Partnership K-1: What you need to know in light of the Tax Cuts & Jobs Act

Presented by:
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Learning Objectives

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

• Recognize the impact of the Tax Cuts and Jobs Act (TCJA) on the Partnership K-1 and partner.
• Determine the appropriate Form 1040 reporting for certain K-1 line items.
• Identify how information flows through to a partner under the new Section 199A - Qualified Business Income (QBI) deduction.
Partnership K-1 overview

• Purpose - to report the flow through of the partner’s share of income, deductions, credits, etc.
• Furnished to partner by due date
• Inconsistent Treatment
• Technical Terminations end 12/31/2017
  • Impact of Tax Cuts & Jobs Act
About the Partnership

- Final or amended K-1
  - Look for a sale of partnership interest
- Fiscal Year K-1 ending prior to 12/31/2018
  - Impact of TCJA and QBI for timing
- Family Partnerships
  - Qualified Joint Ventures
- Publicly Traded Partnership (PTP)
  - Losses offset only by income of same PTP
  - Eligible for QBI
  - Sale of interest
Tax Cuts & Jobs Act

• Qualified Business Income – §199A
  • Net trade or business income from an Relevant Passthrough Entity (RPE) - §162
    • S-Corporations, Partnerships, Sole Proprietorships
  • Includes aggregate qualified REIT dividends, co-op dividends and PTP income
  • Excludes investment income
  • Reported on the 1065 K-1, box 20
  • Proposed Regs 107892-18
Tax Cuts & Jobs Act

- QBI Deduction – IRC §199A
  - Taken at the partner level
  - Specified Service Trade or Business - §1202
  - Taxable income limitations
  - Wage and capital asset limitations
  - Aggregation rules (proposed reg 107892-18)
  - Gone after 2025
Tax Cuts & Jobs Act

• Is there QBI reported from an RPE?
  • Everybody gets the QBID (20% of QBI) if taxable income before QBID is;
    • Filing MFJ < $315,000
    • All other filing statuses < $157,500
  • QBID subject to wage and capital limitations
    • Filing MFJ > $315,000
    • All others >$157,500
Tax Cuts & Jobs Act

• Is there QBI from an RPE that is a Specified Service Trade or Business (SSTB)?
  • Taxable income before QBID;
    • Filing MFJ > $415,000
    • All other filing statuses > $207,500

NO QBID!
About the Partner

• General partner
  • Personally liable for partnership debt
• Limited partner
  • Personal liability is limited to investment
• Partners are NOT employees
• Active or passive is determined at the partner level!
  • Impact of TCJA
  • Net Investment Income Tax
Partner’s Basis

- IRC §705
- Inside basis: Tax basis in the individual assets
  - Partnership tracks
  - Cannot be negative
- Outside basis: Tax basis of ownership interest
  - Partner tracks
- Contribution of cash
- Contribution of property
  - Holding period is partner’s holding period
  - Basis is partner’s adjusted basis
Partner’s Basis

• Contribution of Services; IRC §83
  • Performs services in exchange for a capital or profit (carried) interest
  • Taxable compensation – guaranteed payment
  • Deductible to partnership
  • Becomes partner’s basis
  • Impact of TCJA, IRC §1061
    • Sale of a partnership profit interest is short term if sold within 3 years
Partner’s capital account

- Maintained by partnership
- Does not always equal partner’s basis
- Bookkeeping entries
- Indicated on K-1 how it is maintained
  - Book value basis - §704(b) FMV
  - Tax basis – most common
- Can be negative!
At Risk Rules

• Partner must bear economic risk of loss
• Recourse debt – increases at risk basis
• Non-recourse debt – decreases at risk basis
• Qualified non-recourse financing – increases at risk basis
• Losses are suspended – Form 6198
  • Carried forward
Income

• Schedule E, page 2
  • Material participation rules for passive or non-passive
  • Schedule SE for an active business
• Each activity must be separately stated
• Loss – is it deductible?
  • Evaluate basis
  • At-Risk rules
  • Passive activity
• Loss Limitation Rules
  • Impact of TCJA; IRC §172
  • IRC §461
Rental activities

• Schedule E, page 2
• Loss – is it deductible?
• Active vs material participation
• Real estate professional – determined annually
• Impact of TCJA – follow IRC §162 not §469!
• Grouping rules
Guaranteed payments

• Schedule E, page 2; Schedule SE
• Payment to partners for services
• Health insurance premiums paid / HSA
• Minimum payments
• Capitalized payments
• Interest payments paid by the partnership to the partner
Guaranteed payments

- TCJA impact
  - Not included in QBI
  - Partnership agreements
  - Payments to partners
  - Not to be considered “reasonable compensation” §199A-3(A)(vii)(c)
Portfolio income

- Interest / Dividend Income
  - Schedule B 1040
  - Net Investment Income Tax – yes, unless exception
- Capital gains (losses)
  - Schedule D
  - Net Investment Income Tax - yes
- Gain/Loss on sale of business assets
  - Form 4797
  - Net Investment Income Tax – no
- Not included in QBI
Pay attention to the details!

Look for the asterisk and associated note;
Section 179 deduction

- Statement attached to K-1
- Section 179 limitations are applied at the partner level
- TCJA new limits
  - $1 million
- Year end planning
- Circular 230 §10.29 – Conflict of Interest
Other deductions

A few examples...

• Foreign Tax Paid
• Charitable contributions
• Investment interest expense
  • Form 4952
• Deduction for royalty income
• Partner share of fringe benefits
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)
Credits

• Backup withholding
  • Form 1040 Line 64
  • Attach statement
• Paid Family Leave and Medical credit
  • TCJA – new credit
• Passive activity credit,
  • Form 8582-CR
Miscellaneous

- Tax exempt interest
  - Form 1040
  - Increase to basis
- Other tax exempt income
  - Increase to basis
- Nondeductible expenses
  - Decrease to basis
  - TCJA = more nondeductible expenses!
Distributions

- Distributions – cash
  - Decrease to basis
  - In excess of basis? Capital gain and increase to basis
- IRC § 704c contributed property with built in gains
- Distributions - Other property
  - Statement will be attached with adjusted basis, FMV
  - Decrease to basis
  - In excess of basis? Capital gain and increase to basis
Other Information – Box 20

• Uses codes and statements to provide additional information
• Form 4952 for adjustments to Investment Interest Deduction
• Sale of Sec 179 property, statement from K-1
  • Enter as separate sale on Form 4797
• Publicly Traded Partnership (PTP)
• Qualified Business Income (QBI)
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
- Rev Ruling 70-253: Agreement must state that partner is required to pay expenses
- Does not change basis
- Impact of TCJA
What did we do for the last hour!? 

• Reviewed the impact of the Tax Cuts and Jobs Act (TCJA) on the Partnership K-1 and partner.
• Determined the appropriate Form 1040 reporting for certain K-1 line items.
• Discussed how information flows through to a partner under the new Section 199A - Qualified Business Income (QBI) deduction.
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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