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

<table>
<thead>
<tr>
<th>G</th>
<th>General partner or LLC member-manager</th>
<th>Limited partner or other LLC member</th>
</tr>
</thead>
<tbody>
<tr>
<td>H</td>
<td>Domestic partner</td>
<td>Foreign partner</td>
</tr>
</tbody>
</table>

**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):

<table>
<thead>
<tr>
<th></th>
<th>Beginning</th>
<th></th>
<th></th>
<th>Ending</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>%</td>
<td></td>
<td></td>
<td>%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss</td>
<td>%</td>
<td></td>
<td></td>
<td>%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td>%</td>
<td></td>
<td></td>
<td>%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**K** Partner's share of liabilities at year end:

- Nonrecourse: $  
- Qualified nonrecourse financing: $  
- Recourse: $
### Attention to Details

#### Part I: Information About the Partnership

- **Partnership's employer identification number**
- **Partnership's name, address, city, state, and ZIP code**
- **IRS Center where partnership filed return**
- **Check if this is a publicly traded partnership (PTP)**

#### Part II: 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

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ordinary business income (loss)</td>
</tr>
<tr>
<td>2</td>
<td>Net rental real estate income (loss)</td>
</tr>
<tr>
<td>3</td>
<td>Other net rental income (loss)</td>
</tr>
<tr>
<td>4</td>
<td>Guaranteed payments</td>
</tr>
<tr>
<td>5</td>
<td>Interest income</td>
</tr>
<tr>
<td>6a</td>
<td>Ordinary dividends</td>
</tr>
<tr>
<td>6b</td>
<td>Qualified dividends</td>
</tr>
<tr>
<td>7</td>
<td>Royalties</td>
</tr>
<tr>
<td>8</td>
<td>Net short-term capital gain (loss)</td>
</tr>
<tr>
<td>15</td>
<td>Credits</td>
</tr>
<tr>
<td>16</td>
<td>Foreign transactions</td>
</tr>
</tbody>
</table>
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

**Partner’s capital account analysis:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning capital account</td>
<td>$</td>
</tr>
<tr>
<td>Capital contributed during the year</td>
<td>$</td>
</tr>
<tr>
<td>Current year increase (decrease)</td>
<td>$</td>
</tr>
<tr>
<td>Withdrawals &amp; distributions</td>
<td>$</td>
</tr>
<tr>
<td>Ending capital account</td>
<td>$</td>
</tr>
</tbody>
</table>

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

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

- [ ] Yes
- [ ] No

If “Yes,” attach statement (see instructions)
<table>
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<td>4</td>
<td>Guaranteed payments</td>
<td></td>
<td></td>
</tr>
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<td>5</td>
<td>Interest income</td>
<td></td>
<td></td>
</tr>
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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  
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