

# Instructions for Form 8865

(December 1999)

## Return of U.S. Persons With Respect to Certain Foreign Partnerships

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



Department of the Treasury  
Internal Revenue Service

**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.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form and related schedules will vary depending on individual circumstances. The estimated average times are:

Form	Recordkeeping	Learning about the law or the form	Preparing and sending the form to the IRS
8865	15 hr., 18 min.	3 hr., 5 min.	3 hr., 28 min.
Schedule O (Form 8865)	12 hr., 55 min.	2 hr., 23 min.	2 hr., 42 min.
Schedule P (Form 8865)	5 hr., 16 min.	24 min.	30 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form and related schedules simpler, we would be happy to hear to from you. See the instructions for the tax return with which this form is filed.

## General Instructions

### Purpose of Form

Use Form 8865 to report the information required under section 6038 (reporting with respect to controlled foreign partnerships), section 6038B (reporting of transfers to foreign partnerships), or section 6046A (reporting of acquisitions, dispositions, and changes in foreign partnership interests).

### Who Must File

**Note:** For tax years beginning in 1999, only Category 3 and 4 filers are required to file Form 8865. Category 3 filers must complete page 1 and Schedules A, A-1, A-2, and O as required by these instructions. Category 4 filers must complete page 1 and Schedules A, A-2, and P as required by these instructions. The additional schedules for Category 1 and 2 filers are shaded and provided for information only. See **Effective Dates** below.

A U.S. person qualifying under one or more of the **Categories of Filers** below must complete and file Form 8865. These instructions and the **Filer Categories - Required Information** chart on page 2 explain the information, statements, and schedules required for each category of filer. If you qualify under more than one category for a particular foreign partnership, you must submit all the items required for all categories under which you qualify. For example, if you qualify as a Category 2 and a Category 3 filer, you

must submit all the schedules required of Category 2 filers (page 1 of Form 8865, Schedules A, A-2, N, and K-1) plus any additional schedules that Category 3 filers are required to submit (Schedules A-1 and O).

Complete a **separate** Form 8865 and the applicable schedules for **each** foreign partnership for which you qualify under at least one of the categories of filers.

### Effective Dates

A person qualifying as a Category 1 or 2 filer must file Form 8865 reporting information **only** for tax years of the foreign partnership ending on or after December 31, 2000.

Generally, a person qualifying as a Category 3 filer must file Form 8865 to report transfers to foreign partnerships that occurred after August 5, 1997. Transfers made after August 5, 1997, and before January 1, 1999, may be reported on the Form 8865 filed with the transferor's tax return for the transferor's first tax year beginning on or after January 1, 1999. However, **do not** use Form 8865 to report transfers to foreign partnerships made before January 1, 1999, that you previously reported on **Form 926**, Return by a U.S. Transferor of Property to a Foreign Corporation, under Regulations section 1.6038B-2(j) or Notice 98-17, 1998-11 I.R.B. 6.

Additionally, any transfers that occurred before January 1, 2000, will be considered timely reported if reported on a Form 8865 attached to an amended

return for the transferor's tax year in which the transfer occurred, provided the amended return is filed no later than September 15, 2000.

A person qualifying as a Category 4 filer must report on Form 8865 only those reportable events occurring after December 31, 1999. See **Categories of Filers** below for the definition of a reportable event.

## Categories of Filers

**Category 1 filer.** A Category 1 filer is a U.S. person who controlled the foreign partnership at any time during the partnership's tax year. Control of a partnership is ownership of more than a 50% interest in the partnership. See the definition of 50% interest on page 4. There may be more than one Category 1 filer for a partnership for a particular partnership tax year.

**Category 2 filer.** A Category 2 filer is a U.S. person who at any time during the tax year of the foreign partnership owned a 10% or greater interest in the partnership while the partnership was controlled by U.S. persons owning at least 10% interests. However, if the foreign partnership had a Category 1 filer at any time during that tax year, no person will be considered a Category 2 filer. See the definition of a 10% interest on page 4.

**Category 3 filer.** A Category 3 filer is a U.S. person who contributed property during that person's tax year to a foreign partnership in exchange for an interest in the partnership (a section 721 transfer), if that person either:

1. Owned directly or constructively at least a 10% interest in the foreign partnership immediately after the contribution, or
2. The value of the property contributed (when added to the value of any other property contributed to the partnership by such person, or any related person, during the 12-month period ending on the date of transfer) exceeds \$100,000.

If a domestic partnership contributes property to a foreign partnership, the domestic partnership's partners are considered to have transferred a proportionate share of the contributed property to the foreign partnership. If a foreign partnership contributes property to another foreign partnership, the partners of the contributing foreign partnership are not considered to have transferred a proportionate share of the contributed property.

**Filer Categories – Required Information**

	Category 1	Category 2	Category 3	Category 4
Identifying information—(page 1 of Form 8865)	✓	✓	✓	✓
Schedule A—Constructive Ownership of Partnership Interest	✓	✓	✓	✓
Schedule A-1—Certain Partners of Foreign Partnership	✓		✓	
Schedule A-2—Affiliation Schedule	✓	✓	✓	✓
Schedule B—Income Statement—Trade or Business Income	✓			
Schedule D—Capital Gains and Losses	✓			
Schedule K—Partners’ Shares of Income, Credits, Deductions, etc.	✓			
Schedule L—Balance Sheets per Books	✓			
Schedule M—Balance Sheets for Interest Allocation	✓			
Schedule M-1—Reconciliation of Income (Loss) per Books With Income (Loss) per Return	✓			
Schedule M-2—Analysis of Partners’ Capital Accounts	✓			
Schedule N—Transactions Between Controlled Foreign Partnership and Partners or Other Related Entities	✓	✓		
Separate Schedule K-1—Partner’s Share of Income, Credits, Deductions, etc. (direct partners only)	✓	✓		
Separate Schedule O—Transfer of Property to a Foreign Partnership			✓	
Separate Schedule P—Acquisitions, Dispositions, and Changes of Interests in a Foreign Partnership				✓

Category 3 also includes a U.S. person that previously transferred appreciated property to the partnership and was required to report that transfer under section 6038B, if the foreign partnership disposed of such property while the U.S. person remained a direct or indirect partner in the partnership.

**Category 4 filer.** A Category 4 filer is a U.S. person that had a reportable event under section 6046A during that person's tax year. There are three categories of reportable events under section 6046A: acquisitions, dispositions, and changes in proportional interests.

**Acquisitions.** A U.S. person that acquires a foreign partnership interest has a reportable event if:

- The person did not own a 10% or greater direct interest in the partnership and as a result of the acquisition the person owns a 10% or greater direct interest in the partnership (e.g., from 9% to 11%). For purposes of this rule, an acquisition includes an increase in a person's direct proportional interest (see definition of change in proportional interest on page 4); or
- Compared to the person's direct interest when the person last had a reportable event, after the acquisition the person's direct interest has increased by at least a 10% interest (e.g., from 11% to 21%).

**Dispositions.** A U.S. person that disposes of a foreign partnership interest has a reportable event if:

- The person owned a 10% or greater direct interest in the partnership before the disposition and as a result of the disposition the person owns less than a 10% direct interest (e.g., from 11% to 8%). For purposes of this rule, a disposition includes a decrease in a person's direct proportional interest; or
- Compared to the person's direct interest when the person last had a reportable event, after the disposition the person's direct interest has decreased by at least a 10% interest (e.g., from 21% to 11%).

**Changes in proportional interests.**

A U.S. person has a reportable event if compared to the person's direct proportional interest the last time the person had a reportable event, the person's direct proportional interest has increased or decreased by at least the equivalent of a 10% interest in the partnership.

**Special rule for a partnership interest owned on December 31, 1999.**

If the U.S. person owned at least a 10% direct interest in the foreign partnership on December 31, 1999, then the comparison should be made to the person's direct interest on December 31, 1999. Once the person has a reportable event, future comparisons should be made by reference to the last reportable event.

**Exceptions to Filing**

**Multiple Category 1 filers.** If during the tax year of the partnership there is more than one Category 1 filer, instead of each Category 1 filer submitting a separate Form 8865, only one Form 8865 from one Category 1 filer is required. A person that is a Category 1 filer by reason of an interest in losses or deductions may not file the single Form 8865 if another U.S. person is a Category 1 filer by reason of an interest in capital or profits; only the latter may file the return. The U.S. person that files the Form 8865 must complete Item E on page 1 of the form.

The single Form 8865 to be filed must contain all of the information that would have been required if each Category 1 filer had filed a separate Form 8865. Specifically, a separate Schedule N and Schedule K-1 must be attached to the Form 8865 for each Category 1 filer. Also, questions B, C, and D on page 1 and Schedule A on page 2 of Form 8865 must be completed for each Category 1 filer not filing the form on a separate statement to be attached to the single Form 8865.

A Category 1 filer not filing Form 8865 must attach a statement entitled "Controlled Foreign Partnership Reporting" to that person's income tax return.

The statement must include the following information:

- A statement that the person qualified as a Category 1 filer, but is not submitting

Form 8865 under the multiple Category 1 filers exception.

- The name, address, and identifying number (if any) of the foreign partnership of which the person qualified as a Category 1 filer.

- A statement that the filing requirement has been or will be satisfied.

- The name and address of the person filing Form 8865 for this partnership.

- The Internal Revenue Service Center where the Form 8865 must be filed.

**Note:** A U.S. person, who qualifies for this exception and who in addition to being a Category 1 filer is also a Category 3 or 4 filer, must still complete the requirements applicable to Category 3 or 4 filers (including page 1 of the form).

**Constructive owners.** A Category 1 or 2 filer that does not own a direct interest in the partnership and that is required to file this form solely because of constructive ownership from a U.S. person(s) is not required to file Form 8865 if:

1. Form 8865 if filed by the U.S. person(s) through which the indirect partner constructively owns an interest in the foreign partnership,

2. The U.S. person through which the indirect partner constructively owns an interest in the foreign partnership is also a constructive owner and meets all the requirements of this constructive ownership filing exception, or

3. Form 8865 is filed for the foreign partnership by another Category 1 filer under the multiple Category 1 filers exception.

To qualify for the constructive ownership filing exception, the indirect partner must file with its income tax return a statement entitled "Controlled Foreign Partnership Reporting."

This statement must contain the following information:

1. A statement that the indirect partner was required to file Form 8865, but is not doing so under the constructive owners exception;

2. The names and addresses of the U.S. persons whose interests the indirect partner constructively owns; and

3. The name and address of the foreign partnership for which the indirect partner would have had to have filed Form 8865 but for this exception.

**Members of an affiliated group of corporations filing a consolidated return.** If one or more members of an affiliated group of corporations filing a consolidated return qualify as Category 1 or 2 filers for a particular foreign partnership, the common parent corporation may file one Form 8865 on behalf of all of the members of the group required to report. Except for group members who also qualify under the constructive owners exception, the Form 8865 must contain all the information that would have been required to be submitted if each group member filed its own Form 8865.

**Exception for certain trusts.** Trusts relating to state and local government employee retirement plans are not required to file Form 8865.

**Exception for certain Category 4 filers.** If you qualify as a Category 3 and 4 filer because you contributed property to a foreign partnership in exchange for a 10% or greater interest in that partnership, you are not required to report this transaction under both Category 3 and 4 filing requirements. If you properly reported this contribution of property under the Category 3 rules, you are not required to report it as a Category 4 filer. However, the acquisition will count as a reportable event to determine if a later change in your partnership interest qualifies as a reportable event under Category 4.

**Example.** Partner A does not own an interest in FPS, a foreign partnership. Partner A transfers property to FPS in exchange for a 15% direct interest in FPS on January 1, 2002. Partner A qualifies as a Category 3 filer because he transferred property to a foreign partnership and owned at least a 10% interest in FPS immediately after the contribution. Partner A is also a Category 4 filer because he did not own a 10% or greater direct interest in FPS and as a result of the acquisition of the FPS interest now owns a 10% or greater direct interest in FPS. If Partner A properly reports the contribution on Form 8865 as a Category 3 filer, Partner A is not required to report his acquisition of the 15% interest in FPS as a Category 4 filer.

### Relief for Category 1 and 2 Filers When the Foreign Partnership Files Form 1065 or Form 1065-B

If a foreign partnership files **Form 1065**, U.S. Partnership Return of Income, or **Form 1065-B**, U.S. Return of Income for Electing Large Partnerships, for its tax year, Category 1 and 2 filers must use a copy of the Form 1065 or 1065-B schedules instead of the equivalent schedules on the Form 8865.

The following Form 1065/1065-B schedules are equivalent to the following Form 8865 schedules:

Forms 1065/1065-B	Form 8865
Page 1	Schedule B
Schedule D	Schedule D
Schedule K	Schedule K
Schedule L	Schedule L
Schedule M-1	Schedule M-1
Schedule M-2	Schedule M-2
Schedule K-1	Schedule K-1

**Example.** Partner A is a Category 1 filer with respect to FPS, a foreign partnership during the FPS 2001 tax year. FPS completes and files a Form 1065 for its 2001 tax year. Instead of completing Schedules B, D, K, L, M-1, M-2, and K-1 (the Schedules K-1 for itself and all other U.S. persons owning 10% or greater direct interests in the foreign partnership) on Form 8865, Partner A must attach to

its Form 8865 page 1 of Form 1065 and Form 1065 Schedules D, K, L, M-1, M-2, and K-1 (including the Schedules K-1 for all other U.S. persons owning 10% or greater direct interests in FPS). Partner A also must complete the following items and schedules on Form 8865:

- The first page;
- Schedule A;
- Schedule A-1;
- Schedule A-2;
- Schedule M; and
- Schedule N.

**Example.** Partner A is a Category 2 filer with respect to FPS, a foreign partnership. If FPS completes and files a Form 1065 for its 2001 tax year, Partner A must file with Form 8865 the Schedule K-1 (Form 1065) that it receives from the partnership instead of Schedule K-1 (Form 8865). Partner A also must complete the following items and schedules on Form 8865:

- The first page;
- Schedule A;
- Schedule A-2; and
- Schedule N.

### When and Where To File

Attach Form 8865 to your income tax return (or, if applicable, partnership or exempt organization return) and file both by the due date (including extensions) for that return. If you do not have to file an income tax return (or a partnership or exempt organization return), you must still complete and file Form 8865 with the IRS at the time and place you would be required to file an income tax return (or, if applicable, a partnership or exempt organization return). See page 4 for penalties that may apply if you do not file Form 8865 on time.

### Definitions

**Partnership.** A partnership is the relationship between two or more persons who join to carry on a trade or business, with each person contributing money, property, labor, or skill and each expecting to share in the profits and losses of the business whether or not a formal partnership agreement is made.

The term "partnership" includes a limited partnership, syndicate, group, pool, joint venture, or other unincorporated organization, through or by which any business, financial operation, or venture is carried on, that is not, within the meaning of the regulations under section 7701, a corporation, trust, estate, or sole proprietorship.

A joint undertaking merely to share expenses is not a partnership. Mere co-ownership of property that is maintained and leased or rented is not a partnership. However, if the co-owners provide services to the tenants, a partnership exists.

**Foreign partnership.** A foreign partnership is a partnership that is not created or organized in the United States

or under the law of the United States or of any state.

**50% interest.** A 50% interest in a partnership is an interest equal to 50% of the capital interest in the partnership, an interest equal to 50% of the profits interest in the partnership, or an interest to which 50% of the deductions or losses of the partnership are allocated. For purposes of determining a 50% interest, the constructive ownership rules below apply.

**10% interest.** A 10% interest in a partnership is an interest equal to 10% of the capital interest in the partnership, an interest equal to 10% of the profits interest in the partnership, or an interest to which 10% of the deduction or losses of the partnership are allocated. For purposes of determining a 10% interest, the constructive ownership rules below apply.

**Constructive ownership.** For purposes of determining an interest in a partnership, the constructive ownership rules of section 267(c) (excluding section 267(c)(3)) apply, taking into account that such rules refer to corporations and not to partnerships. Generally, an interest owned directly or indirectly by or for a corporation, partnership, estate, or trust shall be considered as being owned proportionately by its owners.

Also, an individual is considered to own an interest owned directly or indirectly by or for his family. The family of an individual includes only that individual's spouse, brothers, sisters, ancestors, and lineal descendants. However, an interest will be attributed from a nonresident alien individual under the family attribution rules only if the person to whom the interest is attributed owns a direct or indirect interest in the foreign partnership under section 267(c)(1) or (5).

**U.S. person.** A U.S. person is a citizen or resident of the United States, a domestic partnership, a domestic corporation, and any estate or trust that is not foreign.

**Control of a corporation.** Control of a corporation is ownership of stock possessing more than 50% of the total combined voting power, or more than 50% of the total value of shares of all classes of stock of the corporation. For rules concerning indirect ownership and attribution, see Regulations section 1.6038-2(c).

**Change in a proportional interest.** A partner's proportional interest in a foreign partnership can change as a result of changes in other partners' interests, for example, when another partner withdraws from the partnership. A partner's proportional interest can also change, for example, by operation of the partnership agreement (e.g., if the partnership agreement provides that a partner's interest in profits will change on a set date or when the partnership has earned a specified amount of profits, then the partner's proportional interest changes when the set date or specified amount of profits is reached).

## Penalties

### Failure to timely submit all information required of Category 1 and 2 filers.

- A \$10,000 penalty is imposed for each tax year of each foreign partnership for failure to furnish the required information within the time prescribed. If the information is not filed within 90 days after the IRS has mailed a notice of the failure to the U.S. person, an additional \$10,000 penalty (per foreign partnership) is charged for each 30-day period, or fraction thereof, during which the failure continues after the 90-day period has expired. The additional penalty is limited to a maximum of \$50,000 for each failure.

- Any person who fails to furnish all of the information required within the time prescribed, will be subject to a reduction of 10% of the foreign taxes available for credit under sections 901, 902, and 960. If the failure continues 90 days or more after the date the IRS mails notice of the failure, an additional 5% reduction is made for each 3-month period, or fraction thereof, during which the failure continues after the 90-day period has expired. See section 6038(c)(2) for limits on the amount of this penalty.

- Criminal penalties under sections 7203, 7206, and 7207 may apply for failure to file or for filing false or fraudulent information.

Additionally, any person that does file under the constructive owners exception may be subject to these penalties if all the requirements of the exception are not met. See **Exceptions to Filing** on page 2.

**Important:** Any person required to file Form 8865 who does not file under to the multiple Category 1 filers exception, may be subject to the above penalties if the other person does not file a correct and complete form and schedules.

**Failure to file information required of Category 3 filers.** Any person that fails to properly report a contribution to a foreign partnership that is required to be reported under section 6038B and the regulations under that section (Form 8865, page 1, and Schedules A, A-1, A-2, and O), is subject to a penalty equal to 10% of the fair market value (FMV) of the property contributed. This penalty is subject to a \$100,000 limit, unless the failure is due to intentional disregard. In addition, the transferor must recognize gain on the contribution as if the contributed property had been sold for FMV.

**Failure to file information required of Category 4 filers.** Any person who fails to properly report all the information requested by section 6046A (Form 8865, page 1, and Schedules A, A-2, and P), is subject to a \$10,000 penalty. If the failure continues for more than 90 days after the IRS mails notice of the failure, an additional \$10,000 penalty will apply for each 30-day period (or fraction thereof) during which the failure continues after the 90-day period has expired. The

additional penalty shall not exceed \$50,000.

**Treaty-based return positions.** File **Form 8833**, Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b), to report a return position that a treaty of the United States (such as an income tax treaty, an estate and gift tax treaty, or a friendship, commerce, and navigation treaty):

- Overrides or modifies any provision of the Internal Revenue Code, and
- Causes (or potentially causes), a reduction of any tax incurred at any time.

Failure to make such a report may result in a \$1,000 penalty (\$10,000 in the case of a C corporation). See section 6712.

## Corrections to Form 8865

If you file a Form 8865 containing incomplete or incorrect information, file a corrected Form 8865 with an amended tax return following the instructions for the return with which you originally filed Form 8865. Write "corrected" at the top of the form and attach a statement identifying and explaining the changes.

## Specific Instructions

**Important:** Fill in all applicable lines and sections. All information must be in English. All amounts must be stated in U.S. dollars.

If the information required in a given section exceeds the space provided within that section, **do not** write "see attached" in the section and attach all of the information on additional sheets. Instead, complete all entry spaces in the section and attach separate sheets to provide the remaining information, using the same size and format as the printed forms.

## General Information

All categories of filers must complete all questions on page 1 with three exceptions. Complete Item E only if, in addition to filing the form on your own behalf, you are reporting information about other Category 1 filers under the multiple Category 1 filing exception, or are reporting information about members of your affiliated group of corporations under the consolidated return exception. See **Exceptions to Filing** on page 2. Answer items G8 and G9 only if you are a Category 1 filer.

## Tax Year

Enter in the space below the title of Form 8865 the tax year of the foreign partnership that ended with or within the tax year of the person filing this form. Category 1 or 2 filers must report information for the tax year of the foreign partnership that ends with or within their tax years. A Category 3 or 4 filer must report on Schedules O or P, respectively, transactions that occurred during that

filer's tax year (rather than during the partnership's tax year).

### Identifying Numbers and Addresses

Use an EIN to identify partnerships, corporations, and estates or trusts. For individuals, use a social security number (SSN) or individual taxpayer identification number (ITIN).

Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and the U.S. person has a P.O. box, show the box number instead.

**Foreign address.** Enter the information in the following order: city, province or state, and country. Follow the country's practice for entering the postal code, if any. Do not abbreviate the country name.

### Item A—Category of Filer

Check the box for each category that describes the person filing the form. If more than one category applies, check all boxes that apply. See **Categories of Filers** on page 1.

### Item C

Enter the filer's share of nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other liabilities. Nonrecourse liabilities are those liabilities of the partnership for which no partner bears the economic risk of loss. The extent to which a partner bears the economic risk is determined under the rules of Regulations section 1.752-2.

"Qualified nonrecourse financing" generally includes financing for which no one is personally liable for repayment that is borrowed for use in an activity of holding real property and that is:

- Lent or guaranteed by a Federal, state, or local government, or
- Borrowed from a qualified person.

See section 465 for more information on qualified nonrecourse financing.

### Item D—Identification of Common Parent

If the person filing the form is a member of a consolidated group, but not the parent, list the name, address, and EIN of the filer's common parent.

### Item E

**Information about certain partners.** If you are reporting information about other persons under the multiple Category 1 filers exception, or are reporting information about members of your affiliated group of corporations under the consolidated return exception (see **Exceptions to Filing** beginning on page 2), identify each such person in Item E. List their names, addresses, and identifying numbers. Also indicate for each person whether such person is a Category 1 filer or Category 2 filer, and whether such person constructively

owned an interest in the foreign partnership during the tax year of the partnership listed at the top of page 1 of Form 8865. See **Constructive ownership** on page 4.

### Item F6

**Category 2, 3, and 4 filers in a partnership that filed Form 1065 or 1065-B.** Enter the business code shown in Item C of the Form 1065 or 1065-B filed by the partnership.

**Category 2, 3, and 4 filers in a partnership that did not file Form 1065 or 1065-B.** Enter the applicable business code from the list beginning on page 21. If the information necessary to apply the total receipts test is not available, pick a principal business activity code using the information you have about the partnership.

### Item F8

Enter the foreign partnership's functional currency and exchange rate (the rate used to convert the functional currency to U.S. dollars). See sections 985 through 989 and the regulations thereunder. If the partnership had more than one qualified business unit (QBU), attach a statement identifying each QBU, its country of operation, and its functional currency. See Regulations section 1.989(a)-1(b) for the definition of a QBU.

**Hyperinflationary exception.** A partnership that has a hyperinflationary currency as its functional currency is subject to special rules set forth in Regulations section 1.985-3. Under these rules, a partnership must use the U.S. dollar as its functional currency.

### Item G2

If the foreign partnership was required to file Form 1065 or Form 1065-B for the partnership's tax year listed at the top of page 1 (Form 8865), check the applicable box and enter the IRS Service Center where the form was or will be filed. Also check the applicable box(es) if the foreign partnership was required to file **Form 8804**, Annual Return for Partnership Withholding Tax (Section 1446), or **Form 1042**, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons (for the calendar year ending within or with the foreign partnership's tax year).

### Item G6

Enter the number of foreign disregarded entities owned by the partnership during the partnership's tax year. A disregarded entity is an entity that is disregarded as separate from its owner under Regulations section 301.7701-3(a). See **Form 8832**, Entity Classification Election, for more information. On an attached schedule, list the name of each foreign disregarded entity, identify the country or countries in which each disregarded entity conducts operations, and identify how the

disregarded entity is classified in the foreign country.

### Question G8—Separate Units

Only Category 1 filers are required to answer question G8.

Indicate whether the partnership owned any interest in a separate unit. In general, a separate unit is:

1. A foreign branch that is owned either directly by a domestic corporation or indirectly by domestic corporation through ownership of a partnership or trust interest,
2. An interest in a partnership, or
3. An interest in a trust.

See Regulations section 1.1503-2(c)(3) and (4) for more information on separate units. Attach a schedule identifying each separate unit and its country of operation.

### Question G9

Only answer question G9 if you are a Category 1 filer.

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## Schedule A—Constructive Ownership of Partnership Interest

All Category 1, 3, and 4 filers must complete Schedule A. Check box **a** if the person filing the return owns a direct interest in the foreign partnership. Check box **b** if the person filing the return constructively owns an interest in the foreign partnership. See **Constructive ownership** on page 4.

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## Schedule A-1—Certain Partners of Foreign Partnership

All Category 1 filers and certain Category 3 filers must complete Schedule A-1. Category 1 filers must list all U.S. persons who owned at least a 10% direct interest in the foreign partnership during the partnership tax year listed at the top of page 1 of Form 8865. Any person already listed on Schedule A does not have to be listed on Schedule A-1.

Category 3 filers must list the names and addresses of all the other partners in the foreign partnership. However, for transfers occurring in tax years of Category 3 filers beginning after December 31, 1999, the Category 3 filer must list the names and addresses of **(a)** each U.S. person that owned a 10% or greater direct interest in the foreign partnership and **(b)** any other related person that was a direct partner in the foreign partnership. See Regulations section 1.6038B-2(i)(4) for the definition of a related person.

**Exception.** Category 3 filers who transferred solely cash and did not own a 10% or greater interest in the transferee partnership after the transfer are not required to complete Schedule A-1.

## Schedule A-2—Affiliation Schedule

All Category 1, 2, 3, and 4 filers must complete Schedule A-2. List on Schedule A-2 all partnerships (foreign or domestic) in which the foreign partnership owned a direct interest, or a 10% indirect interest (under the rules of section 267(c)(1) and (5)) during the partnership tax year listed at the top of page 1, Form 8865. Only Category 1 filers must complete the ordinary income or loss column. In that column, report the foreign partnership's share of ordinary income (even if not received) or loss from partnerships in which the foreign partnership owns a direct interest. The total amount of ordinary income or loss from each partnership must also be included on line 4 of Schedule B.

## Schedule B—Income Statement—Trade or Business Income

**Important:** If the foreign partnership filed Form 1065 or 1065-B, **do not** complete Schedule B on Form 8865. Instead, attach to Form 8865 a copy of page 1 from Form 1065 or 1065-B.

All Category 1 filers must complete Schedule B and also report the amounts on Schedules K and K-1.

### Income



**Report only trade or business activity income on lines 1a through 8. Do not report rental activity income or portfolio income on these lines.** Rental activity income and portfolio income are reported on Schedules K and K-1. Rental real estate activities are also reported on **Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation.**

Do not include any tax-exempt income on lines 1a through 7. A partner in a partnership that receives any tax-exempt income other than interest, or holds any property or engages in any activity that produces tax-exempt income reports the amount of this income on line 20 of Schedules K and K-1.

Report tax-exempt interest income, including exempt-interest dividends received by the partnership as a shareholder in a mutual fund or other regulated investment company, on line 19 of Schedules K and K-1.

See **Deductions** on page 7 for information on how to report expenses related to tax-exempt income.

If the partnership has had debt discharged resulting from a title 11 bankruptcy proceeding or while insolvent, see **Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness**, and **Pub. 908, Bankruptcy Tax Guide**.

### Line 1a—Gross Receipts or Sales

Enter the gross receipts or sales from all trade or business operations except those that must be reported on lines 4 through 7. For example, do not include gross receipts from farming on this line. Instead, show the net profit (loss) from farming on line 5. Also, do not include on line 1a rental activity income or portfolio income. See section 460 for special rules that apply to long-term contracts.

**Installment sales.** Except as noted below, the installment method cannot be used for:

- Sales of property after December 16, 1999, that would otherwise be reported using the accrual method of accounting.
- Dealer dispositions of property. A “dealer disposition” is any disposition of personal property by a person who regularly sells or otherwise disposes of personal property of the same type on the installment plan or any disposition of real property held for sale to customers in the ordinary course of the taxpayer's trade or business.

**Exception.** These restrictions on using the installment method do not apply to dispositions of property used or produced in a farming business or sales of timeshares and residential lots for which the partners are required to pay interest under section 453(l)(3).

Enter on line 1a the gross profit on collections from installment sales for any of the following:

- Dealer dispositions of property before March 1, 1986.
  - Dispositions of property used or produced in the trade or business of farming.
  - Dispositions of timeshares and residential lots reported under the installment method.
- Attach a schedule showing the following information for the current year and the 3 preceding years:
- Gross sales.
  - Cost of goods sold.
  - Gross profits.
  - Percentage of gross profits to gross sales.
  - Amount collected.
  - Gross profit on amount collected.

### Line 2—Cost of Goods Sold

See the regulations under sections 263A and 471 for information on how to figure cost of goods sold.

### Line 4—Ordinary Income (Loss) From Other Partnerships, Estates, and Trusts

Enter the ordinary income (loss) shown on Schedule K-1 (Form 1065) or Schedule K-1 (Form 1041), or other ordinary income (loss) from a foreign partnership, estate, or trust. Show the partnership's, estate's, or trust's name, address, and EIN on a separate statement attached to this return. If the

amount entered is from more than one source, identify the amount from each source.

**Do not** include portfolio income or rental activity income (loss) from other partnerships, estates, or trusts on this line. Instead, report these amounts on the applicable lines of Schedules K and K-1, or on line 20a of Form 8825 if the amount is from a rental real estate activity.

Ordinary income or loss from another partnership that is a publicly traded partnership is not reported on this line. Instead, report the amount separately on line 7 of Schedules K and K-1.

Treat shares of other items separately reported on Schedule K-1 issued by the other entity as if the items were realized or incurred by this partnership.

If there is a loss from another partnership, the amount of the loss that may be claimed is subject to the at-risk and basis limitations as appropriate.

If the tax year of your partnership does not coincide with the tax year of the other partnership, estate, or trust, include the ordinary income (loss) from the other entity in the tax year in which the other entity's tax year ends.

### Line 5—Net Farm Profit (Loss)

Enter the partnership's net farm profit (loss) from **Schedule F (Form 1040), Profit or Loss From Farming**. Attach Schedule F (Form 1040) to Form 8865. **Do not** include on this line any farm profit (loss) from other partnerships. Report those amounts on line 4.

Also report the partnership's fishing income on this line.

For a special rule concerning the method of accounting for a farming partnership with a corporate partner and for other tax information on farms, see **Pub. 225, Farmer's Tax Guide**.

**Note:** Because the election to deduct the expenses of raising any plant with a preproductive period of more than 2 years is made by the partner and not the partnership, partners in farm partnerships that are not required to use an accrual method should not capitalize such expenses. Instead, state them separately on an attachment to Schedule K, line 24, and on Schedule K-1, line 25, Supplemental Information. See *Temporary Regulations section 1.263A-4T* for more information.

### Line 6—Net Gain (Loss) From Form 4797



**Include only ordinary gains or losses from the sale, exchange, or involuntary conversion of assets used in a trade or business activity.** Ordinary gains or losses from the sale, exchange, or involuntary conversion of rental activity assets are reported separately on line 19 of Form 8825 or line 3 of Schedules K and K-1, generally as a part of the net income (loss) from the rental activity.

For a partnership that is a partner in another partnership, include on **Form 4797**, Sales of Business Property, this partnership's share of ordinary gains (losses) from sales, exchanges, or involuntary conversions (other than casualties or thefts) of the other partnership's trade or business assets.

Do not include any recapture of section 179 expense deduction. See the instructions for line 25, Supplemental Information, item 4, and the Instructions for Form 4797 for more information.

### Line 7—Other Income (Loss)

Enter on line 7 trade or business income (loss) that is not included on lines 1a through 6. Examples of such income include:

1. Interest income derived in the ordinary course of the partnership's trade or business, such as interest charged on receivable balances.
2. Recoveries of bad debts deducted in earlier years under the specific charge-off method.
3. Taxable income from insurance proceeds.
4. The amount of credit figured on **Form 6478**, Credit for Alcohol Used as Fuel.
5. All section 481 income adjustments resulting from changes in accounting methods. Show the computation of the section 481 adjustments on an attached schedule.
6. The amount of any deduction previously taken under section 179A that is subject to recapture. See **Pub. 535**, Business Expenses, for details, including how to figure the recapture.
7. The recapture amount for section 280F if the business use of listed property drops to 50% or less. To figure the recapture amount, complete Part IV of Form 4797.

Do not include items requiring separate computations that must be reported on Schedules K and K-1. See the instructions for Schedules K and K-1 later in these instructions.

**Do not report portfolio or rental activity income (loss) on this line.**

### Deductions



Report **only** trade or business activity deductions on lines 9 through 21.

**Do not** report the following expenses on lines 9 through 21:

- Rental activity expenses. Report these expenses on Form 8825 or line 3b of Schedule K.
- Deductions allocable to portfolio income. Report these deductions on line 10 of Schedules K and K-1.
- Nondeductible expenses (e.g., expenses connected with the production of tax-exempt income). Report nondeductible expenses on line 21 of Schedules K and K-1.

- Qualified expenditures to which an election under section 59(e) may apply. The instructions for lines 18a and 18b of Schedules K and K-1 explain how to report these amounts.
- Items that require separate computations by the partners. Examples include expenses incurred for the production of income instead of in a trade or business, charitable contributions, foreign taxes paid, intangible drilling and development costs, soil and water conservation expenditures, and exploration expenditures. The distributive shares of these expenses are reported separately on Schedule K-1.

### Limitations on Deductions

**Section 263A uniform capitalization rules.** The uniform capitalization rules of section 263A require partnerships to capitalize or include in inventory costs, certain costs incurred in connection with:

- The production of real and tangible personal property held in inventory or held for sale in the ordinary course of business.
  - Real property or personal property (tangible and intangible) acquired for resale.
  - The production of real property and tangible personal property by a partnership for use in its trade or business or in an activity engaged in for profit.
- The costs required to be capitalized under section 263A are not deductible until the property to which the costs relate is sold, used, or otherwise disposed of by the partnership.

**Exceptions.** Section 263A **does not** apply to:

- Personal property acquired for resale if the partnership's average annual gross receipts for the 3 prior tax years were \$10 million or less.
- Timber.
- Most property produced under a long-term contract.
- Certain property produced in a farming business. See the note at the end of the instructions for line 5.

Report the following costs separately for purposes of determinations under section 59(e):

- Research and experimental costs under section 174.
- Intangible drilling costs for oil, gas, and geothermal property.
- Mining exploration and development costs.

**Tangible personal property** produced by a partnership includes a film, sound recording, video tape, book, or similar property.

Partnerships subject to the rules are required to capitalize not only direct costs but an allocable part of most indirect costs (including taxes) that benefit the assets produced or acquired for resale, or are incurred by reason of the performance of production or resale activities.

For inventory, some of the **indirect costs** that must be capitalized are:

- Administration expenses.
- Taxes.
- Depreciation.
- Insurance.
- Compensation paid to officers attributable to services.
- Rework labor.
- Contributions to pension, stock bonus, and certain profit-sharing, annuity, or deferred compensation plans.

Regulations section 1.263A-1(e)(3) specifies other indirect costs that relate to production or resale activities that must be capitalized and those that may be currently deductible.

Interest expense paid or incurred during the production period of designated property must be capitalized and is governed by special rules. For more details, see Regulations sections 1.263A-8 through 1.263A-15.

For more details on the uniform capitalization rules, see Regulations sections 1.263A-1 through 1.263A-3.

**Transactions between related taxpayers.** Generally, an accrual basis partnership may deduct business expenses and interest owed to a related party (including any partner) only in the tax year of the partnership that includes the day on which the payment is includible in the income of the related party. See section 267 for details.

**Business start-up expenses.** Business start-up expenses must be capitalized. If the partnership files Form 1065 or 1065-B, it may elect to amortize them over a period of not less than 60 months. See Pub. 535 and Regulations section 1.195-1.

**Organization costs.** Amounts paid or incurred to organize a partnership are capital expenditures. They are not deductible as a current expense.

If the partnership files Form 1065 or 1065-B, it may elect to amortize organization expenses over a period of 60 or more months, beginning with the month in which the partnership begins business. See the instructions for line 10 for the treatment of organization expenses paid to a partner. See Pub. 535 for more information.

**Syndication costs.** Costs for issuing and marketing interests in the partnership, such as commissions, professional fees, and printing costs, must be capitalized. They cannot be depreciated or amortized. See the instructions for line 10 for the treatment of syndication fees paid to a partner.

**Reducing certain expenses for which credits are allowable.** For each of the following credits, the partnership must reduce the otherwise allowable deductions for expenses used to figure the credit by the amount of the current year credit:

1. The work opportunity credit.
2. The welfare-to-work credit.

3. The credit for increasing research activities.

4. The enhanced oil recovery credit.

5. The disabled access credit.

6. The empowerment zone employment credit.

7. The Indian employment credit.

8. The credit for employer social security and Medicare taxes paid on certain employee tips.

9. The orphan drug credit.

If the partnership has any of these credits, figure each current year credit before figuring the deductions for expenses on which the credit is based.

### Line 9—Salaries and Wages

Enter on line 9 the salaries and wages paid or incurred for the tax year, reduced by any applicable employment credits from **Form 5884**, Work Opportunity Credit, **Form 8861**, Welfare-to-Work Credit, **Form 8844**, Empowerment Zone Employment Credit, and **Form 8845**, Indian Employment Credit. See the instructions for these forms for more information.

Do not include salaries and wages reported elsewhere on the return, such as amounts included in cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement or a SIMPLE IRA plan.

### Line 10—Guaranteed Payments to Partners

Deduct payments or credits to a partner for services or for the use of capital if the payments or credits are determined without regard to partnership income and are allocable to a trade or business activity. Also include on line 10 amounts paid during the tax year for insurance that constitutes medical care for a partner, a partner's spouse, or a partner's dependents.

Do not include any payments and credits that should be capitalized. For example, although payments or credits to a partner for services rendered in organizing or syndicating a partnership may be guaranteed payments, they are not deductible on line 10. They are capital expenditures. However, they should be separately reported on Schedules K and K-1, line 5.

Do not include distributive shares of partnership profits.

Report the guaranteed payments to the appropriate partners on Schedule K-1, line 5.

### Line 11—Repairs and Maintenance

Enter the costs of incidental repairs and maintenance that do not add to the value of the property or appreciably prolong its life, but only to the extent that such costs relate to a trade or business activity and are not claimed elsewhere on the return.

New buildings, machinery, or permanent improvements that increase the value of the property are not deductible. They are chargeable to capital accounts and may be depreciated or amortized.

### Line 12—Bad Debts

Enter the total debts that became worthless in whole or in part during the year, but only to the extent such debts relate to a trade or business activity. Report deductible nonbusiness bad debts as a short-term capital loss on Schedule D.



*Cash method partnerships cannot take a bad debt deduction unless the amount was previously included in income.*

### Line 13—Rent

Enter rent paid on business property used in a trade or business activity. Do not deduct rent for a dwelling unit occupied by any partner for personal use.

If the partnership rented or leased a vehicle, enter the total annual rent or lease expense paid or incurred in the trade or business activities of the partnership. Also complete Part V of **Form 4562**, Depreciation and Amortization. If the partnership leased a vehicle for a term of 30 days or more, the deduction for vehicle lease expense may have to be reduced by an amount called the **inclusion amount**. You may have an inclusion amount if:

**And the vehicle's fair market value on the first day of the lease exceeded:**

#### The lease term began:

After 12/31/98 .....	\$15,500
After 12/31/96 but before 1/1/99 .....	\$15,800
After 12/31/94 but before 1/1/97 .....	\$15,500
After 12/31/93 but before 1/1/95 .....	\$14,600
If the lease term began before January 1, 1994, see <b>Pub. 463</b> , Travel, Entertainment, Gift, and Car Expenses, to find out if the partnership has an inclusion amount.	

See **Pub. 463** for instructions on figuring the inclusion amount.

### Line 14—Taxes and Licenses

Enter taxes and licenses paid or incurred in the trade or business activities of the partnership if not reflected in cost of goods sold. Federal import duties and Federal excise and stamp taxes are deductible only if paid or incurred in carrying on the trade or business of the partnership.

**Do not** deduct the following taxes on line 14:

- State and local sales taxes paid or incurred in connection with the acquisition or disposition of business property. These taxes must be added to the cost of the property, or, in the case of a disposition, subtracted from the amount realized.
- Taxes assessed against local benefits to the extent that they increase the value

of the property assessed, such as for paving, etc.

- Federal income taxes or taxes reported elsewhere on the return.
- Section 901 foreign taxes. See Schedules K and K-1, line 17.
- Taxes allocable to a rental activity. Taxes allocable to a rental real estate activity are reported on Form 8825. Taxes allocable to a rental activity other than a rental real estate activity are reported on line 3b of Schedule K.
- Taxes allocable to portfolio income. These taxes are reported on line 10 of Schedules K and K-1.
- Taxes paid or incurred for the production or collection of income, or for the management, conservation, or maintenance of property held to produce income. Report these taxes separately on line 11 of Schedules K and K-1.

See section 263A(a) for rules on capitalization of allocable costs (including taxes) for any property.

### Line 15—Interest

Include only interest incurred in the trade or business activities of the partnership that is not claimed elsewhere on the return.

Do not deduct interest expense on debt required to be allocated to the production of designated property. Designated property includes real property, personal property that has a class life of 20 years or more, and other tangible property requiring more than 2 years (1 year in the case of property with a cost of more than \$1 million) to produce or construct. Interest that is allocable to designated property produced by a partnership for its own use or for sale must be capitalized.

In addition, a partnership must also capitalize any interest on debt that is allocable to an asset used to produce designated property. A partner may be required to capitalize interest that was incurred by the partner for the partnership's production expenditures. Similarly, a partner may have to capitalize interest that was incurred by the partnership for the partner's own production expenditures. The information required by the partner to properly capitalize interest for this purpose must be provided by the partnership in an attachment to Schedule K-1. See section 263A(f) and Regulations sections 1.263A-8 through 1.263A-15.

Do not include interest expense on debt used to purchase rental property or debt used in a rental activity. Interest allocable to a rental real estate activity is reported on Form 8825 and is used in arriving at net income (loss) from rental real estate activities on line 2 of Schedules K and K-1. Interest allocable to a rental activity other than a rental real estate activity is included on line 3b of Schedule K and is used in arriving at net income (loss) from a rental activity (other than a rental real estate activity). This net amount is reported on line 3c of Schedule K and line 3 of Schedule K-1.

Do not include interest expense on debt used to buy property held for investment. Do not include interest expense that is clearly and directly allocable to interest, dividend, royalty, or annuity income not derived in the ordinary course of a trade or business. Interest paid or incurred on debt used to purchase or carry investment property is reported on line 14a of Schedules K and K-1. See the instructions for line 14a of Schedules K and K-1 and **Form 4952**, Investment Interest Expense Deduction, for more information on investment property.

Do not include interest on debt proceeds allocated to distributions made to partners during the tax year. Instead, report such interest on line 11 of Schedules K and K-1. To determine the amount to allocate to distributions to partners, see Notice 89-35, 1989-1 C.B. 675.

Temporary Regulations section 1.163-8T gives rules for allocating interest expense among activities so that the limitations on passive activity losses, investment interest, and personal interest can be properly figured. Generally, interest expense is allocated in the same manner that debt is allocated. Debt is allocated by tracing disbursements of the debt proceeds to specific expenditures, as provided in the regulations.

Interest paid by a partnership to a partner for the use of capital should be entered on line 10 as guaranteed payments.

Prepaid interest can only be deducted over the period to which the prepayment applies.

**Note:** *Additional limitations on interest deductions apply when the partnership is a policyholder or beneficiary with respect to a life insurance, endowment, or annuity contract issued after June 8, 1997. For details, see section 264. Attach a statement showing the computation of the deduction disallowed under section 264.*

#### Line 16—Depreciation

On line 16a, enter **only** the depreciation claimed on assets used in a trade or business activity. Enter on line 16b the depreciation reported elsewhere on the return that is attributable to assets used in trade or business activities. See the Instructions for Form 4562 or **Pub. 946**, How To Depreciate Property, to figure the amount of depreciation to enter on this line.

For depreciation, you must complete and attach Form 4562 only if the partnership placed property in service during 1999 or claims depreciation on any car or other listed property.

#### Line 17—Depletion

If the partnership claims a deduction for timber depletion, complete and attach **Form T**, Forest Activities Schedules.



**Do not deduct depletion for oil and gas properties. Each partner figures depletion on oil and gas properties. See the instructions for Schedule K-1, line 25, item 3.**

#### Line 18—Retirement Plans, etc.

Do not deduct payments for partners to retirement or deferred compensation plans including IRAs, Keoghs, and simplified employee pension (SEP) and SIMPLE IRA plans on this line. These amounts are reported on Schedule K-1, line 11, and are deducted by the partners on their own returns.

Enter the deductible contributions not claimed elsewhere on the return made by the partnership for its common-law employees under a qualified pension, profit-sharing, annuity, or SEP or SIMPLE IRA plan, and under any other deferred compensation plan.

If the partnership contributes to an individual retirement arrangement (IRA) for employees, include the contribution in salaries and wages on Schedule B, line 9, or Schedule B, line 2, and not on line 18.

#### Line 19—Employee Benefit Programs

Enter the partnership's contributions to employee benefit programs not claimed elsewhere on the return (e.g., insurance, health, and welfare programs) that are not part of a pension, profit-sharing, etc., plan included on line 18.

Do not include amounts paid during the tax year for insurance that constitutes medical care for a partner, a partner's spouse, or a partner's dependents. Instead, include these amounts on line 10 as guaranteed payments and on Schedule K, lines 5 and 11. Also report these amounts on the Schedule K-1, lines 5 and 11, of each partner on whose behalf the amounts were paid if you are required to file Schedule K-1 for that partner. See **General Instructions for Schedules K and K-1** below for the filing requirements for Schedule K-1.

#### Line 20—Other Deductions

Attach your own schedule, listing by type and amount, all allowable deductions related to a trade or business activity for which there is no separate line on Schedule B. Enter the total on this line. Do not include items that must be reported separately on Schedules K and K-1.

A partnership is not allowed the deduction for net operating losses.

Do not include qualified expenditures to which an election under section 59(e) may apply.

Include on line 20 the deduction taken for amortization. Complete and attach Form 4562 if the partnership is claiming amortization of costs that begins during its 1999 tax year. The instructions for Form 4562 provide code section references for specific amortizable property. See **Pub. 535**, Business Expenses, for more information on amortization.

Do not deduct amounts paid or incurred to participate or intervene in any political campaign on behalf of a candidate for public office, or to influence the general public regarding legislative matters, elections, or referendums. In addition, partnerships generally cannot deduct expenses paid or incurred to influence Federal or state legislation, or to influence the actions or positions of certain Federal executive branch officials. However, certain in-house lobbying expenditures that do not exceed \$2,000 are deductible. See section 162(e) for more details.

Do not deduct fines or penalties paid to a government for violating any law.

A deduction is allowed for part of the cost of qualified clean-fuel vehicle property and qualified clean-fuel vehicle refueling property. For more details, see section 179A.

#### Travel, meals, and entertainment.

Subject to limitations and restrictions discussed below, a partnership can deduct ordinary and necessary travel, meals, and entertainment expenses paid or incurred in its trade or business. Special rules apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets. See section 274 and Pub. 463 for more details.

**Travel.** The partnership cannot deduct travel expenses of any individual accompanying a partner or partnership employee, including a spouse or dependent of the partner or employee, unless:

- That individual is an employee of the partnership, and
- His or her travel is for a bona fide business purpose and would otherwise be deductible by that individual.

**Meals and entertainment.** Generally, the partnership can deduct only 50% of the amount otherwise allowable for meals and entertainment expenses. In addition (subject to exceptions under section 274(k)(2)):

- Meals must not be lavish or extravagant,
- A bona fide business discussion must occur during, immediately before, or immediately after the meal, and
- A partner or employee of the partnership must be present at the meal.

See section 274(n)(3) for a special rule that applies to expenses for meals consumed by individuals subject to the hours of service limits of the Department of Transportation.

**Membership dues.** The partnership may deduct amounts paid or incurred for membership dues in civic or public service organizations, professional organizations (such as bar and medical associations), business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards. However, no deduction is allowed if a principal purpose of the organization is to entertain, or provide entertainment facilities for, members or their guests. In addition, the

partnership may not deduct membership dues in any club organized for business, pleasure, recreation, or other social purpose. This includes country clubs, golf and athletic clubs, airline and hotel clubs, and clubs operated to provide meals under conditions favorable to business discussion.

**Entertainment facilities.** The partnership cannot deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) used for an activity usually considered entertainment, amusement, or recreation.

**Note:** *The partnership may be able to deduct otherwise nondeductible meals, travel, and entertainment expenses if the amounts are treated as compensation and reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.*

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## Schedule D—Capital Gains and Losses

**Important:** *If the foreign partnership filed Form 1065 or 1065-B, do not complete Schedule D on Form 8865. Instead, attach to Form 8865 a copy of the Schedule D from Form 1065 or 1065-B.*

All Category 1 filers must complete Schedule D to report sales or exchanges of capital assets, capital gain distributions, and nonbusiness bad debts.

Do not report on Schedule D capital gains (losses) specially allocated to any partners. Enter capital gains (losses) of the partnership that are specially allocated to partners directly on line 4d, 4e(1), 4e(2), or 7 of Schedules K and K-1 as appropriate.

Enter capital gains (losses) specially allocated to the partnership as a partner in other partnerships, and from estates and trusts, on Schedule D line 4 or 9, whichever applies.

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## General Instructions for Schedules K and K-1—Partners' Shares of Income, Credits, Deductions, Etc.

**Important:** *If the foreign partnership filed Form 1065 or 1065-B, do not complete Schedules K and K-1 on Form 8865. Instead, attach to Form 8865 a copy of the Schedules K and K-1 from Form 1065 or 1065-B.*

### Schedule K

Schedule K is a summary schedule of all of the partners' shares of the partnership income, credits, deductions, etc. Only Category 1 filers must complete Schedule K.

### Schedule K-1

Schedule K-1 is used to report a specific partner's share of the partnership income, credits, deductions, etc.

All Category 1 and 2 filers must complete Schedule K-1 for any direct interest they hold in the partnership. Category 1 filers must also complete Schedule K-1 for each U.S. person that directly owns a 10% or greater direct interest in the partnership.

On Schedule K-1, provide the partner's beginning and year-end percentage interest in partnership profits, capital, deductions, or losses.

On Schedule K-1, lines 1 through 23 are the same for both Schedule K and Schedule K-1. However, Schedule K-1 contains information about a particular partner's distributive share, rather than information about the partnership as a whole. Complete lines 1 through 25 for any direct interest that partner owns in the partnership.

**Example.** Partner A owns a 45% direct interest in foreign partnership (FPS). Partner A also owns 100% of the stock of a domestic corporation (DC), which owns a 10% direct interest in FPS. Therefore, Partner A is considered to own a 55% interest in FPS and is thus a Category 1 filer. When Partner A completes Schedule K-1, Partner A must report the distributive share of items allocated to Partner A's direct interest of 45% but not any items allocated to DC's 10% interest. When Partner A completes Schedule K-1 for DC (which Partner A must do because DC owns a direct 10% interest), Partner A must report on DC's Schedule K-1 only items allocated to DC's direct 10% interest.

Although the partnership is not subject to income tax, the partners are liable for tax on their shares of the partnership income, whether or not distributed, and must include their share of such items on their tax returns. Allocations of income, gains, losses, deductions, or credits among the partners generally should be made according to the partnership agreement. See section 704 and the regulations thereunder.

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## Specific Instructions (Schedules K and K-1, Except as Noted)

**Note:** *Generally, Schedules K and K-1 on Form 8865 and Form 1065 are the same, except for the foreign tax section. If more guidance is needed to complete Schedules K and K-1 of Form 8865, refer to the Form 1065 instructions.*

### Special Allocations

An item is specially allocated if it is allocated to a partner in a ratio different from the ratio for sharing income or loss generally.

Report specially allocated ordinary gain (loss) on Schedules K and K-1, line 7. Report other specially allocated items on the applicable lines of the partner's Schedule K-1, with the total amount on the applicable line of Schedule K. For

example, specially allocated long-term capital gain is entered on line 4e(2) of the partner's Schedule K-1, and the total is entered on line 4e(2) of Schedule K, along with any net long-term capital gain (or loss) from line 12 column (f) of Schedule D.

### Income (Loss)

#### Line 1—Ordinary Income (Loss) From Trade or Business Activities

Enter the amount from Schedule B, line 22. Enter the income (loss) without reference to (a) the basis of the partners' interests in the partnership, (b) the partners' at-risk limitations, or (c) the passive activity limitations. These limitations, if applicable, are determined at the partner level.

If the partnership has more than one trade or business activity, identify on an attachment to Schedule K-1 the amount from each separate activity.

Line 1 should not include rental activity income (loss) or portfolio income (loss).

#### Line 2—Net Income (Loss) From Rental Real Estate Activities

Enter the net income (loss) from rental real estate activities of the partnership from Form 8825. Attach this form to Form 8865. If the partnership has more than one rental real estate activity, identify on an attachment to Schedule K-1 the amount attributable to each activity.

#### Line 3—Net Income (Loss) From Other Rental Activities

On Schedule K, line 3a, enter gross income from rental activities other than those reported on Form 8825. See **Pub. 925, Passive Activity and At-Risk Rules**, for a definition of rental activities. Include on line 3a, the gain (loss) from line 18 of Form 4797 that is attributable to the sale, exchange, or involuntary conversion of an asset used in a rental activity other than a rental real estate activity.

On line 3b of Schedule K, enter the deductible expenses of the activity. Attach a schedule of these expenses to Form 8865.

Enter the net income (loss) on line 3c of Schedule K. Enter each partner's share on line 3 of Schedule K-1.

If the partnership has more than one rental activity reported on line 3, identify on an attachment to Schedule K-1 the amount from each activity.

#### Lines 4a Through 4f—Portfolio Income (Loss)

Enter portfolio income (loss) on lines 4a through 4f.

Do not reduce portfolio income by deductions allocable to it. Report such deductions (other than interest expense) on line 10 of Schedules K and K-1. Interest expense allocable to portfolio income is generally investment interest expense and is reported on line 14a of Schedules K and K-1.

**Lines 4a and 4b.** Enter only taxable interest and ordinary dividends on these lines. Taxable interest is interest from all sources except interest exempt from tax and interest on tax-free covenant bonds.

**Lines 4d, 4e(1), and 4e(2).** Enter on line 4d of Schedule K the gain or loss from line 5 of Schedule D plus any short-term capital gain (loss) that is specially allocated to partners. Report each partner's share on line 4d of Schedule K-1.

Enter on line 4e(1) the gain or loss from line 11 of Schedule D plus any 28% rate gain (loss) that is specially allocated to partners. Enter on line 4e(2) the gain or loss from line 12 of Schedule D plus any long-term capital gain (loss) that is specially allocated to partners. Report each partner's share on lines 4e(1) and 4e(2) of Schedule K-1, respectively.



*If any capital gain or loss is from the disposition of nondepreciable personal property used in a trade or business, it may not be treated as portfolio income. Report such gain or loss on line 7 of Schedules K and K-1.*

**Line 4f.** Report and identify other portfolio income or loss on an attachment for line 4f.

For example, income reported to the partnership from a real estate mortgage investment conduit (REMIC), in which the partnership is a residual interest holder, would be reported on an attachment for line 4f. If the partnership holds a residual interest in a REMIC, report on the attachment for line 4f the partner's share of the following:

- Taxable income (net loss) from the REMIC (line 1b of Schedules Q (Form 1066)).
- Excess inclusion (line 2c of Schedules Q (Form 1066)).
- Section 212 expenses (line 3b of Schedules Q (Form 1066)). Do not report these section 212 expenses on line 10 of Schedules K and K-1.

Because Schedule Q (Form 1066) is a quarterly statement, you must follow the Schedule Q instructions to figure the amounts to report to the partner for the partnership's tax year.

#### **Line 5—Guaranteed Payments to Partners**

Guaranteed payments to partners include:

- Payments for salaries, health insurance, and interest deducted by the partnership and reported on Schedule B, line 10; Form 8825; or on Schedule K, line 3b; and
- Payments the partnership must capitalize. See the Instructions for Schedule B, line 10.

Generally, amounts reported on line 5 are not considered to be related to a passive activity. For example, guaranteed payments for personal services paid to a partner would not be passive activity income. Likewise, interest paid to any partner is not passive activity income.

#### **Line 6—Net Section 1231 Gain (Loss) (Other Than Due to Casualty or Theft)**

Enter on line 6 the net section 1231 gain (loss) from Form 4797, line 7. Do not include specially allocated ordinary gains and losses or net gains or losses from involuntary conversions due to casualties or thefts on this line. Instead, report them on line 7. If the partnership has more than one activity, attach a statement to Schedule K-1 that identifies the activity to which the section 1231 gain (loss) relates.

#### **Line 7—Other Income (Loss)**

Use line 7 to report other items of income, gain, or loss not included on lines 1 through 6. If the partnership has more than one activity, identify on an attachment the amount and the activity to which each amount relates.

Include the following items on line 7:

- Gains from the disposition of farm recapture property (see Form 4797) and other items to which section 1252 applies.
- Gains from the disposition of an interest in oil, gas, geothermal, or other mineral properties (section 1254).
- Any net gain or loss from section 1256 contracts from **Form 6781**, Gains and Losses From Section 1256 Contracts and Straddles.
- Recoveries of tax benefit items (section 111).
- Gambling gains and losses subject to the limitations in section 165(d).
- Any income, gain, or loss to the partnership under section 751(b).
- Specially allocated ordinary gain (loss).
- Net gain (loss) from involuntary conversions due to casualty or theft. The amount for this line is shown on **Form 4684**, Casualties and Thefts, line 38a, 38b, or 39.

Each partner's share must be entered on Schedule K-1. Give each partner a schedule that shows the amounts to be reported on the partner's Form 4684, line 34, columns (b)(i), (b)(ii), and (c).

If there was a gain (loss) from a casualty or theft to property not used in a trade or business or for income-producing purposes, notify the partner. The partnership should not complete Form 4684 for this type of casualty or theft. Instead, each partner will complete his or her own Form 4684.

- Gain from the sale or exchange of qualified small business stock that is eligible for the 50% section 1202 exclusion. To be eligible for the section 1202 exclusion, the stock must have been held by the partnership for more than 5 years. Corporate partners are not eligible for the section 1202 exclusion. Additional limitations apply at the partner level. Report each partner's share of section 1202 gain on Schedule K-1. Each partner will determine if he or she qualifies for the section 1202 exclusion. Report on an attachment to Schedule K-1 for each sale or exchange the name of the corporation that issued the stock, the partner's share

of the partnership's adjusted basis and sales price of the stock, and the dates the stock was bought and sold.

- Gain eligible for section 1045 rollover (replacement stock not purchased by the partnership). Include only gain from the sale or exchange of qualified small business stock the partnership held for more than 6 months but that **was not** deferred by the partnership under section 1045. A partner (other than a corporation) may be eligible to defer his or her distributive share of this gain under section 1045 if he or she purchases other qualified small business stock during the 60-day period that began on the date the stock was sold by the partnership. Additional limitations apply at the partner level. Report on an attachment to Schedule K-1 for each sale or exchange the name of the corporation that issued the stock, the partner's share of the partnership's adjusted basis and sales price of the stock, and the dates the stock was bought and sold.

#### **Deductions**

##### **Line 8—Charitable Contributions**

Enter the total amount of charitable contributions made by the partnership during its tax year on Schedule K. Enter the partner's distributive share on Schedule K-1. On an attachment to Schedules K and K-1, show separately the dollar amount of contributions subject to each of the 50%, 30%, and 20% of adjusted gross income limits. For additional information, see **Pub. 526**, Charitable Contributions.

Certain contributions made to an organization conducting lobbying activities are not deductible. See section 170(f)(9) for more details.

If the partnership made a qualified conservation contribution, include the FMV of the underlying property before and after the donation and describe the conservation purpose furthered by the donation.

##### **Line 9—Section 179 Expense Deduction**

If the partnership files Form 1065 or 1065-B, it may elect to expense part of the cost of certain tangible property the partnership purchased this year for use in its trade or business or certain rental activities. See **Pub. 946**, How to Depreciate Property, for a definition of what kind of property qualifies for the section 179 expense deduction and the Instructions for Form 4562 for limitations on the amount of the section 179 expense deduction.

If the foreign partnership received a Schedule K-1 from another partnership reporting a section 179 expense deduction, complete lines 6 through 13 of Form 4562. Report the eligible partners' distributive shares of the amount on line 12 of Form 4562 on Schedule K-1, line 9. An estate or trust is not an eligible partner.

See the instructions for line 25 of Schedule K-1, item 4, for any recapture of a section 179 amount.

### Line 10—Deductions Related to Portfolio Income

Enter on line 10 and attach an itemized list of the deductions clearly and directly allocable to portfolio income (other than interest expense and section 212 expenses from a REMIC). Interest expense related to portfolio income is investment interest expense and is reported on line 14a of Schedules K and K-1. Section 212 expenses from the partnership's interest in a REMIC are reported on an attachment for line 4f of Schedules K and K-1.

No deduction is allowable under section 212 for expenses allocable to a convention, seminar, or similar meeting.

### Line 11—Other Deductions

Use line 11 to report deductions not included on lines 8, 9, 10, 17f, and 18b. On an attachment, identify the deduction and amount and, if the partnership has more than one activity, the activity to which the deduction relates.

Examples of items to be reported on an attachment to line 11 include:

- Amounts paid by the partnership that would be allowed as itemized deductions on any of the partners' income tax returns if they were paid directly by a partner for the same purpose. However, do not enter expenses related to portfolio income or investment interest expense on this line.

If there was a loss from an involuntary conversion due to casualty or theft of income-producing property, include in the total amount for this line the relevant amount from Form 4684, line 32.

- Any penalty on early withdrawal of savings.
- Soil and water conservation expenditures (section 175).
- Contributions to a capital construction fund.
- Any amounts paid during the tax year for health insurance coverage for a partner (including that partner's spouse and dependents). For 1999, a partner may be allowed to deduct up to 60% of such amounts on Form 1040, line 28.
- Payments for a partner to an IRA, Keogh, simplified employee pension (SEP) or a SIMPLE IRA plan. If a Keogh plan is a defined benefit plan, a partner's distributive share of payments is determined in the same manner as his or her distributive share of partnership taxable income. For a defined benefit plan, attach to the Schedule K-1 for each partner a statement showing the amount of benefit accrued for the tax year.
- Interest expense allocated to debt-financed distributions. See Notice 89-35 for more information.
- Interest paid or accrued on debt properly allocable to each general partner's share of a working interest in

any oil or gas property (if the partner's liability is not limited).

### Credits

#### Line 12a—Low-Income Housing Credit

Section 42 provides a credit that may be claimed by owners of low-income residential rental buildings. If the partners are eligible to take the low-income housing credit, complete and attach **Form 8586**, Low-Income Housing Credit; **Form 8609**, Low-Income Housing Credit Allocation Certification; and **Schedule A (Form 8609)**, Annual Statement, to Form 8865.

Report on line 12a(1) the total low-income housing credit for property placed in service before 1990 with respect to which a partnership is to be treated under section 42(j)(5) as the taxpayer to which the low-income housing credit was allowed. Report any other low-income housing credit for property placed in service before 1990 on line 12a(2). On lines 12a(3) and (4), report the low-income housing credit for property placed in service after 1989.

#### Line 12b—Qualified Rehabilitation Expenditures Related to Rental Real Estate Activities

Enter total qualified rehabilitation expenditures related to rental real estate activities of the partnership. Also complete the applicable lines of **Form 3468**, Investment Credit, that apply to qualified rehabilitation expenditures for property related to rental real estate activities of the partnership for which income or loss is reported on line 2 of Schedule K. See Form 3468 for details on qualified rehabilitation expenditures. Attach Form 3468 to Form 8865.

For line 12b of Schedule K-1, enter the partner's distributive share of the expenditures. On the dotted line to the left of the entry space for line 12b, enter the line number of Form 3468 on which the partner should report the expenditures. If there is more than one type of expenditure, or the expenditures are from more than one rental real estate activity, report this information separately for each expenditure or activity on an attachment to Schedules K and K-1.

 *Qualified rehabilitation expenditures for property not related to rental real estate activities must be listed separately on line 25 of Schedule K-1.*

#### Line 12c—Credits (Other Than Credits Shown on Lines 12a and 12b) Related to Rental Real Estate Activities

Report any information that the partners need to figure credits related to a rental real estate activity, other than the low-income housing credit and qualified rehabilitation expenditures. On the dotted line to the left of the entry space for line 12c (or in the margin), identify the type of credit. If there is more than one type of

credit or the credit is from more than one activity, report this information separately for each credit or activity on an attachment to Schedules K and K-1.

#### Line 12d—Credits Related to Other Rental Activities

Use this line to report information that the partners need to figure credits related to a rental activity other than a rental real estate activity. On the dotted line to the left of the entry space for line 12d, identify the type of credit. If there is more than one type of credit or the credit is from more than one activity, report this information separately for each credit or activity on an attachment to Schedules K and K-1.

#### Line 13—Other Credits

Enter on line 13 any other credit, except credits or expenditures shown or listed for lines 12a through 12d of Schedules K and K-1. On the dotted line to the left of the entry space for line 13, identify the type of credit. If there is more than one type of credit or the credit is from more than one activity, report this information separately for each credit or activity on an attachment to Schedules K and K-1. The credits to be reported on line 13 and other required attachments are as follows:

- Credit for backup withholding on dividends, interest, or patronage dividends.
- Nonconventional source fuel credit. The credit is figured at the partnership level and then is apportioned to the partners based on their distributive shares of partnership income attributable to sales of qualified fuels. Attach a separate schedule to the return to show the computation of the credit. See section 29 for more information.
- Qualified electric vehicle credit (Form 8834).
- Unused credits from cooperatives. The unused credits are apportioned to persons who were partners in the partnership on the last day of the partnership's tax year.
- Work opportunity credit (Form 5884). This credit is apportioned among the partners according to their interest in the partnership at the time the wages on which the credit is figured were paid or accrued.
- Welfare-to-work credit (Form 8861). This credit is apportioned in the same manner as the work opportunity credit.
- Credit for alcohol used as fuel (Form 6478). This credit is apportioned to persons who were partners on the last day of the partnership's tax year. The credit must be included in income on line 7 of Schedule B.

If this credit includes the small ethanol producer credit, identify on a statement attached to each Schedule K-1 **(a)** the amount of the small producer credit included in the total credit allocated to the partner, **(b)** the number of gallons of qualified ethanol fuel production allocated to the partner, and **(c)** the partner's share

in gallons of the partnership's productive capacity for alcohol.

- Credit for increasing research activities (Form 6765).
- Enhanced oil recovery credit (Form 8830).
- Disabled access credit (Form 8826).
- Renewable electricity production credit (Form 8835).
- Empowerment zone employment credit (Form 8844).
- Indian employment credit (Form 8845).
- Credit for employer social security and Medicare taxes paid on certain employee tips (Form 8846).
- Orphan drug credit (Form 8820).
- Credit for contributions to selected community development corporations (Form 8847).
- General credits from an electing large partnership.

See the instructions for line 25, item 13 of Schedule K-1 to report expenditures qualifying for the (a) rehabilitation credit not related to rental real estate activities, (b) energy credit, or (c) reforestation credit.

**Investment Interest**

Lines 14a through 14b(2) must be completed for all partners.

**Line 14a—Interest Expense on Investment Debts**

Include on this line interest paid or accrued on debt properly allocable to property held for investment. Property held for investment includes property that produces income (unless derived in the ordinary course of a trade or business) from interest, dividends, annuities, or royalties; and gains from the disposition of property that produces those types of income or is held for investment.

Property held for investment also includes each general partner's share of a working interest in any oil or gas property for which the partner's liability is not limited and in which the partner did not materially participate. However, the level of each partner's participation in an activity is determined by the partner and not by the partnership. As a result, interest allocable to a general partner's share of a working interest in any oil or gas property (if the partner's liability is not limited) should not be reported on line 14a. Instead, report this interest on line 11.

Investment interest does not include interest expense allocable to a passive activity.

The amount on line 14a will be deducted (after applying the investment interest expense limitations of section 163(d)) by individual partners on Schedule A (Form 1040), line 13.

For more information, see **Form 4952**, Investment Interest Expense Deduction.

**Lines 14b(1) and 14b(2)—Investment Income and Expenses**

Enter on line 14b(1) only the investment income included on lines 4a, 4b, 4c, and 4f of Schedules K and K-1. Do not include other portfolio gains or losses on this line.

Enter on line 14b(2) only the investment expense included on line 10 of Schedules K and K-1.

If there are other items of investment income or expense included in the amounts that must be passed through separately to the partner on Schedule K-1 (such as net short-term capital gain or loss, net long-term capital gain or loss, and other portfolio gains or losses), give each partner a schedule identifying these amounts.

Investment income includes gross income from property held for investment, the excess of net gain from the disposition of property held for investment over net capital gain from the disposition of property held for investment, and any net capital gain from the disposition of property held for investment that each partner elects to include in investment income under section 163(d)(4)(B)(iii). Generally, investment income and investment expenses do not include any income or expenses from a passive activity.

Property subject to a net lease is not treated as investment property because it is subject to the passive loss rules. Do not reduce investment income by losses from passive activities.

Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income. See the Form 4952 instructions for more information on investment income and expenses.

**Self-Employment**

**Note:** If the partnership is an options dealer or a commodities dealer, see section 1402(i) before completing lines 15a, 15b, and 15c, to determine the amount of any adjustment that may have to be made to the amounts shown on the **Worksheet for Figuring Net Earnings (Loss) From Self-Employment** below. If the partnership is engaged solely in the operation of a group investment program, earnings from the operation are not self-employment earnings for either general or limited partners.

**General partners.** General partners' net earnings (loss) from self-employment do not include:

- Dividends on any shares of stock and interest on any bonds, debentures, notes, etc., unless the dividends or interest are

**Worksheet for Figuring Net Earnings (Loss) From Self-Employment**

<b>1a</b>	Ordinary income (loss) (Schedule K, line 1)	<b>1a</b>		
<b>b</b>	Net income (loss) from <b>CERTAIN</b> rental real estate activities (see instructions)	<b>1b</b>		
<b>c</b>	Net income (loss) from other rental activities (Schedule K, line 3c)	<b>1c</b>		
<b>d</b>	Net loss from Form 4797, Part II, line 18, included on line 1a above. Enter as a positive amount	<b>1d</b>		
<b>e</b>	Combine lines 1a through 1d	<b>1e</b>		
<b>2</b>	Net gain from Form 4797, Part II, line 18, included on line 1a above	<b>2</b>		
<b>3a</b>	Subtract line 2 from line 1e. If line 1e is a loss, increase the loss on line 1e by the amount on line 2	<b>3a</b>		
<b>b</b>	Part of line 3a allocated to limited partners, estates, trusts, corporations, exempt organizations, and IRAs	<b>3b</b>		
<b>c</b>	Subtract line 3b from line 3a. If line 3a is a loss, reduce the loss on line 3a by the amount on line 3b. Include each individual general partner's share on line 15a of Schedule K-1			<b>3c</b>
<b>4a</b>	Guaranteed payments to partners (Schedule K, line 5) derived from a trade or business as defined in section 1402(c) (see instructions)	<b>4a</b>		
<b>b</b>	Part of line 4a allocated to individual limited partners for <b>other than</b> services and to estates, trusts, corporations, exempt organizations, and IRAs	<b>4b</b>		
<b>c</b>	Subtract line 4b from line 4a. Include each individual general partner's share and each individual limited partner's share on line 15a of Schedule K-1			<b>4c</b>
<b>5</b>	Net earnings (loss) from self-employment. Combine lines 3c and 4c. Enter here and on Schedule K, line 15a			<b>5</b>

received in the course of a trade or business, such as a dealer in stocks or securities or interest on notes or accounts receivable.

- Rentals from real estate, except rentals of real estate held for sale to customers in the course of a trade or business as a real estate dealer or payments for rooms or space when significant services are provided.

- Royalty income, except royalty income received in the course of a trade or business.

See the instructions for **Schedule SE (Form 1040)**, Self-Employment Tax, for more information.

**Limited partners.** Generally, a limited partner's share of partnership income (loss) is not included in net earnings (loss) from self-employment. Limited partners treat as self-employment earnings only guaranteed payments for services they actually rendered to, or on behalf of, the partnership to the extent that those payments are payment for those services.

### Worksheet Instructions

**Line 1b.** Include on line 1b any part of the net income (loss) from rental real estate activities from Schedule K, line 2, that is from:

1. Rentals of real estate held for sale to customers in the course of a trade or business as a real estate dealer, or

2. Rentals for which services were rendered to the occupants (other than services usually or customarily rendered for the rental of space for occupancy only). The supplying of maid service is such a service; but the furnishing of heat and light, the cleaning of public entrances, exits, stairways and lobbies, trash collection, etc., are not considered services rendered to the occupants.

**Lines 3b and 4b.** Allocate the amounts on these lines in the same way line 22 of Schedule B is allocated to these particular partners.

**Line 4a.** Include in the amount on line 4a any guaranteed payments to partners reported on Schedules K and K-1, line 5, and derived from a trade or business as defined in section 1402(c). Also include other ordinary income and expense items (other than expense items subject to separate limitations at the partner level) reported on Schedules K and K-1 that are used to figure self-employment earnings under section 1402.

### Line 15a—Net Earnings (Loss) From Self-Employment

**Schedule K.** Enter on line 15a the amount from line 5 of the worksheet.

**Schedule K-1.** Do not complete this line for any partner that is an estate, trust, corporation, exempt organization, or IRA.

Enter on line 15a of Schedule K-1 each individual general partner's share of the amount shown on line 5 of the worksheet and each individual limited partner's share of the amount shown on line 4c of the worksheet.

### Line 15b—Gross Farming or Fishing Income

Enter the partnership's gross farming or fishing income from self-employment. Individual partners need this amount to figure net earnings from self-employment under the farm optional method in Section B, Part II of Schedule SE (Form 1040).

### Line 15c—Gross Nonfarm Income

Enter the partnership's gross nonfarm income from self-employment. Individual partners need this amount to figure net earnings from self-employment under the nonfarm optional method in Section B, Part II of Schedule SE (Form 1040).

### Adjustments and Tax Preference Items

Lines 16a through 16e must be completed for all partners except certain small corporations exempt from the alternative minimum tax (AMT) under section 55(e).

Enter items of income and deductions that are adjustments or tax preference items for the AMT. See **Form 6251**, Alternative Minimum Tax—Individuals; **Form 4626**, Alternative Minimum Tax—Corporations; or Schedule I of **Form 1041**, U.S. Income Tax Return for Estates and Trusts, to determine the amounts to enter and for other information.

Do not include as a tax preference item any qualified expenditures to which an election under section 59(e) may apply. Instead, report these expenditures on lines 18a and 18b. Because these expenditures are subject to an election by each partner, the partnership cannot figure the amount of any tax preference related to them.

### Line 16a—Depreciation Adjustment on Property Placed in Service After 1986

Figure the adjustment for line 16a based only on tangible property placed in service after 1986 (and tangible property placed in service after July 31, 1986, and before 1987 for which the partnership elected to use the general depreciation system). **Do not** make an adjustment for motion picture films, videotapes, sound recordings, certain public utility property (as defined in section 168(f)(2)), property depreciated under the unit-of-production method (or any other method not expressed in a term of years), or qualified Indian reservation property.

For property placed in service **before 1999**, refigure depreciation for the AMT as follows (using the same convention used for the regular tax):

- For section 1250 property (generally, residential rental and nonresidential real property), use the straight line method over 40 years.

- For tangible property (other than section 1250 property) depreciated using the straight line method for the regular tax, use the straight line method over the property's class life. Use 12 years if the property has no class life.

- For any tangible property, use the 150% declining balance method, switching to the straight line method the first tax year it gives a larger deduction, over the property's AMT class life. Use 12 years if the property has no class life.

**Note:** See *Pub. 946* for a table of class lives.

For property placed in service **after 1998**, refigure depreciation for the AMT **only** for property depreciated for the regular tax using the 200% declining balance method. For the AMT, use the 150% declining balance method, switching to the straight line method the first tax year it gives a larger deduction, and the same convention and recovery period used for the regular tax.

Figure the adjustment by subtracting the AMT deduction for depreciation from the regular tax deduction and enter the result on line 14a. If the AMT deduction is more than the regular tax deduction, enter the difference as a negative amount. Depreciation capitalized to inventory must also be refigured using the AMT rules. Include on this line the current year adjustment to income, if any, resulting from the difference.

### Line 16b—Adjusted Gain or Loss

If the partnership disposed of any tangible property placed in service after 1986 (or after July 31, 1986, if an election was made to use the general depreciation system), or if it disposed of a certified pollution control facility placed in service after 1986, refigure the gain or loss from the disposition using the adjusted basis for the AMT. The property's adjusted basis for the AMT is its cost or other basis minus all depreciation or amortization deductions allowed or allowable for the AMT during the current tax year and previous tax years. Enter on this line the difference between the regular tax gain (or loss) and the AMT gain (or loss). If the AMT gain is less than the regular tax gain, **or** the AMT loss is more than the regular tax loss, **or** there is an AMT loss and a regular tax gain, enter the difference as a negative amount.

If any part of the adjustment is allocable to net short-term capital gain (loss), net long-term capital gain (loss), or net section 1231 gain (loss), attach a schedule that identifies the amount of the adjustment allocable to each type of gain or loss. For a net long-term capital gain (loss), also identify the amount of the adjustment that is 28% rate gain (loss). For a net section 1231 gain (loss), also identify the amount of adjustment that is unrecaptured section 1250 gain.

No schedule is required if the adjustment is allocable solely to ordinary gain (loss).

### Line 16c—Depletion (Other Than Oil and Gas)

Do not include any depletion on oil and gas wells. The partners must figure their depletion deductions and preference items separately.

Refigure the depletion deduction under section 611 for mines, wells (other than oil and gas wells), and other natural deposits for the AMT. Percentage depletion is limited to 50% of the taxable income from the property as figured under section 613(a), using only income and deductions allowed for the AMT. Also, the deduction is limited to the property's adjusted basis at the end of the year, as refigured for the AMT. Figure this limit separately for each property. When refiguring the property's adjusted basis, take into account any AMT adjustments made this year or in previous years that affect basis (other than the current year's depletion).

Enter the difference between the regular tax and AMT deduction. If the AMT deduction is greater, enter the difference as a negative amount.

#### **Lines 16d(1) and 16d(2)**

Enter only the income and deductions for oil, gas, and geothermal properties that are used to figure the partnership's ordinary income or loss (line 22 of Schedule B). If there are items of income or deduction for oil, gas, and geothermal properties included in the amounts required to be passed through separately to the partners on Schedule K-1 (items not reported on line 1 of Schedule K-1), attach a schedule identifying these amounts.

Figure the amount for lines 16d(1) and (2) separately for oil and gas properties that are not geothermal deposits and for all properties that are geothermal deposits.

Attach a schedule that shows the separate amounts that are included in the computation of the amounts on lines 16d(1) and (2).

**Line 16d(1)—Gross income from oil, gas, and geothermal properties.** Enter the aggregate amount of gross income (within the meaning of section 613(a)) from all oil, gas, and geothermal properties that was received or accrued during the tax year and included on Schedule B.

**Line 16d(2)—Deductions allocable to oil, gas, and geothermal properties.** Enter the amount of any deductions allowed for the AMT that are allocable to oil, gas, and geothermal properties.

#### **Line 16e—Other Adjustments and Tax Preference Items**

Attach a schedule that shows each partner's share of other items not shown on lines 16a through 16d(2) that are adjustments or tax preference items or that the partner needs to complete Form 6251, Form 4626, or Schedule I of Form 1041. See these forms and their instructions to determine the amount to enter.

Other adjustments and tax preference items or information the partner needs include the following:

- Accelerated depreciation of real property under pre-1987 rules.

- Accelerated depreciation of leased personal property under pre-1987 rules.
- Long-term contracts entered into after February 28, 1986. Except for certain home construction contracts, the taxable income from these contracts must be figured using the percentage of completion method of accounting for the AMT.
- Losses from tax shelter farm activities. No loss from any tax shelter farm activity is allowed for the AMT.
- Any information needed by certain corporate partners to compute the adjusted current earnings (ACE) adjustment.

Schedules K and K-1 have the same line numbers for lines 1 through 23.

#### **Foreign Taxes**

**Note:** *Except as otherwise provided, report all amounts in this section in dollars only.*

Lines 17a through 17h must be completed whether or not any partner is eligible for the foreign tax credit if the foreign partnership has foreign income, deductions or losses, or has paid or accrued foreign taxes. In addition to the instructions below, see **Form 1116**, Foreign Tax Credit (Individual, Estate, Trust, or Nonresident Alien Individual), **Form 1118**, Foreign Tax Credit—Corporations, and the related instructions for more information.

#### **Line 17a—Name of Foreign Country or U.S. Possession**

Enter the name of the foreign country or U.S. possession from which the partnership had income or to which the partnership paid or accrued taxes. If the partnership had income from, or paid or accrued taxes to, **more than one** foreign country or U.S. possession, enter "**See attached**" and attach a schedule for each country for lines 17a through 17h.

#### **Line 17b—Total Gross Income Sourced at Partner Level**

Enter the total gross income of the partnership that is required to be sourced at the partner level (e.g., income sourced based on the residence of the recipient (see section 865(i))).

#### **Line 17c—Total Gross Income Sourced at Partnership Level**

Separately report gross income sourced at the partnership level as **(1)** passive foreign source income, **(2)** listed categories income and U.S. source income, or **(3)** general limitation foreign source income (all other foreign source income, including income from sources within U.S. possessions). On line 17c(2), report U.S. source income only if the partnership paid or accrued taxes on that income to the foreign country or U.S. possession identified on line 17a. Otherwise, report on line 17c(2) the foreign source income included in one of the categories that are listed below. Attach a statement showing the amount

and source (if U.S.) or category of that income.

- Financial services income;
- High withholding tax interest;
- Shipping income;
- Dividends from each noncontrolled section 902 corporation;
- Dividends from a domestic international sales corporation (DISC) or a former DISC;
- Distributions from a foreign sales corporation (FSC) or a former FSC;
- Section 901(j) income; and
- Income re-sourced by treaty.

#### **Line 17d—Deductions Allocated at Partner Level**

Enter on line 17d(1) the total interest expense (including interest equivalents under Temporary Regulations section 1.861-9T(b)) other than interest specifically allocated at the partner level under Temporary Regulations section 1.861-10T. On line 17d(2), enter the total of all other deductions or losses that should be allocated at the partner level. For an example, see Regulations section 1.861-17(f).

#### **Line 17e—Deductions Allocated at Partnership Level**

Separately report partnership deductions that are allocated at the partnership level as apportioned to **(1)** passive foreign source income, **(2)** listed categories income and U.S. source income, and **(3)** general limitation foreign source income (see the instructions for line 17c). Attach a statement identifying the amount of each deduction and the source (if U.S.) or category of income to which it is definitely allocable or apportioned. Deductions that are not definitely allocable to a specific source or category of income are apportioned ratably to each source or category on the basis of gross income.

#### **Line 17f—Total Foreign Taxes**

Enter in U.S. dollars the total foreign taxes (described in section 901 or section 903) that were paid or accrued by the partnership to foreign countries or U.S. possessions. Translate these amounts into U.S. dollars by using the applicable exchange rate specified in section 986.

Attach a schedule reporting the following information:

**1.** The total amount of taxes allocated to U.S. source income and each of the foreign source income categories (passive foreign source income, listed categories income, and general limitation foreign source income).

**2.** The dates on which the taxes were paid or accrued, the exchange rates used, and the amounts in both foreign currency and U.S. dollars, for:

- Taxes withheld at source on interest.
- Taxes withheld at source on dividends.
- Taxes withheld at source on rents and royalties.
- Other foreign taxes paid or accrued.

### **Line 17g—Reduction in Taxes Available for Credit**

Enter in U.S. dollars the total reduction in taxes available for credit. Attach a schedule that shows separately the reduction for:

- Certain taxes paid on distributions from possessions corporations (section 901(g)).
- Certain taxes used to provide subsidies (section 901(i)).
- Taxes denied due to the holding period requirement of section 901(k).
- Certain taxes on foreign oil related income (section 907(b)).
- Taxes not legally owed because of a reduced rate under a treaty.
- Taxes on foreign mineral income (section 901(e)).
- Taxes on foreign oil and gas extraction income (section 907(a)).
- Taxes attributable to boycott operations (section 908).
- Failure to timely furnish information required of Category 1 and 2 filers under section 6038(a) (see **Penalties** on page 4).
- Any other items (specify).

### **Line 17h—Other Foreign Tax Information**

Enter in U.S. dollars any items not covered on lines 17b through 17g. For noncorporate partners, enter gross income from all sources. For corporate partners, enter gross income and definitely allocable deductions from sources outside the United States and for foreign branches.

### **Other**

#### **Lines 18a and 18b**

Generally, section 59(e) allows each partner to make an election to deduct the partner's distributive share of the partnership's otherwise deductible qualified expenditures ratably over 10 years (3 years for circulation expenditures), beginning with the tax year in which the expenditures were made (or for intangible drilling and development costs, over the 60-month period beginning with the month in which such costs were paid or incurred). The term "qualified expenditures" includes only the following types of expenditures paid or incurred during the tax year:

- Circulation expenditures.
- Research and experimental expenditures.
- Intangible drilling and development costs.
- Mining exploration and development costs.

If a partner makes this election, these items are not treated as tax preference items.

Because the partners are generally allowed to make this election, the partnership cannot deduct these amounts or include them as adjustments or tax

preference items on Schedule K-1. Instead, on lines 18a and 18b of Schedule K-1, the partnership passes through the information the partners need to figure their separate deductions.

On line 18a, enter the type of expenditures claimed on line 18b. Enter on line 18b the qualified expenditures paid or incurred during the tax year to which an election under section 59(e) may apply. Enter this amount for all partners whether or not any partner makes an election under section 59(e). If the expenditures are for intangible drilling and development costs, enter the month in which the expenditures were paid or incurred (after the type of expenditure on line 18a). If there is more than one type of expenditure included in the total shown on line 18b (or intangible drilling and development costs were paid or incurred for more than 1 month), report this information separately for each type of expenditure (or month) on an attachment to Schedules K and K-1.

### **Line 19—Tax-Exempt Interest Income**

Enter on line 19 tax-exempt interest income, including any exempt-interest dividends received from a mutual fund or other regulated investment company. Individual partners must report this information on line 8b of Form 1040. The adjusted basis of the partner's interest is increased by the amount shown on this line under section 705(a)(1)(B).

### **Line 20—Other Tax-Exempt Income**

Enter on line 20 all income of the partnership exempt from tax other than tax-exempt interest (e.g., life insurance proceeds). The adjusted basis of the partner's interest is increased by the amount shown on this line under section 705(a)(1)(B).

### **Line 21—Nondeductible Expenses**

Enter on line 21 nondeductible expenses paid or incurred by the partnership. Do not include separately stated deductions shown elsewhere on Schedules K and K-1, capital expenditures, or items the deduction for which is deferred to a later tax year. The adjusted basis of the partner's interest is decreased by the amount shown on this line under section 705(a)(2)(B).

### **Line 22—Distributions of Money (Cash and Marketable Securities)**

Enter on line 22 the total distributions to each partner of cash and marketable securities that are treated as money under section 731(c)(1). Generally, marketable securities are valued at FMV on the date of distribution. However, the value of marketable securities does not include the distributee partner's share of the gain on the securities distributed to that partner. See section 731(c)(3)(B) for details.

If the amount on line 22 includes marketable securities treated as money, state separately on an attachment to Schedules K and K-1 **(a)** the partnership's adjusted basis of those securities

immediately before the distribution and **(b)** the FMV of those securities on the date of distribution (excluding the distributee partner's share of the gain on the securities distributed to that partner).

### **Line 23—Distributions of Property Other Than Money**

Enter on line 23 the total distributions to each partner of property not included on line 22. In computing the amount of the distribution, use the adjusted basis of the property to the partnership immediately before the distribution. In addition, attach a statement showing the adjusted basis and FMV of each property distributed.

### **Line 24 (Schedule K Only)**

Attach a statement to report the partnership's total income, expenditures, or other information for the items listed under **Line 25 (Schedule K-1 Only)—Supplemental Information** below.

### **Lines 24a and 24b (Schedule K-1 Only)—Recapture of Low-Income Housing Credit**

If recapture of part or all of the low-income housing credit is required because: **(a)** prior year qualified basis of a building decreased, or **(b)** the partnership disposed of a building or part of its interest in a building, see **Form 8611, Recapture of Low-Income Housing Credit**. The instructions for Form 8611 indicate when the form is completed and what information is provided to partners when recapture is required.

If a partner's ownership interest in a building decreased because of a transaction at the partner level, attach the necessary information for the partner to figure the recapture.

Report on line 24a the total low-income housing credit recapture with respect to a partnership treated under section 42(j)(5) as the taxpayer to which the low-income housing credit was allowed. Report any other low-income housing credit recapture on line 24b.

If the partnership filed **Form 8693, Low-Income Housing Credit Disposition Bond**, to avoid recapture of the low-income housing credit, no entry should be made on line 24 of Schedule K-1.

See Form 8586, Form 8611, and section 42 for more information.

### **Line 25 (Schedule K-1 Only)—Supplemental Information**

Enter in the line 25 Supplemental Information space of Schedule K-1, or on an attached schedule if more space is needed, each partner's share of any information requested on lines 1 through 24b that must be reported in detail, and items 1 through 21 below. Identify the applicable line number next to the information entered in the Supplemental Information space. Show income or gains as a positive number. Show losses in parentheses.

1. Taxes paid on undistributed capital gains by a regulated investment company (RIC) or a real estate investment trust (REIT). As a shareholder of a RIC or a REIT, the partnership will receive notice on **Form 2439**, Notice to Shareholder of Undistributed Long-Term Capital Gains, of the amount of tax paid on undistributed capital gains.

2. The number of gallons of each fuel sold or used during the tax year for a nontaxable use qualifying for the credit for taxes paid on fuels, types of use, and the applicable credit per gallon. See **Form 4136**, Credit for Federal Tax Paid on Fuels, for details.

3. The partner's share of gross income from each property, share of production for the tax year, etc., needed to figure the partner's depletion deduction for oil and gas wells. The partnership should also allocate to each partner a proportionate share of the adjusted basis of each partnership oil or gas property. The allocation of the basis of each property is made as specified in section 613A(c)(7)(D).

The partnership cannot deduct depletion on oil and gas wells. The partner must determine the allowable amount to report on his or her return. See Pub. 535 for more information.

4. Recapture of section 179 expense deduction. For property placed in service after 1986, the section 179 expense deduction is recaptured at any time the business use of the property drops to 50% or less. Enter the amount that was originally passed through to the partners and the partnership's tax year in which the amount was passed through. State whether the recapture amount was caused by the disposition of the section 179 property. Do not include this amount in the partnership's income.

5. Recapture of certain mining exploration expenditures (section 617).

6. Any information or statements a partner needs to comply with section 6111 (registration of tax shelters) or section 6662(d)(2)(B)(ii) (regarding adequate disclosure of items that may cause an understatement of income tax).

7. The partner's share of preproductive period farm expenses, if the partnership is not required to use the accrual method of accounting. See Temporary Regulations section 1.263A-4T.

8. Any information a partner needs to figure the interest due under section 453(l)(3). If the partnership previously had elected to report the disposition of certain timeshares and residential lots on the installment method, each partner's tax liability must be increased by the partner's allocable share of the interest on tax attributable to the installment payments received during the tax year.

9. Any information a partner needs to figure interest due under section 453A(c). If an obligation arising from the disposition of property to which section 453A applies

is outstanding at the close of the year, report each partner's allocable share of the outstanding installment obligation to which section 453A(b) applies.

10. For closely held partnerships (as defined in section 460(b)(4)), state the information a partner needs to figure the partner's allocable share of any interest due or to be refunded under the look-back method of section 460(b)(2) on certain long-term contracts that are accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method. Also attach the information specified in the instructions for Form 8697, Part II, lines 1 and 3, for each tax year in which such a long-term contract is completed.

11. Any information a partner needs relating to interest expense that the partner is required to capitalize. A partner may be required to capitalize interest expense incurred by the partner for the partnership's production expenditures. Similarly, a partner may have to capitalize interest that was incurred by the partnership for the partner's own production expenditures. See Regulations sections 1.263A-8 through 1.263A-15 for more information.

12. Any information a partner that is a tax-exempt organization may need to figure its share of unrelated business taxable income under section 512(a)(1) (but excluding any modifications required by paragraphs (8) through (15) of section 512(b)). Partners are required to notify the partnership of their tax-exempt status. See **Form 990-T**, Exempt Organization Business Income Tax Return, for more information.

13. Expenditures qualifying for the (a) rehabilitation credit not related to rental real estate activities, (b) energy credit, or (c) reforestation credit. Complete and attach Form 3468. See Form 3468 and the related instructions for information on eligible property and the lines on Form 3468 to complete. Attach to each Schedule K-1 a separate schedule in a format similar to that shown on Form 3468 detailing each partner's share of qualified expenditures. Also indicate the lines of Form 3468 on which the partners should report these amounts.

14. Recapture of investment credit. Complete and attach **Form 4255**, Recapture of Investment Credit, when investment credit property is disposed of, or it no longer qualifies for the credit, before the end of the recapture period or the useful life applicable to the property. State the type of property at the top of Form 4255 and complete lines 2, 4, and 5, whether or not any partner is subject to recapture of the credit. Attach to each Schedule K-1 a separate schedule providing the information the partnership is required to show on Form 4255, but list only the partner's distributive share of the cost of the property subject to recapture. Also indicate the lines of Form 4255 on which the partners should report these amounts.

15. Any information a partner may need to figure the recapture of the qualified electric vehicle credit. See Pub. 535 for more information.

16. Any information a partner may need to figure recapture of the Indian employment credit. Generally, if a partnership terminates a qualified employee less than 1 year after the date of initial employment, any Indian employment credit allowed for a prior tax year by reason of wages paid or incurred to that employee must be recaptured. For details, see section 45A(d).

17. Nonqualified withdrawals by the partnership from a capital construction fund.

18. Unrecaptured section 1250 gain. Figure this amount for each section 1250 property in Part III of Form 4797 (except property for which gain is reported using the installment method on Form 6252) for which you had an entry in Part I of Form 4797 by subtracting line 26g of Form 4797 from the **smaller** of line 22 or line 24 of Form 4797. Figure the total of these amounts for all section 1250 properties. Generally, the result is the partnership's unrecaptured section 1250 gain. However, if the partnership is reporting gain on the installment method for a section 1250 property held more than 1 year, see the next paragraph to figure the unrecaptured section 1250 gain on that property. Report each partner's distributive share of the total amount as "Unrecaptured section 1250 gain."

The total unrecaptured section 1250 gain for an installment sale of section 1250 property held more than 1 year is figured for the year of the sale in a manner similar to that used in the preceding paragraph. However, the total unrecaptured section 1250 gain must be allocated to the installment payments received from the sale. To do so, the partnership generally must treat the gain allocable to each installment payment as unrecaptured section 1250 gain until all such gain has been used in full. However, if the unrecaptured section 1250 gain on any installment payment received after May 6, 1997, and before August 24, 1999, is less than the amount that would have been so treated under the previous sentence, the smaller amount must be used in figuring any remaining unrecaptured section 1250 gain. Therefore, for each installment payment received after August 23, 1999, the unrecaptured section 1250 gain is the **smaller** of (a) the amount allocable to that payment from line 26 or 37 (whichever applies) of Form 6252 or (b) the total unrecaptured section 1250 gain for the sale, reduced by the amount of gain treated as unrecaptured section 1250 gain on all prior installment payments. The method described in the previous sentence may also be used to figure the amount of unrecaptured section 1250 gain allocable to 1999 installment payments received before August 24. For

more details, see Regulations section 1.453-12.

If the partnership received a Schedule K-1 or Form 1099-DIV from an estate, a trust, a REIT, or a mutual fund (or other regulated investment company) reporting "unrecaptured section 1250 gain," **do not** add it to the partnership's own unrecaptured section 1250 gain. Instead, report it as a separate amount. For example, if the partnership received a Form 1099-DIV from a REIT with unrecaptured section 1250 gain, report it as "Unrecaptured section 1250 gain from a REIT."

Also report as a separate amount any gain from the sale or exchange of an interest in another partnership attributable to unrecaptured section 1250 gain.

**19.** If the partnership is a closely held partnership (as defined in section 460(b)(4)) and it depreciated certain property placed in service after September 13, 1995, under the income forecast method, it must attach to Form 8865 the information specified in the instructions for Form 8866, line 2, for the 3rd and 10th tax years beginning after the tax year the property was placed in service. It must also report the line 2 amounts to its partners. See the instructions for Form 8866 for more details.

**20.** Any information a partner that is a publicly traded partnership may need to determine if it meets the 90% qualifying income test of section 7704(c)(2). Partners are required to notify the partnership of their status as a publicly traded partnership.

**21.** Any other information a partner may need to file his or her return that is not shown anywhere else on Schedule K-1. For example, if one of the partners is a pension plan, that partner may need special information to properly file its tax return.

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## Schedule L—Balance Sheets per Books

**Important:** *If the foreign partnership filed Form 1065 or 1065-B, do not complete Schedule L on Form 8865. Instead, attach to Form 8865 a copy of the Schedule L from Form 1065 or 1065-B.*

Only Category 1 filers are required to complete Schedule L. If you answered "Yes" to question G9 on page 1 of Form 8865, you do not have to complete Schedule L. Schedule L requires balance sheets prepared and translated into U.S. dollars in accordance with U.S. generally accepted accounting principles (GAAP).

**Exception.** If the partnership or any qualified business unit of the partnership uses the dollar approximate separate transactions method (DASTM), Schedule L should reflect the tax balance sheets prepared and translated into U.S. dollars according to Regulations section 1.985-3(d).

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## Schedule M—Balance Sheets for Interest Allocation

All Category 1 filers must complete Schedule M. Schedule M should reflect the book values of the partnership's assets as described in Temporary Regulations sections 1.861-9T(g)(2) and 1.861-12T. Assets should be characterized as U.S. assets or foreign assets in one or more separate limitation categories as provided in Temporary Regulations sections 1.861-9T(g)(3) and 1.861-12T. The balance sheets should be prepared in U.S. dollars under Temporary Regulations section 1.861-9T(g)(2)(ii).

**Exception.** If the partnership or any qualified business unit of the partnership uses DASTM, Schedule M should reflect the tax balance sheet prepared in U.S. dollars under Regulations section 1.985-3(d). See Temporary Regulations section 1.861-9T(g)(2)(ii)(A)(2) for more information on DASTM.

**Line 2.** Enter the partnership's foreign assets according to the following income limitation categories:

- Passive income category.
- Listed categories (attach a statement classifying foreign assets by the categories listed in the instructions for line 17c).
- General limitation income category.

See the instructions for line 17 of Schedule K and section 904(d) for more information.

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## Schedule M-1—Reconciliation of Income (Loss) per Books With Income (Loss) per Return

**Important:** *If the foreign partnership filed Form 1065 or 1065-B, do not complete Schedule M-1 on Form 8865. Instead, attach to Form 8865 a copy of the Schedule M-1 from Form 1065 or 1065-B.*

Only Category 1 filers are required to complete Schedule M-1. If you answered "Yes" to question G9 on page 1 of Form 8865, you do not have to complete Schedule M-1.

**Line 3—Guaranteed payments.** Include on this line guaranteed payments shown on Schedule K, line 5 (other than amounts paid for insurance that constitutes medical care for a partner, a partner's spouse, and a partner's dependents).

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## Schedule M-2—Analysis of Partners' Capital Accounts

**Important:** *If the foreign partnership filed Form 1065 or 1065-B, do not complete Schedule M-2 on Form 8865. Instead, attach to Form 8865 a copy of the Schedule M-2 from Form 1065 or 1065-B.*

Only Category 1 filers are required to complete Schedule M-2. If you answered "Yes" to question G9 on page 1 of Form 8865, you do not have to complete Schedule M-2. Show what caused the changes in the partners' capital accounts during the partnership's tax year as reflected on the partnership's books and records. All items must be reported in U.S. dollars.

Though not required to, you may use the rules in Regulations section 1.704-1(b)(2)(iv) to determine the partners' capital accounts in Schedule M-2. If the beginning and ending capital accounts reported under these rules differ from the amounts reported on Schedule L, attach a statement reconciling any differences.

**Line 2—Capital contributed during year.** Include on line 2 the amount of money and property contributed by each partner to the partnership as reflected on the partnership's books and records.

**Line 3—Net income (loss) per books.** Enter on line 3 the partnership's net income (loss) shown on the partnership's books, from Schedule M-1, line 1.

**Line 6—Distributions.**

**Line 6a—Cash.** Enter the total amount of money distributed to each partner by the partnership.

**Line 6b—Property.** Enter the total amount of property distributed to each partner by the partnership as reflected on the partnership's books and records.

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## Schedule N—Transactions Between Controlled Foreign Partnership and Partners or Other Related Entities

All Category 1 filers must complete all of Schedule N and report all transactions of the foreign partnership during the tax year of the partnership listed on the top of page 1 of Form 8865. A Category 1 filer filing a Form 8865 for other Category 1 filers under the multiple Category 1 filers exception must complete a Schedule N for itself and a separate Schedule N for each Category 1 filer not filing Form 8865.

All Category 2 filers are required to complete columns (a), (b), and (c), of Schedule N. Category 2 filers do not have to complete column (d).

**Column (a).** Use column (a) to report transactions between the foreign partnership and the person filing the Form 8865.

**Column (d).** Use column (d) to report transactions between the foreign partnership and any U.S. person with a 10% or more direct interest in the foreign partnership. If such person also qualifies under column (b), do not report transactions between the foreign partnership and that person under column (d). Report the transactions only under column (b).

**Lines 6 and 16.** Enter distributions received from other partnerships and distributions from the foreign partnership for which this form is being completed.

**Lines 20 and 21.** Enter the largest outstanding balances during the year of gross amounts borrowed from, and gross amounts lent to, the related parties described in columns (a) through (d). Do not enter aggregate cash flows, year-end loan balances, average balances, or net balances. Do not include open account balances resulting from sales and purchases reported under other items listed on Schedule N that arise and are collected in full in the ordinary course of business.

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## Schedule O—Transfer of Property to a Foreign Partnership

### Part I—Transfers Reportable Under Section 6038B

Part I is used to report the transfer of property to a foreign partnership. Provide the information required in columns (a) through (g) with respect to each contribution of property to the foreign partnership that must be reported. If you contributed property with a difference between its adjusted tax basis and its FMV (section 704(c) property), or intangible property, provide the information required in columns (a) through (g) separately with respect to each item of property transferred (except to the extent you are allowed to aggregate the property under Regulations section 1.704-3(e)(2), (3), and (4)). Provide a general description of each such item of property in the **Supplemental Information Required to be Reported** section. For all other property contributed, aggregate by the categories listed in Part I. See Regulations section 1.704-3(a)(3) for more information on the definition of section 704(c) property.

**Column (a).** Enter the date of the transfer. If the transfer was composed of a series of transactions over multiple dates, enter the date the transfer was completed.

**Column (b).** Enter the number of items of property transferred.

**Column (c).** Enter the FMV of the property contributed (measured as of the date of the transfer).

**Column (d).** Enter your adjusted basis in the property contributed on the date of the transfer. See sections 1011 through 1016 for more information on the determination of adjusted basis.

**Column (e).** If you contributed section 704(c) property, enter the method (traditional, traditional with curative allocations, or remedial) used by the partnership to make section 704(c) allocations with respect to each item of section 704(c) property. See Regulations section 1.704-3(b), (c), and (d) for more information on these allocation methods.

**Column (f).** Enter the amount of gain, if any, recognized on the transfer. See sections 721(b) and 904(f)(3).

**Column (g).** Enter your percentage interest in the partnership immediately after the transfer. To the extent your percentage interest in the partnership differs among capital, profits, losses, or deductions, enter "See Below" and state the different percentages.

**Supplemental information required to be reported.** Enter any information required to be reported in Part I in greater detail. Identify the applicable column number next to the information entered in this section. In addition, if you contributed property to a foreign partnership as part of a wider transaction, briefly describe the entire transaction.

### Part II—Dispositions Reportable Under Section 6038B

Use Part II to report certain dispositions by a foreign partnership of section 704(c) property. If you were required to report a transfer of appreciated property to the partnership, and the partnership disposes of the property while you are still a direct or constructive partner, you must report that disposition in Part II. If the partnership disposes of the property in a nonrecognition transaction and receives in exchange substituted basis property, report the disposition of the substituted basis property in the same manner as provided for the contributed property. See section 7701(a)(42) for the definition of substituted basis property and Regulations section 1.704-3(a)(8) for more information.

**Column (a).** Provide a brief description of the property disposed of by the partnership. If you are reporting the disposition of substituted basis property received by the partnership in a nonrecognition transaction in exchange for section 704(c) property previously contributed by you, enter "See Attached." Attach a schedule providing brief descriptions of both the section 704(c) property contributed by you to the partnership and the substituted basis property received by the partnership in exchange for the section 704(c) property.

**Column (b).** Enter the date that you transferred this property to the partnership. If you are reporting the disposition of substituted basis property received by the partnership in a nonrecognition transaction in exchange for property previously contributed by you, enter "See Attached." Attach a schedule showing both the date you transferred the section 704(c) property to the partnership and the date the partnership exchanged the section 704(c) property for substituted basis property in a nonrecognition transaction. See Regulations section 1.6038B-2.

**Column (c).** Enter the date that the partnership disposed of the property.

**Column (d).** Briefly describe how the partnership disposed of the property (e.g., by sale or exchange).

**Column (e).** Enter the amount of gain, if any, recognized by the partnership on the disposition of property.

**Column (f).** Enter the amount of depreciation recapture, if any, recognized by the partnership on the disposition of property. See Regulations section 1.1245-1(e) and 1.1250-1(f).

**Column (g).** Enter the amount of gain from column (e) allocated to you.

**Column (h).** Enter the amount of depreciation recapture from column (f) allocated to you. See Regulations sections 1.1245-1(e) and 1.1250-1(f). If you recognize any section 1254 recapture on the partnership's disposition of natural resource recapture property, enter "See Attached" and attach a schedule calculating the amount of recapture. See Regulations section 1.1254-5.

### Part III—Gain Recognition Under Section 904(f)(3) or (f)(5)(F)

If gain recognition was required with respect to any transfer reported in Part I under section 904(f)(3) and (f)(5)(F), attach a schedule identifying the transfer and the amount of gain recognized.

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## Schedule P—Acquisitions, Dispositions, and Changes of Interests in a Foreign Partnership

Use Schedule P to report the acquisition, disposition, and change of interest in a foreign partnership. Every Category 4 filer must complete Schedule P.

### Part I—Acquisitions After December 31, 1999

Part I is completed by Category 4 filers required to report an acquisition of an interest in a foreign partnership. See the **Categories of Filers** on page 1 for more details about which types of acquisitions must be reported.

**Column (a).** If you acquired the interest in the foreign partnership by purchase, gift, inheritance, or in a distribution from a trust, estate, or partnership, enter the name, address, and identifying number (if any), of the person from whom you acquired the interest.

**Column (b).** Enter the date of the acquisition. If the acquisition was composed of a series of transactions over multiple dates, enter the date the acquisition was completed.

**Column (c).** Enter the FMV of the interest you acquired in the partnership (measured as of the date of acquisition).

**Column (d).** Enter your basis in the partnership interest that you acquired (measured as of the date of acquisition). See sections 722 and 742.

**Columns (e) and (f).** Enter your total direct percentage interest in the partnership both before and immediately after the acquisition. To the extent your direct percentage interest in the

partnership differs among capital, profits, losses, or deductions, enter "See Below" and state the different percentages in Part IV.

## **Part II—Dispositions After December 31, 1999**

This section is completed by U.S. persons who are Category 4 filers because they disposed of an interest in a foreign partnership. See **Categories of Filers** on page 1 for more details about what types of dispositions must be reported. For each disposition reported in Part II, indicate in Part IV whether a statement is required by Regulations section 1.751-1(a)(3) to be filed with respect to the disposition.

**Column (a).** Unless you disposed of the interest by withdrawing, in whole or in part, from the partnership, enter the name, address, and identifying number (if any) of the person to whom you transferred the interest in the foreign partnership.

**Column (b).** Enter the date of the disposition. If the disposition was composed of a series of transactions over multiple dates, enter the date the disposition was completed.

**Column (c).** Enter the FMV of the interest you disposed of in the partnership (measured as of the date of disposition). If you recognized gain or loss on the disposition, state the amount of gain or loss in Part IV. See section 741.

**Column (d).** Enter your adjusted basis in the partnership interest disposed of immediately before the disposition. See section 705.

**Columns (e) and (f).** Enter your total percentage interest in the partnership both before and immediately after the disposition. To the extent your percentage interest in the partnership differs among capital, profits, losses, or deductions, enter "See Below" and state the different percentages in Part IV.

## **Part III—Change in Proportional Interest After December 31, 1999**

This section is completed by U.S. persons who are Category 4 filers because their proportional interest in the foreign partnership changed. See **Category of Filers** on page 1 for more details about which changes in proportional interest must be reported.

**Column (a).** Briefly describe the event that caused your interest in the partnership to change (e.g., the admission of a new partner).

**Column (b).** Enter the date of the change. If the change resulted from a series of transactions over multiple dates, enter the date the change was completed.

**Column (c).** Enter the FMV of your interest in the partnership immediately before the change.

**Column (d).** Enter your basis in your partnership interest immediately before the change.

**Columns (e) and (f).** Enter your percentage interest in the partnership both before and immediately after the change. To the extent your percentage interest in the partnership differs among capital, profits, losses, or deductions, enter "See Below" and state the different percentages in Part IV.

## **Part IV—Supplemental Information Required To Be Reported**

Enter any information asked for in Part I, Part II, or Part III that must be reported in detail. Identify the applicable part number and column next to the information entered in Part IV.

# Codes for Principal Business Activity and Principal Product or Service

This list of Principal Business Activities and their associated codes is designed to classify an enterprise by the type of activity in which it is engaged to facilitate the administration of the Internal Revenue Code. These Principal Business Activity Codes are based on the North American Industry Classification System.

Using the list of activities and codes below, determine from which activity the business derives the largest percentage of its "total receipts." Total receipts is defined as the sum of gross receipts or sales (Schedule B, line 1a), all other income (Schedule B, lines 4 through 7), income (receipts only) reported on Schedule K, lines 3a and 4a through 4f, and income (receipts only) reported on Form 8825, lines 2, 19, and 20a. If the business purchases raw materials and

supplies them to a subcontractor to produce the finished product, but retains title to the product, the business is considered a manufacturer and must use one of the manufacturing codes (311110-339900).

Once the Principal Business Activity is determined, enter the six-digit code from the list below on page 1, item F6. Also enter a brief description of the business activity in item F7.

<b>Agriculture, Forestry, Fishing and Hunting</b>	<i>Code</i>	<i>Code</i>	<i>Code</i>
<b>Crop Production</b>	<b>Heavy Construction</b>	321900 Other Wood Product Mfg	<b>Machinery Manufacturing</b>
111100 Oilseed & Grain Farming	234100 Highway, Street, Bridge, & Tunnel Construction	<b>Paper Manufacturing</b>	333100 Agriculture, Construction, & Mining Machinery Mfg
111210 Vegetable & Melon Farming (including potatoes & yams)	234900 Other Heavy Construction	322100 Pulp, Paper, & Paperboard Mills	333200 Industrial Machinery Mfg
111300 Fruit & Tree Nut Farming	<b>Special Trade Contractors</b>	322200 Converted Paper Product Mfg	333310 Commercial & Service Industry Machinery Mfg
111400 Greenhouse, Nursery, & Floriculture Production	235110 Plumbing, Heating, & Air-Conditioning Contractors	<b>Printing and Related Support Activities</b>	333410 Ventilation, Heating, Air-Conditioning, & Commercial Refrigeration Equipment Mfg
111900 Other Crop Farming (including tobacco, cotton, sugarcane, hay, peanut, sugar beet & all other crop farming)	235210 Painting & Wall Covering Contractors	<b>Petroleum and Coal Products Manufacturing</b>	333510 Metalworking Machinery Mfg
<b>Animal Production</b>	235310 Electrical Contractors	324110 Petroleum Refineries (including integrated)	333610 Engine, Turbine & Power Transmission Equipment Mfg
112111 Beef Cattle Ranching & Farming	235400 Masonry, Drywall, Insulation, & Tile Contractors	324120 Asphalt Paving, Roofing, & Saturated Materials Mfg	333900 Other General Purpose Machinery Mfg
112112 Cattle Feedlots	235500 Carpentry & Floor Contractors	324190 Other Petroleum & Coal Products Mfg	<b>Computer and Electronic Product Manufacturing</b>
112120 Dairy Cattle & Milk Production	235610 Roofing, Siding, & Sheet Metal Contractors	<b>Chemical Manufacturing</b>	334110 Computer & Peripheral Equipment Mfg
112210 Hog & Pig Farming	235710 Concrete Contractors	325100 Basic Chemical Mfg	334200 Communications Equipment Mfg
112300 Poultry & Egg Production	235810 Water Well Drilling Contractors	325200 Resin, Synthetic Rubber, & Artificial & Synthetic Fibers & Filaments Mfg	334310 Audio & Video Equipment Mfg
112400 Sheep & Goat Farming	235900 Other Special Trade Contractors	325300 Pesticide, Fertilizer, & Other Agricultural Chemical Mfg	334410 Semiconductor & Other Electronic Component Mfg
112510 Animal Aquaculture (including shellfish & finfish farms & hatcheries)	<b>Manufacturing</b>	325410 Pharmaceutical & Medicine Mfg	334500 Navigational, Measuring, Electromedical, & Control Instruments Mfg
112900 Other Animal Production	<b>Food Manufacturing</b>	325500 Paint, Coating, & Adhesive Mfg	334610 Manufacturing & Reproducing Magnetic & Optical Media
<b>Forestry and Logging</b>	311110 Animal Food Mfg	325600 Soap, Cleaning Compound, & Toilet Preparation Mfg	<b>Electrical Equipment, Appliance, and Component Manufacturing</b>
113110 Timber Tract Operations	311200 Grain & Oilseed Milling	325900 Other Chemical Product & Preparation Mfg	335100 Electric Lighting Equipment Mfg
113210 Forest Nurseries & Gathering of Forest Products	311300 Sugar & Confectionery Product Mfg	<b>Plastics and Rubber Products Manufacturing</b>	335200 Household Appliance Mfg
113310 Logging	311400 Fruit & Vegetable Preserving & Specialty Food Mfg	326100 Plastics Product Mfg	335310 Electrical Equipment Mfg
<b>Fishing, Hunting and Trapping</b>	311500 Dairy Product Mfg	326200 Rubber Product Mfg	335900 Other Electrical Equipment & Component Mfg
114110 Fishing	311610 Animal Slaughtering & Processing	<b>Nonmetallic Mineral Product Manufacturing</b>	<b>Transportation Equipment Manufacturing</b>
114210 Hunting & Trapping	311710 Seafood Product Preparation & Packaging	327100 Clay Product & Refractory Mfg	336100 Motor Vehicle Mfg
<b>Support Activities for Agriculture and Forestry</b>	311800 Bakeries & Tortilla Mfg	327210 Glass & Glass Product Mfg	336210 Motor Vehicle Body & Trailer Mfg
115110 Support Activities for Crop Production (including cotton ginning, soil preparation, planting, & cultivating)	311900 Other Food Mfg (including coffee, tea, flavorings & seasonings)	327300 Cement & Concrete Product Mfg	336300 Motor Vehicle Parts Mfg
115210 Support Activities for Animal Production	<b>Beverage and Tobacco Product Manufacturing</b>	327400 Lime & Gypsum Product Mfg	336410 Aerospace Product & Parts Mfg
115310 Support Activities For Forestry	312110 Soft Drink & Ice Mfg	327900 Other Nonmetallic Mineral Product Mfg	336510 Railroad Rolling Stock Mfg
<b>Mining</b>	312120 Breweries	<b>Primary Metal Manufacturing</b>	336610 Ship & Boat Building
211110 Oil & Gas Extraction	312130 Wineries	331110 Iron & Steel Mills & Ferroalloy Mfg	336990 Other Transportation Equipment Mfg
212110 Coal Mining	312140 Distilleries	331200 Steel Product Mfg from Purchased Steel	<b>Furniture and Related Product Manufacturing</b>
212200 Metal Ore Mining	312200 Tobacco Manufacturing	331310 Alumina & Aluminum Production & Processing	337000 Furniture & Related Product Manufacturing
212310 Stone Mining & Quarrying	<b>Textile Mills and Textile Product Mills</b>	331400 Nonferrous Metal (except Aluminum) Production & Processing	<b>Miscellaneous Manufacturing</b>
212320 Sand, Gravel, Clay, & Ceramic & Refractory Minerals Mining & Quarrying	313000 Textile Mills	331500 Foundries	339110 Medical Equipment & Supplies Mfg
212390 Other Nonmetallic Mineral Mining & Quarrying	314000 Textile Product Mills	<b>Fabricated Metal Product Manufacturing</b>	339900 Other Miscellaneous Manufacturing
213110 Support Activities for Mining	<b>Apparel Manufacturing</b>	332110 Forging & Stamping	<b>Wholesale Trade</b>
<b>Utilities</b>	315100 Apparel Knitting Mills	332210 Cutlery & Handtool Mfg	<b>Wholesale Trade, Durable Goods</b>
221100 Electric Power Generation, Transmission & Distribution	315210 Cut & Sew Apparel Contractors	332300 Architectural & Structural Metals Mfg	421100 Motor Vehicle & Motor Vehicle Parts & Supplies Wholesalers
221210 Natural Gas Distribution	315220 Men's & Boys' Cut & Sew Apparel Mfg	332400 Boiler, Tank, & Shipping Container Mfg	421200 Furniture & Home Furnishing Wholesalers
221300 Water, Sewage & Other Systems	315230 Women's & Girls' Cut & Sew Apparel Mfg	332510 Hardware Mfg	421300 Lumber & Other Construction Materials Wholesalers
<b>Construction</b>	315290 Other Cut & Sew Apparel Mfg	332610 Spring & Wire Product Mfg	421400 Professional & Commercial Equipment & Supplies Wholesalers
<b>Building, Developing, and General Contracting</b>	315990 Apparel Accessories & Other Apparel Mfg	332700 Machine Shops; Turned Product; & Screw, Nut, & Bolt Mfg	421500 Metal & Mineral (except Petroleum) Wholesalers
233110 Land Subdivision & Land Development	<b>Leather and Allied Product Manufacturing</b>	332810 Coating, Engraving, Heat Treating, & Allied Activities	421600 Electrical Goods Wholesalers
233200 Residential Building Construction	316110 Leather & Hide Tanning & Finishing	332900 Other Fabricated Metal Product Mfg	
233300 Nonresidential Building Construction	316210 Footwear Mfg (including rubber & plastics)		
	316990 Other Leather & Allied Product Mfg		
	<b>Wood Product Manufacturing</b>		
	321110 Sawmills & Wood Preservation		
	321210 Veneer, Plywood, & Engineered Wood Product Mfg		

<b>Code</b> <b>Wholesale Trade, Nondurable Goods</b> 422100 Paper & Paper Product Wholesalers 422210 Drugs & Druggists' Sundries Wholesalers 422300 Apparel, Piece Goods, & Notions Wholesalers 422400 Grocery & Related Product Wholesalers 422500 Farm Product Raw Material Wholesalers 422600 Chemical & Allied Products Wholesalers 422700 Petroleum & Petroleum Products Wholesalers 422800 Beer, Wine, & Distilled Alcoholic Beverage Wholesalers 422910 Farm Supplies Wholesalers 422920 Book, Periodical, & Newspaper Wholesalers 422930 Flower, Nursery Stock, & Florists' Supplies Wholesalers 422940 Tobacco & Tobacco Product Wholesalers 422950 Paint, Varnish, & Supplies Wholesalers 422990 Other Miscellaneous Nondurable Goods Wholesalers	<b>Code</b> <b>Clothing and Clothing Accessories Stores</b> 448110 Men's Clothing Stores 448120 Women's Clothing Stores 448130 Children's & Infants' Clothing Stores 448140 Family Clothing Stores 448150 Clothing Accessories Stores 448190 Other Clothing Stores 448210 Shoe Stores 448310 Jewelry Stores 448320 Luggage & Leather Goods Stores <b>Sporting Goods, Hobby, Book, and Music Stores</b> 451110 Sporting Goods Stores 451120 Hobby, Toy, & Game Stores 451130 Sewing, Needlework, & Piece Goods Stores 451140 Musical Instrument & Supplies Stores 451211 Book Stores 451212 News Dealers & Newsstands 451220 Prerecorded Tape, Compact Disc, & Record Stores <b>General Merchandise Stores</b> 452110 Department stores 452900 Other General Merchandise Stores <b>Miscellaneous Store Retailers</b> 453110 Florists 453210 Office Supplies & Stationery Stores 453220 Gift, Novelty, & Souvenir Stores 453310 Used Merchandise Stores 453910 Pet & Pet Supplies Stores 453920 Art Dealers 453930 Manufactured (Mobile) Home Dealers 453990 All Other Miscellaneous Store Retailers (including tobacco, candle, & trophy shops) <b>Nonstore Retailers</b> 454110 Electronic Shopping & Mail-Order Houses 454210 Vending Machine Operators 454311 Heating Oil Dealers 454312 Liquefied Petroleum Gas (Bottled Gas) Dealers 454319 Other Fuel Dealers 454390 Other Direct Selling Establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)	<b>Code</b> <b>Support Activities for Transportation</b> 488100 Support Activities for Air Transportation 488210 Support Activities for Rail Transportation 488300 Support Activities for Water Transportation 488410 Motor Vehicle Towing 488490 Other Support Activities for Road Transportation 488510 Freight Transportation Arrangement 488990 Other Support Activities for Transportation <b>Couriers and Messengers</b> 492110 Couriers 492210 Local Messengers & Local Delivery <b>Warehousing and Storage</b> 493100 Warehousing & Storage (except lessors of miniwarehouses & self-storage units) <b>Information</b> <b>Publishing Industries</b> 511110 Newspaper Publishers 511120 Periodical Publishers 511130 Book Publishers 511140 Database & Directory Publishers 511190 Other Publishers 511210 Software Publishers <b>Motion Picture and Sound Recording Industries</b> 512100 Motion Picture & Video Industries (except video rental) 512200 Sound Recording Industries <b>Broadcasting and Telecommunications</b> 513100 Radio & Television Broadcasting 513200 Cable Networks & Program Distribution 513300 Telecommunications (including paging, cellular, satellite, & other telecommunications) <b>Information Services and Data Processing Services</b> 514100 Information Services (including news syndicates, libraries, & on-line information services) 514210 Data Processing Services	<b>Code</b> 523210 Securities & Commodity Exchanges 523900 Other Financial Investment Activities (including portfolio management & investment advice) <b>Insurance Carriers and Related Activities</b> 524140 Direct Life, Health, & Medical Insurance & Reinsurance Carriers 524150 Direct Insurance & Reinsurance (except Life, Health & Medical) Carriers 524210 Insurance Agencies & Brokerages 524290 Other Insurance Related Activities <b>Funds, Trusts, and Other Financial Vehicles</b> 525100 Insurance & Employee Benefit Funds 525910 Open-End Investment Funds (Form 1120-RIC) 525920 Trusts, Estates, & Agency Accounts 525930 Real Estate Investment Trusts (Form 1120-REIT) 525990 Other Financial Vehicles
<b>Retail Trade</b> <b>Motor Vehicle and Parts Dealers</b> 441110 New Car Dealers 441120 Used Car Dealers 441210 Recreational Vehicle Dealers 441221 Motorcycle Dealers 441222 Boat Dealers 441229 All Other Motor Vehicle Dealers 441300 Automotive Parts, Accessories, & Tire Stores <b>Furniture and Home Furnishings Stores</b> 442110 Furniture Stores 442210 Floor Covering Stores 442291 Window Treatment Stores 442299 All Other Home Furnishings Stores <b>Electronics and Appliance Stores</b> 443111 Household Appliance Stores 443112 Radio, Television, & Other Electronics Stores 443120 Computer & Software Stores 443130 Camera & Photographic Supplies Stores <b>Building Material and Garden Equipment and Supplies Dealers</b> 444110 Home Centers 444120 Paint & Wallpaper Stores 444130 Hardware Stores 444190 Other Building Material Dealers 444200 Lawn & Garden Equipment & Supplies Stores <b>Food and Beverage Stores</b> 445110 Supermarkets and Other Grocery (except Convenience) Stores 445120 Convenience Stores 445210 Meat Markets 445220 Fish & Seafood Markets 445230 Fruit & Vegetable Markets 445291 Baked Goods Stores 445292 Confectionery & Nut Stores 445299 All Other Specialty Food Stores 445310 Beer, Wine, & Liquor Stores <b>Health and Personal Care Stores</b> 446110 Pharmacies & Drug Stores 446120 Cosmetics, Beauty Supplies, & Perfume Stores 446130 Optical Goods Stores 446190 Other Health & Personal Care Stores <b>Gasoline Stations</b> 447100 Gasoline Stations (including convenience stores with gas)	<b>Transportation and Warehousing</b> <b>Air, Rail, and Water Transportation</b> 481000 Air Transportation 482110 Rail Transportation 483000 Water Transportation <b>Truck Transportation</b> 484110 General Freight Trucking, Local 484120 General Freight Trucking, Long-distance 484200 Specialized Freight Trucking <b>Transit and Ground Passenger Transportation</b> 485110 Urban Transit Systems 485210 Interurban & Rural Bus Transportation 485310 Taxi Service 485320 Limousine Service 485410 School & Employee Bus Transportation 485510 Charter Bus Industry 485990 Other Transit & Ground Passenger Transportation <b>Pipeline Transportation</b> 486000 Pipeline Transportation <b>Scenic &amp; Sightseeing Transportation</b> 487000 Scenic & Sightseeing Transportation	<b>Finance and Insurance</b> <b>Depository Credit Intermediation</b> 522110 Commercial Banking 522120 Savings Institutions 522130 Credit Unions 522190 Other Depository Credit Intermediation <b>Nondepository Credit Intermediation</b> 522210 Credit Card Issuing 522220 Sales Financing 522291 Consumer Lending 522292 Real Estate Credit (including mortgage bankers & originators) 522293 International Trade Financing 522294 Secondary Market Financing 522298 All Other Nondepository Credit Intermediation <b>Activities Related to Credit Intermediation</b> 522300 Activities Related to Credit Intermediation (including loan brokers) <b>Securities, Commodity Contracts, and Other Financial Investments and Related Activities</b> 523110 Investment Banking & Securities Dealing 523120 Securities Brokerage 523130 Commodity Contracts Dealing 523140 Commodity Contracts Brokerage	<b>Real Estate and Rental and Leasing</b> <b>Real Estate</b> 531110 Lessors of Residential Buildings & Dwellings 531120 Lessors of Nonresidential Buildings (except Miniwarehouses) 531130 Lessors of Miniwarehouses & Self-Storage Units 531190 Lessors of Other Real Estate Property 531210 Offices of Real Estate Agents & Brokers 531310 Real Estate Property Managers 531320 Offices of Real Estate Appraisers 531390 Other Activities Related to Real Estate <b>Rental and Leasing Services</b> 532100 Automotive Equipment Rental & Leasing 532210 Consumer Electronics & Appliances Rental 532220 Formal Wear & Costume Rental 532230 Video Tape & Disc Rental 532290 Other Consumer Goods Rental 532310 General Rental Centers 532400 Commercial & Industrial Machinery & Equipment Rental & Leasing <b>Lessors of Nonfinancial Intangible Assets (except copyrighted works)</b> 533110 Lessors of Nonfinancial Intangible Assets (except copyrighted works)
			<b>Professional, Scientific, and Technical Services</b> <b>Legal Services</b> 541110 Offices of Lawyers 541190 Other Legal Services <b>Accounting, Tax Preparation, Bookkeeping, and Payroll Services</b> 541211 Offices of Certified Public Accountants 541213 Tax Preparation Services 541214 Payroll Services 541219 Other Accounting Services <b>Architectural, Engineering, and Related Services</b> 541310 Architectural Services 541320 Landscape Architecture Services 541330 Engineering Services 541340 Drafting Services 541350 Building Inspection Services

<p><b>Code</b></p> <p>541360 Geophysical Surveying &amp; Mapping Services</p> <p>541370 Surveying &amp; Mapping (except Geophysical) Services</p> <p>541380 Testing Laboratories</p> <p><b>Specialized Design Services</b></p> <p>541400 Specialized Design Services (including interior, industrial, graphic, &amp; fashion design)</p> <p><b>Computer Systems Design and Related Services</b></p> <p>541511 Custom Computer Programming Services</p> <p>541512 Computer Systems Design Services</p> <p>541513 Computer Facilities Management Services</p> <p>541519 Other Computer Related Services</p> <p><b>Other Professional, Scientific, and Technical Services</b></p> <p>541600 Management, Scientific, &amp; Technical Consulting Services</p> <p>541700 Scientific Research &amp; Development Services</p> <p>541800 Advertising &amp; Related Services</p> <p>541910 Marketing Research &amp; Public Opinion Polling</p> <p>541920 Photographic Services</p> <p>541930 Translation &amp; Interpretation Services</p> <p>541940 Veterinary Services</p> <p>541990 All Other Professional, Scientific, &amp; Technical Services</p>	<p><b>Code</b></p> <p>561500 Travel Arrangement &amp; Reservation Services</p> <p>561600 Investigation &amp; Security Services</p> <p>561710 Exterminating &amp; Pest Control Services</p> <p>561720 Janitorial Services</p> <p>561730 Landscaping Services</p> <p>561740 Carpet &amp; Upholstery Cleaning Services</p> <p>561790 Other Services to Buildings &amp; Dwellings</p> <p>561900 Other Support Services (including packaging &amp; labeling services, &amp; convention &amp; trade show organizers)</p> <p><b>Waste Management and Remediation Services</b></p> <p>562000 Waste Management &amp; Remediation Services</p>	<p><b>Code</b></p> <p><b>Other Ambulatory Health Care Services</b></p> <p>621900 Other Ambulatory Health Care Services (including ambulance services &amp; blood &amp; organ banks)</p> <p><b>Hospitals</b></p> <p>622000 Hospitals</p> <p><b>Nursing and Residential Care Facilities</b></p> <p>623000 Nursing &amp; Residential Care Facilities</p> <p><b>Social Assistance</b></p> <p>624100 Individual &amp; Family Services</p> <p>624200 Community Food &amp; Housing, &amp; Emergency &amp; Other Relief Services</p> <p>624310 Vocational Rehabilitation Services</p> <p>624410 Child Day Care Services</p>	<p><b>Code</b></p> <p><b>Food Services and Drinking Places</b></p> <p>722110 Full-Service Restaurants</p> <p>722210 Limited-Service Eating Places</p> <p>722300 Special Food Services (including food service contractors &amp; caterers)</p> <p>722410 Drinking Places (Alcoholic Beverages)</p>
<p><b>Management of Companies (Holding Companies)</b></p> <p>551111 Offices of Bank Holding Companies</p> <p>551112 Offices of Other Holding Companies</p>	<p><b>Educational Services</b></p> <p>611000 Educational Services (including schools, colleges, &amp; universities)</p>	<p><b>Arts, Entertainment, and Recreation</b></p> <p><b>Performing Arts, Spectator Sports, and Related Industries</b></p> <p>711100 Performing Arts Companies</p> <p>711210 Spectator Sports (including sports clubs &amp; racetracks)</p> <p>711300 Promoters of Performing Arts, Sports, &amp; Similar Events</p> <p>711410 Agents &amp; Managers for Artists, Athletes, Entertainers, &amp; Other Public Figures</p> <p>711510 Independent Artists, Writers, &amp; Performers</p> <p><b>Museums, Historical Sites, and Similar Institutions</b></p> <p>712100 Museums, Historical Sites, &amp; Similar Institutions</p> <p><b>Amusement, Gambling, and Recreation Industries</b></p> <p>713100 Amusement Parks &amp; Arcades</p> <p>713200 Gambling Industries</p> <p>713900 Other Amusement &amp; Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, &amp; bowling centers)</p>	<p><b>Other Services</b></p> <p><b>Repair and Maintenance</b></p> <p>811110 Automotive Mechanical &amp; Electrical Repair &amp; Maintenance</p> <p>811120 Automotive Body, Paint, Interior, &amp; Glass Repair</p> <p>811190 Other Automotive Repair &amp; Maintenance (including oil change &amp; lubrication shops &amp; car washes)</p> <p>811210 Electronic &amp; Precision Equipment Repair &amp; Maintenance</p> <p>811310 Commercial &amp; Industrial Machinery &amp; Equipment (except Automotive &amp; Electronic) Repair &amp; Maintenance</p> <p>811410 Home &amp; Garden Equipment &amp; Appliance Repair &amp; Maintenance</p> <p>811420 Reupholstery &amp; Furniture Repair</p> <p>811430 Footwear &amp; Leather Goods Repair</p> <p>811490 Other Personal &amp; Household Goods Repair &amp; Maintenance</p> <p><b>Personal and Laundry Services</b></p> <p>812111 Barber Shops</p> <p>812112 Beauty Salons</p> <p>812113 Nail Salons</p> <p>812190 Other Personal Care Services (including diet &amp; weight reducing centers)</p> <p>812210 Funeral Homes &amp; Funeral Services</p> <p>812220 Cemeteries &amp; Crematories</p> <p>812310 Coin-Operated Laundries &amp; Drycleaners</p> <p>812320 Drycleaning &amp; Laundry Services (except Coin-Operated)</p> <p>812330 Linen &amp; Uniform Supply</p> <p>812910 Pet Care (except Veterinary) Services</p> <p>812920 Photofinishing</p> <p>812930 Parking Lots &amp; Garages</p> <p>812990 All Other Personal Services</p> <p><b>Religious, Grantmaking, Civic, Professional, and Similar Organizations</b></p> <p>813000 Religious, Grantmaking, Civic, Professional, &amp; Similar Organizations</p>
<p><b>Administrative and Support and Waste Management and Remediation Services</b></p> <p><b>Administrative and Support Services</b></p> <p>561110 Office Administrative Services</p> <p>561210 Facilities Support Services</p> <p>561300 Employment Services</p> <p>561410 Document Preparation Services</p> <p>561420 Telephone Call Centers</p> <p>561430 Business Service Centers (including private mail centers &amp; copy shops)</p> <p>561440 Collection Agencies</p> <p>561450 Credit Bureaus</p> <p>561490 Other Business Support Services (including repossession services, court reporting, &amp; stenotype services)</p>	<p><b>Health Care and Social Assistance</b></p> <p><b>Offices of Physicians and Dentists</b></p> <p>621111 Offices of Physicians (except mental health specialists)</p> <p>621112 Offices of Physicians, Mental Health Specialists</p> <p>621210 Offices of Dentists</p> <p><b>Offices of Other Health Practitioners</b></p> <p>621310 Offices of Chiropractors</p> <p>621320 Offices of Optometrists</p> <p>621330 Offices of Mental Health Practitioners (except Physicians)</p> <p>621340 Offices of Physical, Occupational &amp; Speech Therapists, &amp; Audiologists</p> <p>621391 Offices of Podiatrists</p> <p>621399 Offices of All Other Miscellaneous Health Practitioners</p> <p><b>Outpatient Care Centers</b></p> <p>621410 Family Planning Centers</p> <p>621420 Outpatient Mental Health &amp; Substance Abuse Centers</p> <p>621491 HMO Medical Centers</p> <p>621492 Kidney Dialysis Centers</p> <p>621493 Freestanding Ambulatory Surgical &amp; Emergency Centers</p> <p>621498 All Other Outpatient Care Centers</p> <p><b>Medical and Diagnostic Laboratories</b></p> <p>621510 Medical &amp; Diagnostic Laboratories</p> <p><b>Home Health Care Services</b></p> <p>621610 Home Health Care Services</p>	<p><b>Accommodation and Food Services</b></p> <p><b>Accommodation</b></p> <p>721110 Hotels (except casino hotels) &amp; Motels</p> <p>721120 Casino Hotels</p> <p>721191 Bed &amp; Breakfast Inns</p> <p>721199 All Other Traveler Accommodation</p> <p>721210 RV (Recreational Vehicle) Parks &amp; Recreational Camps</p> <p>721310 Rooming &amp; Boarding Houses</p>	<p><b>Personal and Laundry Services</b></p> <p>812111 Barber Shops</p> <p>812112 Beauty Salons</p> <p>812113 Nail Salons</p> <p>812190 Other Personal Care Services (including diet &amp; weight reducing centers)</p> <p>812210 Funeral Homes &amp; Funeral Services</p> <p>812220 Cemeteries &amp; Crematories</p> <p>812310 Coin-Operated Laundries &amp; Drycleaners</p> <p>812320 Drycleaning &amp; Laundry Services (except Coin-Operated)</p> <p>812330 Linen &amp; Uniform Supply</p> <p>812910 Pet Care (except Veterinary) Services</p> <p>812920 Photofinishing</p> <p>812930 Parking Lots &amp; Garages</p> <p>812990 All Other Personal Services</p> <p><b>Religious, Grantmaking, Civic, Professional, and Similar Organizations</b></p> <p>813000 Religious, Grantmaking, Civic, Professional, &amp; Similar Organizations</p>