . ▶			<b>1.00</b>	

**Instructions for Worksheet 5**

**Column (a).**—Enter all of the activities shown in Worksheet 4. The losses to be entered in column (a) of this worksheet should be the losses shown in columns (b) and (d) of Worksheets 1 and 2 for the activities listed in Worksheet 4.

**Column (b).**—Enter the amounts from column (c) of Worksheet 4 in this column. These are your unallowed losses for 1987. Keep a record of these amounts so the losses can be used in a subsequent year.

**Column (c).**—Subtract column (b) from column (a). These are the losses allowed for 1987. The amounts in this column should be reported on the forms or schedules you usually report the losses on.

**Worksheet 5—Allowed Losses (Keep for your records.)**

Name of Activity	Form or Schedule To Be Reported on	(a) Loss (See instructions.)	(b) Unallowed Loss (See instructions.)	(c) Allowed Loss (See instructions.)
<b>Totals</b> . . . . . ▶				