



Dealing with the Partnership K-1 on the 1040 What you really need to know!

Presented by:

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Learning Objectives

At the end of this course, you will be able to:

- Recognize the importance of Attention to Detail when dealing with a Form 1065, Schedule K-1
- Determine appropriate Form 1040 reporting for K-1 items; which forms and schedules are affected
- Identify Unreimbursed Partner Expenses (UPE) and their proper treatments
- Recognize the potential limitations; basis, passive activity and at-risk rules



Introduction to the Partnership K-1

- Purpose - to report the flow through of the partner's share of income, deductions, credits, etc.
- Inconsistent Treatment of Items – Form 8082
- Elections made at the partner's level;
 - Section 59(e); Section 108(b)(5); Section 263A(d); Section 617; Section 901



Sniff test – Pay Attention to the Details!

- Part II – F & G; Identify the right partner and type
- Part II - I1 & I2; Is this an entity or a Retirement Plan? It may not belong on a Form 1040!
- Is this a final K-1? Amended K-1?
- Is it a Fiscal Year K-1? Be aware of ending date for proper reporting on partner's return
- Box D - Publicly Traded Partnership (PTP)? Different rules

Part II Information About the Partner

E Partner's identifying number

F Partner's name, address, city, state, and ZIP code

G General partner or LLC member-manager Limited partner or other LLC member

H Domestic partner Foreign partner

I1 What type of entity is this partner? _____

I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here

J Partner's share of profit, loss, and capital (see instructions):

	Beginning	Ending
Profit	%	%
Loss	%	%
Capital	%	%

K Partner's share of liabilities at year end:

Nonrecourse	\$	_____
Qualified nonrecourse financing	\$	_____
Recourse	\$	_____

Attention
To
Details!

Attention to Details

651113

OMB No. 1545-0123

Final K-1

Amended K-1

2016

For calendar year 2016, or tax
year beginning _____, 2016
ending _____, 20____

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

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

1	Ordinary business income (loss)	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
4	Guaranteed payments		
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends		
7	Royalties		
8	Net short-term capital gain (loss)		

Part I Information About the Partnership

A	Partnership's employer identification number
B	Partnership's name, address, city, state, and ZIP code
C	IRS Center where partnership filed return
D	<input type="checkbox"/> Check if this is a publicly traded partnership (PTP)



Before taking items to the 1040...

- What kind of partner are they? Items G & H
- At-Risk rules – IRC § 465
- Passive or active – IRC § 469
- Partner's share of profit and loss
- Partner's share of liabilities
 - Nonrecourse, Qualified recourse financing, recourse



Partner's capital account

- Basis – IRC § 705
- Capital account on K-1 is probably different from the partner's basis
- Contribution of cash
- Contribution of property – additional statement
- Withdrawals and distributions of cash or property

Attention to Details

L Partner's capital account analysis:

Beginning capital account	\$	_____
Capital contributed during the year	\$	_____
Current year increase (decrease) .	\$	_____
Withdrawals & distributions . . .	\$ (_____)
Ending capital account	\$	_____

- Tax basis GAAP Section 704(b) book
 Other (explain)

M Did the partner contribute property with a built-in gain or loss?

- Yes** **No**

If "Yes," attach statement (see instructions)

Part III**Partner's Share of Current Year Income, Deductions, Credits, and Other Items**

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Schedule K-1, Box 1

Ordinary business income (loss)

- Income – Schedule E, page 2
 - Material participation rules for passive or non-passive
 - Schedule SE for an active business
- Loss – is it deductible?
 - Evaluate basis
 - At-Risk rules
 - Passive activity
- Net Investment Income Tax – does it apply?
- PTP loss limitation



Schedule K-1, Box 2 Rental activity

- Schedule E, page 2
- Loss – is it deductible?
 - Evaluate basis
 - At-Risk rules
 - Passive activity
- Active vs material participation
- Real estate professional – determined annually
- Net Investment Income Tax – does it apply?
- PTP loss limitation



Schedule K-1, Box 3 Other rental activity

- Schedule E, page 2
- Always passive for all partners
- Net Investment Income Tax – yes!
- PTP loss limitation



Schedule K-1, Box 4 Guaranteed payments

- Schedule E, page 2; Schedule SE
 - Payment to partners for services
 - Health insurance premiums paid / HSA
 - Pension plan payments made for the benefit of the partner
 - Capitalized payments
 - Interest payments paid by the partnership to the partner



Schedule K-1 – Portfolio income

- Box 5: Interest Income
 - Schedule B or Line 8a of 1040
 - Net Investment Income Tax – yes, unless exception
- Box 6a-6b: Dividend income
 - Schedule B or Line 9a, 9b of 1040
 - Net Investment Income Tax - yes
- Box 8 – 9b: Capital gains (losses)
 - Schedule D
 - Net Investment Income Tax - yes
- Box 9c & Box 10 – Gain/Loss on sale of business assets
 - Form 4797
 - Net Investment Income Tax - no



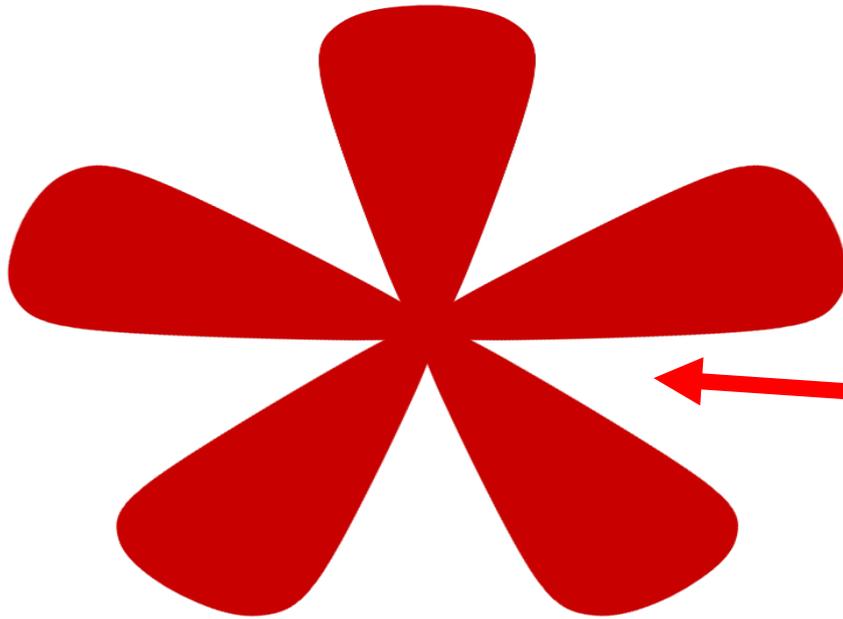
Schedule K-1, Box 7 Royalties

- What are they for?
- Active or passive?
- Schedule E, line 4 – mostly!
- Beware of Oil & Gas



Schedule K-1, Box 11 Other income (loss)

- Code A: Other portfolio income
- Code B: Involuntary conversions
- Code C: Sec 1256 contracts & straddles
- Code D: Mining
- Code E: Cancellation of debt
- Code F: Other income (loss)
 - Other items of income, gain or loss
 - Statement attached *



If there is an
asterisk,
there is a
statement!



Schedule K-1, Box 12 Section 179 deduction

- Form 4562, Part I
- Statement attached to K-1
- Section 179 limitations are applied at the partner level
- PTP – Loss limitation rules



Schedule K-1, Box 13 Other deductions

- **A few examples...**
- Code A – G: Charitable contributions
 - Schedule A
- Code H: Investment interest expense
 - Form 4952
- Code I: Deduction for royalty income
- Code M – O: Partner share of fringe benefits
- Code T – V: Domestic Production Activity Deduction,
 - Form 8903



Schedule K-1, Box 14 Self-employment earnings

- Schedule SE
- What kind of partner, member?
- Nets with other items on the K-1:
 - Guaranteed payments
 - Ordinary business income (loss)
 - Section 179
 - Unreimbursed partner expenses (UPE)
- Medicare surtax may apply



Schedule K-1, Box 15 Credits

- Code A – N
- Code O: Backup withholding
 - Form 1040 Line 64
 - Attach statement
- Code P: Other credits
 - Statement will be attached
- Passive activity credit, Form 8582-CR



Schedule K-1, Box 16 & 17

- Box 16: Foreign transactions
 - Form 1116
 - Deduction or credit?
 - Code L & M – Foreign tax paid
- Box 17: AMT items
 - Always enter items!
 - Form 6252



Schedule K-1, Box 18

- Code A: Tax exempt interest
 - Form 1040, 8b
 - Increase to basis
- Code B: Other tax exempt income
 - Increase to basis
- Code C: Nondeductible expenses
 - Decrease to basis



Schedule K-1, Box 19

- Code A: Distributions – cash
 - Decrease to basis
 - In excess of basis? Capital gain and increase to basis
- Code B: Sec 704c contributed property with built in gains
- Code C: Distributions - Other property
 - Statement will be attached with adjusted basis, FMV
 - Decrease to basis
 - In excess of basis? Capital gain and increase to basis



Schedule K-1, Box 20 Other Information

- Code A and B:
 - Form 4952 for adjustments to Investment Interest Deduction
- Code L: Sale of Sec 179 property, statement from K-1
 - Enter as separate sale on Form 4797
- Code M: Recapture of Sec 179 depreciation
- Code T: Oil and gas depletion
- Code V: Unrelated business taxable income (UBTI)
- Code Z: Publicly Traded Partnership (PTP)



Unreimbursed Partner Expenses (UPE)

- Schedule E, page 2 – Separate line with same EIN
 - Non-Passive Loss
- Expenses paid by the partner and not reimbursed by the partnership
- Needs to be in partnership agreement that partner may not be reimbursed for all out of pocket expenses
- Does not change basis



What we did for the last hour!

- Recognized the importance of Attention to Detail when dealing with a Form 1065, Schedule K-1
- Determined the appropriate Form 1040 reporting for K-1 items; forms and schedules affected
- Identified additional partner expenses and how they are reported; UPE
- Can now recognize the potential limitations of basis, passive activity and at-risk rules



For More Information

National Society of Accountants

More information is available at:
NSA Booth in the Vendor Hall
Or at the NSA table in the lobby
800-966-6679
www.nsacct.org