

## Certain 2010 Cash Contributions for Haiti Relief Can Be Deducted As If Made on December 31, 2009

A new law allows the option of treating certain charitable contributions of money made after January 11, 2010, and before March 1, 2010, for the relief of victims in areas affected by the January 12, 2010, earthquake in Haiti as if they were made on December 31, 2009. Contributions of money include contributions made by cash, check, money order, credit card, charge card, debit card, or via cell phone.

The new law was enacted after the 2009 forms, instructions, and publications had already been printed, so this alert is being added to the electronic version of certain impacted products.

The contribution must be made to a qualified organization and meet all other requirements for charitable contribution deductions. However, if the contribution was made by phone or text message, a telephone bill showing the name of the donee organization, the date of the contribution, and the amount of the contribution will satisfy the recordkeeping requirement. Therefore, for example, for a \$10 charitable contribution made by text message that was charged to a telephone or wireless account, a telecommunications company bill containing this information satisfies the recordkeeping requirement.



# Instructions for Form 1065-B

## U.S. Return of Income for Electing Large Partnerships

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

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## What's New

- The following credits are new for 2009. For details, see the various credit forms and instructions.
  - The qualified plug-in electric drive motor vehicle credit (Form 8936).
  - The qualified plug-in electric vehicle credit (Part I of Form 8834).
- The partnership can elect to defer certain income from debt cancellations that occur after 2008 but before 2011. See *Election to defer income from cancelled debt* on page 8 for more information.
- Code U is used to report information pertaining to the section 108(i) election. See item 20, *Other information (Code U)* under *Line 15* for more information.
- If you need to list more than 4 transactions for either line 1 or line 6 of Schedule D, you may use Schedule D-1, Continuation Sheet for Schedule D (Form 1065, 1065-B, or Form 8865), to report the additional transactions. On Schedule D, line 2 and line 7 are now used to enter the total amounts from the applicable column (f) of Schedule D-1.

## Photographs of Missing Children

The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in instructions on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

## Contacting Your Taxpayer Advocate

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should. The service is free, confidential, tailored to meet your needs, and is available for businesses as well as individuals.

The electing large partnership (ELP) can contact the TAS by calling the TAS toll-free case intake line at 1-877-777-4778 or TTY/TDD 1-800-829-4059 to see if it is eligible for assistance. The ELP can also call or write its local taxpayer advocate, whose phone number and address are listed in the local telephone directory and in Pub. 1546, Taxpayer Advocate Service—Your Voice at the IRS. The partnership can file Form 911, Request for Taxpayer Advocate Service Assistance (and Application for Taxpayer Assistance Order), or ask an IRS employee to complete it on its behalf.

For more information, go to [www.irs.gov/advocate](http://www.irs.gov/advocate).

## How To Get Forms and Publications

**Internet.** You can access the IRS website at [www.irs.gov](http://www.irs.gov) 24 hours a day, 7 days a week to:

- Download forms, instructions, and publications;
- Order IRS products online;
- Research your tax questions online;
- Search publications online by topic or keyword;
- View Internal Revenue Bulletins (IRBs) published in the last few years; and
- Sign up to receive local and national tax news by email.

**DVD of tax products.** You can order Publication 1796, IRS Tax Products DVD, and obtain:

- Current-year forms, instructions, and publications;
- Prior-year forms, instructions, and publications;
- Tax Map: an electronic research tool and finding aid;
- Tax law frequently asked questions;
- Tax Topics from the IRS telephone response system;
- Internal Revenue Code—Title 26;
- Fill-in, print, and save features for most tax forms;
- Internal Revenue Bulletins; and
- Toll-free and email technical support.

The DVD is released twice during the year. The first release will ship the beginning

of January 2010. The final release will ship the beginning of March 2010.

Buy the DVD from National Technical Information Service (NTIS) at [www.irs.gov/cdorders](http://www.irs.gov/cdorders) for \$30 (no handling fee) or call 1-877-233-6767 toll free to buy the DVD for \$30 (plus a \$6 handling fee).

**By phone and in person.** You can order forms and publications by calling 1-800-TAX-FORM (1-800-829-3676). You can also get most forms and publications at your local IRS office.

## General Instructions

### Purpose of Form

Form 1065-B is an information return used to report the income, gains, losses, deductions, etc., from the operation of an electing large partnership (as defined in section 775). An electing large partnership (ELP) may be required to pay certain taxes, such as recapture of the investment credit under section 50, but generally it "passes through" any profits or losses to its partners. Partners must include these ELP items on their income tax returns.

A regular partnership is required to separately report to each partner the partner's distributive share of any item of income, gain, loss, deduction, or credit that if separately taken into account by any partner would result in an income tax liability for that partner different from that which would result if the item was not taken into account separately. Unlike a regular partnership, an ELP combines most items at the partnership level and passes through net amounts to partners. These ELP rules override the regular partnership tax rules to the extent they are inconsistent with the regular partnership tax rules.

### Electing Large Partnership (ELP) Status

A partnership chooses electing large partnership (ELP) status by filing Form 1065-B instead of Form 1065. The election applies to the tax year for which it was made and all later tax years. This election cannot be revoked without IRS consent.

To make the election, the partnership must have had 100 or more partners during the preceding tax year. Thus, a partnership cannot make the election for its first tax year. The number of partners is determined by counting only persons directly holding partnership interests, including persons holding through nominees. Service partners are not counted as partners for this purpose. Service partners are those partners who perform substantial services in connection with the partnership's activities or who have performed such services in the past.

Service partnerships are not eligible to make the election if substantially all of the partners are:

- Individuals performing substantial services in connection with the partnership's activities.
- Personal service corporations with the owner-employees performing the services.
- Retired partners who had performed the services.

- Spouses of partners performing or who had performed the services.

In addition, commodity partnerships are not eligible to make the election. Commodity partnerships have as their principal activity the buying and selling of commodities (other than inventory described in section 1221(a)(1)) or options, futures, or forwards relating to commodities.

Once a partnership has made an election by filing Form 1065-B, this treatment on the return will bind the partnership and all of its partners. The IRS, however, is not bound by the treatment on the return. To the extent provided in future regulations, a partnership may cease to be treated as an electing large partnership for a tax year in which the number of its partners falls below 100.

### 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.

#### 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.

#### General Partner

A general partner is a partner who is personally liable for partnership debts.

#### General Partnership

A general partnership is composed only of general partners.

#### Limited Partner

A limited partner is a partner in a partnership formed under a state limited partnership law, whose personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership. Some members of other entities, such as domestic or foreign business trusts or limited liability companies that are classified as partnerships, may be treated as limited partners for certain purposes. See, for example, Temporary Regulations section 1.469-5T(e)(3), which treats all members with limited liability as limited partners for purposes of section 469(h)(2).

#### Limited Partnership

A limited partnership is formed under a state limited partnership law and composed of at least one general partner and one or more limited partners.

#### Limited Liability Partnership

A limited liability partnership (LLP) is formed under a state limited liability partnership law.

Generally, a partner in an LLP is not personally liable for the debts of the LLP or any other partner, nor is a partner liable for the acts or omissions of any other partner, solely by reason of being a partner.

### Limited Liability Company

A limited liability company (LLC) is an entity formed under state law by filing articles of organization as an LLC. Unlike a partnership, none of the members of an LLC are personally liable for its debts. An LLC may be classified for federal income tax purposes as a partnership, a corporation, or an entity disregarded as an entity separate from its owner by applying the rules in Regulations section 301.7701-3. See Form 8832, Entity Classification Election, for more details.

**Note.** A domestic LLC with at least two members that does not file Form 8832 is classified as a partnership for federal income tax purposes.

### Nonrecourse Loans

Nonrecourse loans are those liabilities of the partnership for which no partner bears the economic risk of loss.

### Termination of the Partnership

An ELP terminates when all its operations are discontinued and no part of any business, financial operation, or venture is continued by any of its partners in a partnership. Unlike other partnerships, an ELP does not terminate on the sale or exchange of 50% or more of the partnership interests within a 12-month period. The ELP's tax year ends on the date of termination which is the date the ELP winds up its affairs.

Special rules apply in the case of a merger, consolidation, or division of a partnership. See Regulations section 1.708-1 for details.

### Electronic Filing

Generally, electing large partnerships are required to file electronically. However, the requirement to file electronically does not apply to certain returns, including:

- Bankruptcy returns,
- Returns with precomputed penalty and interest, and
- Returns with reasonable cause for failing to file timely.

**For more details on electronic filing using the Modernized e-file system, see:**

- Publication 3112, IRS *e-file* Application and Participation;
- Publication 4163, Modernized e-File (MeF) Information for Authorized IRS *e-file* Providers for Business Returns;
- Publication 4164, Modernized e-File (MeF) Guide for Software Developers and Transmitters;
- Publication 4505, Modernized e-File Test Package for Forms 1065/1065-B;
- Form 8453-B, U.S. Electing Large Partnership Declaration for an IRS *e-file* Return; and
- Form 8879-B, IRS *e-file* Signature Authorization for Form 1065-B.

## For More Information on Filing Electronically

- Call the Electronic Filing Section at the Ogden Service Center at 1-866-255-0654 or
- Visit [www.irs.gov/efile](http://www.irs.gov/efile).

## Electronic Filing Waiver

The IRS may waive the electronic filing rules if the partnership demonstrates that a hardship would result if it were required to file its return electronically. A partnership interested in requesting a waiver of the mandatory electronic filing requirement must file a written request, and request one in the manner prescribed by the Ogden Submission Processing Center (OSPC).

- All written requests for waivers should be mailed to:

Internal Revenue Service  
Ogden Submission Processing Center  
e-file Team, Mail Stop 1057  
Ogden, UT 84201

Attn: Form 1065 e-File Waiver Request

- Contact OSPC at 1-866-255-0654 for questions regarding the waiver procedures of process.

## When To File

Generally, a domestic partnership must file Form 1065-B by the 15th day of the 4th month following the date its tax year ended as shown at the top of Form 1065-B.

For partnerships that keep their records and books of account outside the United States and Puerto Rico, an extension of time to file and pay is granted to the 15th day of the 6th month following the close of the tax year. Do not file Form 7004, Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns, if the partnership is taking this 2-month extension of time to file and pay. Attach a statement to the partnership's tax return stating that the partnership qualifies for the extension of time to file and pay. If the partnership is unable to file its return within the 2-month period, use Form 7004 to request an additional 4-month extension.

If the due date falls on a Saturday, Sunday, or legal holiday, file by the next day that is not a Saturday, Sunday, or legal holiday.



*Unlike regular partnerships, an electing large partnership is required to furnish Schedules K-1 to its partners by the first March 15 following the close of the partnership's tax year.*

## Private Delivery Services

The partnership can use certain private delivery services designated by the IRS to meet the "timely mailing as timely filing/paying" rule for Form 1065-B. These private delivery services include only the following.

- DHL Express (DHL): DHL Same Day Service.
- Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2Day, FedEx International Priority, and FedEx International First.
- United Parcel Service (UPS): UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, UPS 2nd Day Air A.M., UPS Worldwide Express Plus, and UPS Worldwide Express.

The private delivery service can tell you how to get written proof of the mailing date.



*Private delivery services cannot deliver items to P.O. boxes. You must use the U.S. Postal Service to mail any item to an IRS P.O. box address.*

## Extension

If you need more time to file a partnership return, file Form 7004 to request a 6-month extension of time to file. File Form 7004 by the regular due date of the partnership return. Form 7004 can be electronically filed.

## Period Covered

Form 1065-B is an information return for calendar year 2009 and fiscal years beginning in 2009 and ending in 2010. If the return is for a fiscal year or a short tax year, fill in the tax year space at the top of the form.

The 2009 Form may also be used if:

1. The partnership has a tax year of less than 12 months that begins and ends in 2010 and
2. The 2010 Form 1065 is not available by the time the partnership is required to file its return.

However, the partnership must show its 2010 tax year on the 2009 Form 1065-B and incorporate any tax law changes that are effective for tax years beginning after 2009.

## Where To File

If the partnership's principal business, office, or agency is located in the United States, then file the return at: Department of the Treasury, Internal Revenue Service Center, Ogden, UT 84201-0007.

If the partnership's principal business, office, or agency is located in a foreign country or U.S. possession, then file the return at: Internal Revenue Service Center, P.O. Box 409101, Ogden, UT 84409.

## Who Must Sign

### General Partner or LLC Member Manager

Form 1065-B is not considered to be a return unless it is signed. One general partner or LLC member manager must sign the return. When a return is made for a partnership by a receiver, trustee, or assignee, the fiduciary must sign the return, instead of the general partner or LLC member manager. Returns and forms signed by a receiver or trustee in bankruptcy on behalf of a partnership must be accompanied by a copy of the order or instructions of the court authorizing signing of the return or form.

### Paid Preparer's Information

If a partner or an employee of the ELP completes Form 1065-B, the paid preparer's space should remain blank. In addition, anyone who prepares Form 1065-B but does not charge the partnership should not complete this section.

Generally, anyone who is paid to prepare the partnership return must:

- Sign the return, in the space provided for the preparer's signature;
- Fill in the other blanks in the "Paid Preparer's Use Only" area of the return; and

- Give the ELP a copy of the return in addition to the copy to be filed with the IRS.

**Note.** A paid preparer may sign original returns or amended returns by rubber stamp, mechanical device, or computer software program.

## Paid Preparer Authorization

If the ELP wants to allow the paid preparer to discuss its 2009 Form 1065-B with the IRS, check the "Yes" box in the signature area of the return. The authorization applies only to the individual whose signature appears in the "Paid Preparer's Use Only" section of its return. It does not apply to the firm, if any, shown in the section.

If the "Yes" box is checked, the ELP is authorizing the IRS to call the paid preparer to answer any questions that may arise during the processing of its return. The partnership is also authorizing the paid preparer to:

- Give the IRS any information that is missing from its return,
- Call the IRS for information about the processing of its return, and
- Respond to certain IRS notices that the partnership has shared with the preparer about math errors and return preparation.

The partnership is not authorizing the paid preparer to receive any refund check, bind the partnership to anything, or otherwise represent the partnership before the IRS. If the ELP wants to expand the paid preparer's authorization, see Pub. 947, Practice Before the IRS and Power of Attorney.

The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (excluding extensions) for filing the 2010 return.

## Interest and Penalties

### Interest

Interest is charged on taxes not paid by the due date, even if an extension of time to file is granted. Interest is also charged from the due date (including extensions) to the date of payment on the failure to file penalty, the accuracy-related penalty, the reportable transaction underpayment penalty, and the fraud penalty. The interest charged is figured at a rate determined under section 6621.

### Late Filing of Return

A penalty is assessed against the partnership if it is required to file a partnership return and it **(a)** fails to file the return by the due date, including extensions, or **(b)** files a return that fails to show all the information required, unless such failure is due to reasonable cause. If the failure is due to reasonable cause, attach an explanation to the partnership return.

The penalty is \$89 for each month or part of a month (for a maximum of 12 months) the failure continues, multiplied by the total number of persons who were partners in the partnership during any part of the partnership's tax year for which the return is due.

If tax is due (regardless of when the return was required to be filed), the penalty is the amount stated above plus 5% of the unpaid tax for each month or part of a month the return is late, up to a maximum of 25% of the unpaid tax. If the return is more than

60 days late, the minimum penalty is \$135 or the balance of the tax due on the return, whichever is smaller.

## Late Payment of Tax

An ELP that does not pay the tax when due generally may have to pay a penalty of  $\frac{1}{2}$  of 1% for each month or part of a month the tax is not paid, up to a maximum of 25% of the unpaid tax. The penalty will not be imposed if the partnership can show that failure to pay on time was due to reasonable cause.

## Failure To Furnish Information Timely

For each failure to furnish Schedule K-1 to a partner when due and each failure to include on Schedule K-1 all the information required to be shown (or the inclusion of incorrect information), a \$50 penalty may be imposed with respect to each Schedule K-1 for which a failure occurs. The maximum penalty is \$100,000 for all such failures during a calendar year. If the requirement to report correct information is intentionally disregarded, each \$50 penalty is increased to \$100 or, if greater, 10% of the aggregate amount of items required to be reported, and the \$100,000 maximum does not apply.

## Trust Fund Recovery Penalty

This penalty may apply if certain excise, income, social security, and Medicare taxes that must be collected or withheld are not collected or withheld, or these taxes are not paid. These taxes are generally reported on:

- Form 720, Quarterly Federal Excise Tax Return;
- Form 941, Employer's QUARTERLY Federal Tax Return;
- Form 943, Employer's Annual Federal Tax Return for Agricultural Employees; or
- Form 945, Annual Return of Withheld Federal Income Tax.

The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to have been responsible for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so. The penalty is equal to the unpaid trust fund tax. See the Instructions for Form 720; Pub. 15, (Circular E), Employer's Tax Guide; or Pub. 51, (Circular A), Agricultural Employer's Tax Guide, for more details, including the definition of a responsible person.

## Accounting Methods

An accounting method is a set of rules used to determine when and how income and expenditures are reported. Figure ordinary income using the method of accounting regularly used in keeping the ELP's books and records. In all cases, the method used must clearly show taxable income. Generally, permissible methods include:

- Cash,
- Accrual, or
- Any other method authorized by the Internal Revenue Code.

Generally, a partnership may not use the cash method of accounting if (a) it has at least one corporate partner, average annual gross receipts of more than \$5 million, and it is not a farming business or (b) it is a tax shelter (as defined in section 448(d)(3)). See section 448 for details.

**Accrual method.** If inventories are required, an accrual method of accounting must be used for sales and purchases of merchandise. However, qualifying taxpayers and eligible businesses of qualifying small business taxpayers are excepted from using an accrual method and may account for inventoriable items as materials and supplies that are not incidental. For more details, see *Schedule A. Cost of Goods Sold*, later.

Under the accrual method, an amount is includable in income when:

1. All the events have occurred that fix the right to receive the income, which is the earliest of the date:
  - a. Payment is earned through the required performance,
  - b. Payment is due to the taxpayer, or
  - c. Payment is received by the taxpayer and
2. The amount can be determined with reasonable accuracy.

See Regulations section 1.451-1(a) for details.

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year in which:

- All events that determine the liability have occurred,
- The amount of the liability can be figured with reasonable accuracy, and
- Economic performance takes place with respect to the expense.

For property and service liabilities, for example, economic performance occurs as the property or service is provided. There are special economic performance rules for certain items, including recurring expenses. See section 461(h) and the related regulations for the rules for determining when economic performance takes place.

**Nonaccrual-experience method.** Accrual method partnerships are not required to accrue certain amounts to be received from the performance of services that, on the basis of their experience, will not be collected, if:

- The services are in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting or
- The partnership's average annual gross receipts for the 3 prior tax years does not exceed \$5 million.

This provision does not apply to any amount if interest is required to be paid on the amount or if there is any penalty for failure to timely pay the amount. For information, see section 448(d)(5) and Regulations section 1.448-2. For reporting requirements, see the instructions for line 1a on page 13.

**Percentage of completion method.** Long-term contracts (except for certain real property construction contracts) must generally be accounted for using the percentage of completion method described in section 460. See section 460 and the underlying regulations for rules on long-term contracts.

**Mark-to-market accounting.** Dealers in securities must use the mark-to-market accounting method described in section 475. Under this method, any security that is inventory to the dealer must be included in inventory at its fair market value (FMV). Any security that is not inventory and that is held

at the close of the tax year is treated as sold at its FMV on the last business day of the tax year, and any gain or loss must be taken into account in determining gross income. The gain or loss taken into account is generally treated as ordinary gain or loss. For details, including exceptions, see section 475, the related regulations, and Rev. Rul. 97-39, 1997-39 I.R.B. 4.

Traders in securities or commodities, and dealers in commodities, can elect to use the mark-to-market accounting method. To make the election, the partnership must file a statement describing the election, the first tax year the election is to be effective, and, in the case of an election for traders in securities or commodities, the trade or business for which the election is made. The statement must be filed by the due date (not including extensions) of the partnership return for the tax year immediately preceding the election year and attached to that return, or if applicable, to a request for an extension of time to file that return. For more details, see Rev. Proc. 99-17, 1999-7 I.R.B. 52, and sections 475(e) and (f).

### Change in accounting method.

Generally, the ELP must get IRS consent to change its method of accounting used to report income (for income as a whole or for any material item). To do so, it must file Form 3115, Application for Change in Accounting Method. See Form 3115.

**Section 481(a) adjustment.** The ELP may have to make an adjustment to prevent amounts of income or expenses from being duplicated or omitted. This is called a section 481(a) adjustment. The section 481(a) adjustment period is generally 1 year for a net negative adjustment and 4 years for a net positive adjustment. However, a partnership can elect to use a 1-year adjustment period for positive adjustments if the net section 481(a) adjustment for the accounting method change is less than \$25,000. The partnership must complete the appropriate lines of Form 3115 to make the election.

Include any net positive section 481(a) adjustment on Form 1065-B, Part I, line 10. If the net section 481(a) adjustment is negative, report it on Form 1065-B, Part I, line 23.

## Accounting Periods

An ELP is generally required to have one of the following tax years.

1. The tax year of a majority of its partners (majority tax year).
  2. If there is no majority tax year, then the tax year common to all of the ELP's principal partners (partners with an interest of 5% or more in the partnership profits or capital).
  3. If there is neither a majority tax year nor a tax year common to all principal partners, then the tax year that results in the least aggregate deferral of income.
- Note.** In determining the tax year of a partnership under 1, 2, or 3 above, the tax years of certain tax-exempt and foreign partners are disregarded. See Regulations section 1.706-1(b) for more details.

4. Some other tax year, if:
  - a. The ELP can establish that there is a business purpose for the tax year;
  - b. The ELP elects under section 444 to have a tax year other than a required tax year by filing Form 8716, Election To Have a

**Tax Year Other Than a Required Tax Year.** For a partnership to have this election in effect, it must make the payments required by section 7519 and file Form 8752, Required Payment or Refund Under Section 7519.

A section 444 election ends if a partnership changes its accounting period to its required tax year or some other permitted year or it is penalized for willfully failing to comply with the requirements of section 7519. If the termination results in a short tax year, type or legibly print at the top of the first page of Form 1065-B for the short tax year, "SECTION 444 ELECTION TERMINATED"; or

c. The partnership elects to use a 52-53 week tax year that ends with reference to either its required tax year or a tax year elected under section 444.

**Change of tax year.** To change its tax year or to adopt or retain a tax year other than its required tax year, the partnership must file Form 1128, Application To Adopt, Change, or Retain a Tax Year, unless the partnership is making an election under section 444.

**Note.** The tax year of a common trust fund must be the calendar year.

## Rounding Off to Whole Dollars

The partnership can round off cents to whole dollars on its return and schedules. If the partnership does round to whole dollars, it must round all amounts. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar (for example, \$1.39 becomes \$1 and \$2.50 becomes \$3).

If two or more amounts must be added to figure the amount to enter on a line, include cents when adding the amounts and round off only the total.

## Recordkeeping

The ELP must keep its records as long as they may be needed for the administration of any provision of the Internal Revenue Code. The partnership usually must keep records that support an item of income, deduction, or credit on the partnership return for 3 years from the date the return is due or is filed, whichever is later. It also must keep records that verify its basis in property for as long as they are needed to figure the basis of the original or replacement property.

The ELP should also keep copies of all returns it has filed. They help in preparing future returns and in making computations when filing an amended return.

## Administrative Adjustment Requests

To correct an error on a Form 1065-B already filed, file Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR). Generally, an adjustment to a partnership item requested on Form 8082 will flow through to the partners and be taken into account in determining the amount of the same item for the partnership tax year in which the IRS allows the adjustment. If the income, deductions, credits, or other information provided to any partner on Schedule K-1 are incorrect under section 704 in the partner's distributive share of any partnership item shown on Form 1065-B, file an amended Schedule K-1 (Form 1065-B) for that partner with the Form 8082. Also give a copy of the amended Schedule K-1 to that partner. See the Form 8082 instructions for details on how to file the amended Form 1065-B.

A change to the partnership's federal return may affect its state return. This includes changes made as a result of an IRS examination. For more information, contact the state tax agency for the state in which the partnership return was filed.

## Other Forms, Returns, And Statements That May Be Required

Form, Return, or Statement	Use this to—
<b>W-2 and W-3</b> —Wage and Tax Statement; and Transmittal of Wage and Tax Statements	Report wages, tips, other compensation, and withheld income, social security and Medicare taxes for employees.
<b>720</b> —Quarterly Federal Excise Tax Return	Report and pay environmental taxes, communications and air transportation taxes, fuel taxes, manufacturers taxes, ship passenger tax, and certain other excise taxes. Also, see <i>Trust Fund Recovery Penalty</i> on page 4.
<b>940</b> —Employer's Annual Federal Unemployment (FUTA) Tax Return	Report and pay FUTA tax.
<b>941</b> —Employer's QUARTERLY Federal Tax Return	Report quarterly income tax withheld on wages and employer and employee social security and Medicare taxes. Also, see <i>Trust Fund Recovery Penalty</i> on page 4.
<b>943</b> —Employer's Annual Federal Tax Return for Agricultural Employees	Report income tax withheld and employer and employee social security and Medicare taxes on farmworkers. Also, see <i>Trust Fund Recovery Penalty</i> on page 4.
<b>945</b> —Annual Return of Withheld Federal Income Tax	Report income tax withheld from nonpayroll payments, including pensions, annuities, individual retirement accounts (IRAs), gambling winnings, and backup withholding. Also, see <i>Trust Fund Recovery Penalty</i> on page 4.
<b>1042 and 1042-S</b> —Annual Withholding Tax Return for U.S. Source Income of Foreign Persons; and Foreign Person's U.S. Source Income Subject to Withholding	Report and send withheld tax on payments or distributions made to nonresident alien individuals, foreign partnerships, or foreign corporations to the extent these payments or distributions constitute gross income from sources within the United States that is not effectively connected with a U.S. trade or business. A domestic partnership must also withhold tax on a foreign partner's distributive share of such income, including amounts that are not actually distributed. Withholding on amounts not previously distributed to a foreign partner must be made and paid over by the earlier of: <ul style="list-style-type: none"> <li>• The date on which Schedule K-1 is sent to that partner or</li> <li>• The 15th day of the 3rd month after the end of the partnership's tax year.</li> </ul> For more details, see sections 1441 and 1442 and Pub. 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.
<b>1042-T</b> —Annual Summary and Transmittal of Forms 1042-S	Transmit paper Forms 1042-S to the IRS.
<b>1096</b> —Annual Summary and Transmittal of U.S. Information Returns	Transmit paper Forms 1099, 1098, 3921, 3922, 5498, and W-2G to the IRS.
<b>1098</b> —Mortgage Interest Statement	Report the receipt from any individual of \$600 or more of mortgage interest (including certain points) in the course of the partnership's trade or business.

Form, Return, or Statement	Use this to—
<p><b>1099-A, B, C, INT, LTC, MISC, OID, R, S, and SA</b></p> <p><b>Important.</b> Every partnership must file Forms 1099-MISC if, in the course of its trade or business, it makes payments of rents, commissions, or other fixed or determinable income (see section 6041) totaling \$600 or more to any one person during the calendar year.</p>	<p>Report the following:</p> <ul style="list-style-type: none"> <li>• Acquisitions or abandonments of secured property;</li> <li>• Proceeds from broker and barter exchange transactions;</li> <li>• Cancellation of debts;</li> <li>• Interest payments;</li> <li>• Payments of long-term care and accelerated death benefits;</li> <li>• Miscellaneous income payments;</li> <li>• Original issue discount;</li> <li>• Distributions from pensions, annuities, retirement or profit-sharing plans, IRAs, insurance contracts, etc.;</li> <li>• Proceeds from real estate transactions; and</li> <li>• Distributions from an HSA, Archer MSA, or Medicare Advantage MSA.</li> </ul> <p>Also use these returns to report amounts that were received as a nominee on behalf of another person. For more details, see the General Instructions for Certain Information Returns (1098, 1099, 3921, 3922, 5498, and W-2G).</p>
<p><b>5471</b>— Information Return of U.S. Persons With Respect To Certain Foreign Corporations</p>	<p>Report information with respect to certain foreign corporations. A domestic partnership may have to file Form 5471 if it:</p> <ul style="list-style-type: none"> <li>• Controls a foreign corporation;</li> <li>• Acquires, disposes of, or owns 10% or more in value of the outstanding stock of a foreign corporation; or</li> <li>• Owns stock in a corporation that is a controlled foreign corporation for an uninterrupted period of 30 days or more during any tax year of the foreign corporation, and it owned that stock on the last day of that year.</li> </ul>
<p><b>5713</b>— International Boycott Report</p>	<p>Report operations in, or related to, a “boycotting” country, company, or national of a country and to figure the loss of certain tax benefits. The partnership must give each partner a copy of the Form 5713 filed by the partnership if there has been participation in, or cooperation with, an international boycott.</p>
<p><b>8275</b>— Disclosure Statement</p>	<p>Disclose items or positions, except those contrary to a regulation, that are not otherwise adequately disclosed on a tax return. The disclosure is made to avoid the parts of the accuracy-related penalty imposed for disregard of rules or substantial understatement of tax. Also use Form 8275 for disclosures relating to preparer penalties for understatements due to unrealistic positions or disregard of rules.</p>
<p><b>8275-R</b>— Regulation Disclosure Statement</p>	<p>Disclose any item on a tax return for which a position has been taken that is contrary to Treasury regulations.</p>
<p><b>8288</b> and <b>8288-A</b>— U.S. Withholding Tax Return for Dispositions by Foreign Persons of U.S. Real Property Interests; and Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interests</p>	<p>Report and send withheld tax on the sale of U.S. real property by a foreign person. See section 1445 and the related regulations for additional information.</p>
<p><b>8300</b>— Report of Cash Payments Over \$10,000 Received in a Trade or Business</p>	<p>Report the receipt of more than \$10,000 in cash or foreign currency in one transaction or a series of related transactions.</p>
<p><b>8308</b>— Report of a Sale or Exchange of Certain Partnership Interests</p>	<p>Report the sale or exchange by a partner of all or part of a partnership interest where any money or other property received in exchange for the interest is attributable to unrealized receivables or inventory items.</p>
<p><b>8594</b>— Asset Acquisition Statement Under Section 1060</p>	<p>Report a sale of assets if goodwill or going concern value attaches, or could attach, to such assets. Both the seller and buyer of a group of assets that makes up a trade or business must use this form.</p>
<p><b>8697</b>— Interest Computation Under the Look-Back Method for Completed Long-Term Contracts</p>	<p>Figure the 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.</p>
<p><b>8804, 8805, and 8813</b>— Annual Return for Partnership Withholding Tax (Section 1446); Foreign Partner’s Information Statement of Section 1446 Withholding Tax; and Partnership Withholding Tax Payment Voucher (Section 1446)</p>	<p>Figure and report the withholding tax on the distributive shares of any effectively connected gross income for foreign partners. This is done on Forms 8804 and 8805. Use Form 8813 to send installment payments of withheld tax based on effectively connected taxable income allocable to foreign partners.</p> <p><b>Exception.</b> Publicly traded partnerships do not use these forms. They must instead withhold tax on distributions to foreign partners and report and send payments using Forms 1042 and 1042-S. See Regulations section 1.1446-4 for more information.</p>
<p><b>8832</b>— Entity Classification Election</p>	<p>See <i>Entity Classification Election</i>, later.</p>

Form, Return, or Statement	Use this to—
<b>8865</b> — Return of U.S. Person With Respect to Certain Foreign Partnerships	<p>Report an interest in a foreign partnership. A domestic partnership may have to file Form 8865 if it did any of the following.</p> <ol style="list-style-type: none"> <li>1. Controlled a foreign partnership (that is, it owned more than 50% direct or indirect interest in the partnership).</li> <li>2. Owned at least a 10% direct or indirect interest in a foreign partnership while U.S. persons owning at least a 10% direct or indirect interest controlled that partnership.</li> <li>3. Had an acquisition, disposition, or change in proportional interest of a foreign partnership that: <ol style="list-style-type: none"> <li>a. Increased its direct interest to at least 10% or reduced its direct interest of at least 10% to less than 10% or</li> <li>b. Changed its direct interest by at least a 10% interest.</li> </ol> </li> <li>4. Contributed property to a foreign partnership in exchange for a partnership interest if: <ol style="list-style-type: none"> <li>a. Immediately after the contribution, the partnership directly or indirectly owned at least a 10% interest in the foreign partnership; or</li> <li>b. The FMV of the property the partnership contributed to the foreign partnership in exchange for a partnership interest exceeds \$100,000, when added to other contributions of property made to the foreign partnership (by the partnership or a related person) during the preceding 12-month period.</li> </ol> </li> </ol> <p>Also, the domestic partnership may have to file Form 8865 to report certain dispositions by a foreign partnership of property it previously contributed to that partnership if it was a partner at the time of the disposition. For more details, including penalties for failing to file Form 8865, see Form 8865 and its separate instructions.</p>
<b>8866</b> — Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method	Figure the interest due or to be refunded under the look-back method of section 167(g)(2) for certain property placed in service after September 13, 1995, depreciated under the income forecast method.
<b>8876</b> — Excise Tax on Structured Settlement Factoring Transactions	Report and pay the 40% excise tax imposed under section 5891.
<b>8886</b> — Reportable Transaction Disclosure Statement	<p>Disclose information for each reportable transaction in which the partnership participated. Form 8886 must be filed for each tax year the partnership participated in the reportable transaction. The partnership may have to pay a penalty if it is required to file Form 8886 and does not do so. The following are reportable transactions.</p> <ul style="list-style-type: none"> <li>• Any listed transaction, which is a transaction that is the same as or substantially similar to one of the types of transactions that the IRS has determined to be a tax avoidance transaction and identified by notice, regulation, or other published guidance as a listed transaction.</li> <li>• Any transaction offered under conditions of confidentiality for which the partnership (or a related party) paid an advisor a fee of at least \$50,000 (\$250,000 for partnerships if all partners are corporations).</li> <li>• Certain transactions for which the partnership (or a related party) has contractual protection against disallowance of the tax benefits.</li> <li>• Certain transactions resulting in a loss of at least \$2 million in any single tax year or \$4 million in any combination of tax years (if all partners are corporations, see Regulations section 1.6011-4(b)(5)(i)(B)).</li> <li>• Any transaction identified by the IRS by notice, regulation, or other published guidance as a “transaction of interest.” See Notice 2009-55, 2009-31 I.R.B. 170.</li> </ul> <p>See Regulations section 1.6011-4, the Instructions for Form 8886, and the instructions for line 15 of Schedule K for more information.</p>
<b>8918</b> — Material Advisor Disclosure Statement	Material advisors to any reportable transaction must disclose certain information about the reportable transaction by filing Form 8918 with the IRS. Form 8918 replaces Form 8264, which was previously used by material advisors for disclosure.
<b>8925</b> — Report of Employer-Owned Life Insurance Contracts	Report the number of employees covered by employer-owned life insurance contracts and the total amount of employer-owned life insurance.
<b>Statement of section 743(b) basis adjustments</b>	<p>Report the adjustment of bases under section 743(b). If the partnership is required to adjust the bases of partnership properties under section 743(b) because of a section 754 election or because of a substantial built-in loss as defined in section 743(d) on the sale or exchange of a partnership interest or on the death of a partner, the partnership must attach a statement to its return for the year of the transfer. The statement must list:</p> <ol style="list-style-type: none"> <li>1. The name and identifying number of the transferee partner,</li> <li>2. The computation of the adjustment, and</li> <li>3. The partnership properties to which the adjustment has been allocated.</li> </ol>

## Assembling the Return

When submitting Form 1065-B, organize the pages of the return in the following order.

- Pages 1-5,
- Schedule F (Form 1040) (if required),
- Form 8825 (if required),
- Any other schedules in alphabetical order, and
- Any other forms in numerical order.

Complete every applicable entry space on Form 1065-B and Schedule K-1. Do not

enter “See attached” instead of completing the entry spaces. Penalties may be assessed if the partnership files an incomplete return. If you need more space on the forms or schedules, attach separate sheets and place them at the end of the return using the same size and format as on the printed forms. Show the totals on the printed forms. Also be sure to put the partnership’s name and EIN on each supporting statement or attachment.

## Overview

The taxable income of an ELP is computed in the same manner as that of an individual, except that the items described below are separately stated and certain modifications are made. These modifications include not allowing the deduction for personal exemptions, the net operating loss deduction, and certain itemized deductions. Other itemized deductions are modified.

The netting of capital gains and losses occurs at the partnership level. Such net capital gain (loss) is treated as long-term capital gain (loss). Any excess of net short-term capital gain over net long-term capital loss is consolidated with the partnership's other taxable income and is not separately reported.

General credits are separately reported to partners as a single item. They are taken into account by partners as a current year general business credit. General credits are those credits that are not separately reported. The refundable credit for federal tax paid on fuels and the refund or credit for tax paid on undistributed capital gains of a regulated investment company (RIC) or a real estate investment trust (REIT) are taken by the partnership and thus are not separately reported to partners. The partnership also recaptures the investment credit under section 50 and low-income housing credit under section 42(j).

## Separately Stated Items

Partners must take into account separately (under section 772(a)) their distributive shares of the following items (whether or not they are actually distributed).

- Taxable income (loss) from passive loss limitation activities.
- Taxable income (loss) from other activities (for example, portfolio income (loss)).
- Net capital gain (loss) allocable to passive loss limitation activities.
- Net capital gain (loss) allocable to other activities.
- 28% rate gain (loss) allocable to passive loss limitation activities.
- 28% rate gain (loss) allocable to other activities.
- Qualified dividends.
- Tax-exempt interest income.
- Extraterritorial income exclusion and foreign trading gross receipts.
- Net alternative minimum tax (AMT) adjustment separately computed for passive loss limitation activities.
- Net AMT adjustment separately computed for other activities.
- General credits.
- Low-income housing credit.
- Rehabilitation credit from rental real estate activities.
- Creditable foreign taxes and foreign source items.
- Other items of income, gain, loss, deduction, or credit, to the extent the IRS determines separate treatment is appropriate. Examples of such items include the domestic production activity deduction and gains on sales of qualified small business stock (information required for a section 1202 exclusion or section 1045 rollover).

**Note.** For electing large partnerships, the term passive loss limitation activities includes trade or business, rental real estate, and other rental activities. Partnership items from passive loss limitation activities allocated to limited partners are treated as being from passive activities and subject to the passive activity limitations. However, general partners may have materially or actively participated in some or all of these passive loss limitation activities. Each general partner must determine if any partnership items from these activities are subject to the passive

activity limitations. To allow each general partner to correctly apply the passive activity limitations, the partnership must report income or loss and credits separately for each trade or business activity, rental real estate activity, rental activity other than rental real estate, and other activities (for example, portfolio income). See the discussion on *Passive Loss Limitation Activities*, later.

The character of any item separately stated to the partners is based on its character to the partnership. The items are treated as incurred by the partnership, similar to the character rule for other partnerships under section 702(b).

## Limitations

Most limitations and other provisions affecting taxable income or credit are applied at the partnership level except for:

- Section 68—Overall itemized deduction limitation,
- Sections 49 and 465—At-risk limitations, and
- Section 469—Passive loss limitations.

**Miscellaneous itemized deductions.** The limitation on miscellaneous itemized deductions is applied at the partnership level. However, instead of the 2% floor, 70% of the partnership's total miscellaneous itemized deductions are disallowed.

**Charitable contributions.** Another limitation that is applied at the partnership level is the deduction for charitable contributions. The deduction is limited to 10% of the partnership's taxable income (before the charitable contribution deduction).

## Entity Classification Election

Use Form 8832, Entity Classification Election, to make a change in classification. Except for certain business entities always classified as a corporation, a business entity with at least two members may choose to be classified either as a partnership or an association taxable as a corporation. A domestic eligible entity with at least two members that does not file Form 8832 is classified under the default rules as a partnership. However, a foreign eligible entity with at least two members is classified under the default rules as a partnership only if at least one member does not have limited liability. File Form 8832 only if the entity does not want to be classified under these default rules or if it wants to change its classification.



Attach a copy of Form 8832 to the partnership's federal tax return for the tax year of the election.

## Elections Made by the Partnership

All elections, other than the exceptions listed under *Elections Made by Each Partner*, affecting the computation of taxable income or any credit are made by the partnership. For example, it chooses the accounting method and depreciation methods it will use. The partnership also makes elections under the following sections.

1. Section 179 (election to expense certain property).
2. Section 1033 (involuntary conversions).

3. Section 754 (manner of electing optional adjustment to basis of partnership property).

There are no changes to the optional basis adjustment provisions as a result of the ELP rules. Under section 754, a partnership can elect to adjust the basis of partnership property when property is distributed or when a partnership interest is transferred. Once an election is made under section 754, it applies both to all distributions and to all transfers made during the tax year and in all subsequent tax years unless the election is revoked. See Regulations section 1.754-1(c).

This election must be made in a statement that is filed with the partnership's timely filed return (including any extension) for the tax year during which the distribution or transfer occurs. The statement must include:

- The name and address of the partnership,
- A declaration that the partnership elects under section 754 to apply the provisions of section 734(b) and section 743(b), and
- The signature of a partner authorized to sign the partnership return.

The partnership can get an automatic 12-month extension to make the section 754 election provided corrective action is taken within 12 months of the original deadline for making the election. For details, see Regulations section 301.9100-2.

See section 754 and the related regulations for more information.

If there is a distribution of property consisting of an interest in another partnership, see section 734(b).

The partnership is required to attach a statement for any section 743(b) basis adjustments.

4. Section 108(i) (deferred income from cancellation of debt).

**Election to defer income from cancelled debt.** The partnership may elect to defer certain income from debt cancellations that occur after 2008, but before 2011. If the partnership elects to defer cancelled debt income, the exclusions for cancelled debt under section 108(a)(1)(A), (B), (C), and (D) do not apply to the income from the cancelled debt for the tax year of the election and any later year. See section 108(i) and Rev. Proc. 2009-37, 2009-36 I.R.B. 309 for more information.

### Special rule for filers of Form 8865.

Filers of Form 8865, Return of U.S. Persons With Regard to Certain Foreign Partnerships, cannot defer recognizing and reporting cancelled debt income on Form 8865, in accordance with the section 108(i) election, unless the foreign partnership filed a U.S. partnership return and made this election. A foreign partnership must file Form 1065 or Form 1065-B to make the section 108(i) election. These foreign partnerships also have an annual reporting requirement on Form 1065 or Form 1065-B for each tax year after the election until all items deferred under section 108(i) have been recognized. See Rev. Proc. 2009-37, 2009-36 I.R.B. 309 for details.

**Section 108(i) election and reporting by tiered partnerships.** A partnership that receives a Schedule K-1 from another partnership containing information relating to

a section 108(i) election must report on the Schedule K-1 to its partners certain information relative to the section 108(i) election. See Rev. Proc. 2009-37, 2009-36 I.R.B. 309 for details.

## Effect of Section 743(b) Basis Adjustment on Partnership Items

If the basis of partnership property has been adjusted for a transferee partner under section 743(b), the partnership must adjust the transferee's distributive share of the items of partnership income, deduction, gain, or loss in accordance with Regulations section 1.743-1(j)(3) and (4). These adjustments must be reported on Schedule K and the transferee partner's Schedule K-1. Report the adjustments on an attached statement to Schedule K-1 using the codes for *Other Income* or *Other Deductions*. Identify the partnership item being adjusted and the amount of the adjustment. If the adjustments are to partnership items from more than one trade or business, report the adjustments separately for each activity. Section 743(b) adjustments do not affect the transferee's capital account.

## Elections Made by Each Partner

Elections under the following sections are made by each partner separately on the partner's tax return.

1. Section 108 (income from discharge of indebtedness). This does not include the section 108(i) election. If an electing large partnership has income from the discharge of any indebtedness, this is reported separately to each partner.

2. Section 901 (foreign tax credit).

## Partner's Dealings With Partnership

If a partner engages in a transaction with his or her partnership, other than in his or her capacity as a partner, the partner is treated as not being a member of the partnership for that transaction. Special rules apply to sales or exchanges of property between partnerships and certain persons, as explained in Pub. 541, Partnerships.

## Contributions to the Partnership

Generally, no gain or (loss) is recognized to the partnership or any of the partners when property is contributed to the partnership in exchange for an interest in the partnership. This rule does not apply to any gain realized on a transfer of property to a partnership that would be treated as an investment company (within the meaning of section 351) if the partnership were incorporated. If, as a result of a transfer of property to a partnership, there is a direct or indirect transfer of money or other property to the transferring partner, the partner may have to recognize gain on the exchange.

The basis to the ELP of property contributed by a partner is the adjusted basis in the hands of the partner at the time it was contributed, plus any gain recognized (under section 721(b)) by the partner at that time. See section 723 for more information.

## Dispositions of Contributed Property

Generally, if the partnership disposes of property contributed to the partnership by a partner, income, gain, loss, and deductions from that property must be allocated among the partners to take into account the difference between the property's basis and its FMV at the time of the contribution. However, if the adjusted basis of the contributed property exceeds its FMV at the time of the contribution, the built-in loss can only be taken into account by the contributing partner. For all other partners, the basis of the property in the hands of the partnership is treated as equal to its FMV at the time of the contribution (see section 704(c)(1)(C)).

For property contributed to the ELP, the contributing partner must recognize gain or loss on a distribution of the property to another partner within 7 years of its being contributed. The gain or loss is equal to the amount that the contributing partner should have recognized if the property had been sold for its FMV when distributed, because of the difference between the property's basis and its FMV at the time of contribution.

See section 704(c) for details and other rules on dispositions of contributed property. See section 724 for the character of any gain or (loss) recognized on the disposition of unrealized receivables, inventory items, or capital loss property contributed to the partnership by a partner.

## Recognition of Precontribution Gain on Certain Partnership Distributions

A partner who contributes appreciated property to the partnership must include in income any precontribution gain to the extent the FMV of other property (other than money) distributed to the partner by the partnership exceeds the adjusted basis of his or her partnership interest just before the distribution. Precontribution gain is the net gain, if any, that would have been recognized under section 704(c)(1)(B) if the partnership had distributed to another partner all the property that had been contributed to the partnership by the distributee partner within 7 years of the distribution and that was held by the partnership just before the distribution.

Appropriate basis adjustments are to be made to the adjusted basis of the distributee partner's interest in the partnership and the partnership's basis in the contributed property to reflect the gain recognized by the partner.

For more details and exceptions, see Pub. 541.

## Unrealized Receivables and Inventory Items

Generally, if a partner sells or exchanges a partnership interest and unrealized receivables or inventory items are involved, the transferor partner must notify the partnership, in writing, within 30 days of the exchange. The partnership must then file Form 8308, Report of a Sale or Exchange of Certain Partnership Interests.

If a partnership distributes unrealized receivables or substantially appreciated inventory items in exchange for all or part of a partner's interest in other partnership property (including money), treat the transaction as a sale or exchange between the partner and the partnership. Treat the partnership gain or (loss) as ordinary income or (loss). The income or (loss) is specially allocated only to partners other than the distributee partner.

If a partnership gives other property (including money) for all or part of that partner's interest in the partnership's unrealized receivables or substantially appreciated inventory items, treat the transaction as a sale or exchange of the property.

See Rev. Rul. 84-102, 1984-2 C.B. 119, for information on the tax consequences that result when a new partner joins a partnership that has liabilities and unrealized receivables. Also see Pub. 541 for more information on unrealized receivables and inventory items.

## Activities of Electing Large Partnerships (ELPs)

The activities of an ELP are reported as either:

- Passive loss limitation activities, including trade or business, real estate rental, and other rental activities or
- Other activities, including portfolio or investment activities.

## Passive Loss Limitation Activities

The term *passive loss limitation activity* means any activity involving the conduct of a trade or business (including any activity treated as a trade or business under section 469(c)(5) or (6)), or any rental activity.

A limited partner's share of an ELP's taxable income or loss from these activities is treated as income or loss from the conduct of a single passive trade or business activity. Thus, an ELP does not have to report items from multiple activities separately to limited partners.

However, if a partner holds an interest in an ELP other than as a limited partner, the distributive share of items from each activity is accounted for separately under the passive activity rules of section 469. Thus, for example, passive loss limitation activity income or loss is not treated as passive income with respect to the general partnership interest of a partner who materially participates in the partnership's trade or business activities. For general partners, the partnership does have to report items for each activity separately.

## Trade or Business Activities

A trade or business activity is an activity (other than a rental activity or an activity treated as incidental to an activity of holding property for investment) that:

- Involves the conduct of a trade or business (within the meaning of section 162),
- Is conducted in anticipation of starting a trade or business, or
- Involves research or experimental expenditures deductible under section 174 (or that would be if you chose to deduct rather than capitalize them).

## Rental Activities

Generally, except as noted below, if the gross income from an activity consists of amounts paid principally for the use of real or personal tangible property held by the partnership, the activity is a rental activity.

There are several exceptions to this general rule. Under these exceptions, an activity involving the use of real or personal tangible property is not a rental activity if any of the following apply.

- The average period of customer use (defined below) for such property is 7 days or less.
- The average period of customer use for such property is 30 days or less and significant personal services (defined below) are provided by or on behalf of the partnership.
- Extraordinary personal services (defined below) are provided by or on behalf of the partnership.
- The rental of such property is treated as incidental to a nonrental activity of the partnership under Temporary Regulations section 1.469-1T(e)(3)(vi) and Regulations section 1.469-1(e)(3)(vi)(D).
- The partnership customarily makes the property available during defined business hours for nonexclusive use by various customers.
- The partnership provides property for use in a nonrental activity of a partnership or joint venture in its capacity as an owner of an interest in such partnership or joint venture. Whether the partnership provides property used in an activity of another partnership or of a joint venture in the partnership's capacity as an owner of an interest in the partnership or joint venture is determined on the basis of all the facts and circumstances.

In addition, a guaranteed payment described in section 707(c) is never income from a rental activity.

**Average period of customer use.** Figure the average period of customer use for a class of property by dividing the total number of days in all rental periods by the number of rentals during the tax year. If the activity involves renting more than one class of property, multiply the average period of customer use of each class by the ratio of the gross rental income from that class to the activity's total gross rental income. The activity's average period of customer use equals the sum of these class-by-class average periods weighted by gross income. See Regulations section 1.469-1(e)(3)(iii).

**Significant personal services.** Personal services include only services performed by individuals. To determine if personal services are significant personal services, consider all the relevant facts and circumstances. Relevant facts and circumstances include:

- How often the services are provided,
- The type and amount of labor required to perform the services, and
- The value of the services in relation to the amount charged for use of the property.

The following services are not considered in determining whether personal services are significant.

- Services necessary to permit the lawful use of the rental property.
- Services performed in connection with improvements or repairs to the rental property that extend the useful life of the

property substantially beyond the average rental period.

- Services provided in connection with the use of any improved real property that are similar to those commonly provided in connection with long-term rentals of high-grade commercial or residential property. Examples include cleaning and maintenance of common areas, routine repairs, trash collection, elevator service, and security at entrances.

### Extraordinary personal services.

Services provided in connection with making rental property available for customer use are extraordinary personal services only if the services are performed by individuals and the customers' use of the rental property is incidental to their receipt of the services.

For example, a patient's use of a hospital room generally is incidental to the care received from the hospital's medical staff. Similarly, a student's use of a dormitory room in a boarding school is incidental to the personal services provided by the school's teaching staff.

**Rental activity incidental to a nonrental activity.** An activity is not a rental activity if the rental of the property is incidental to a nonrental activity, such as the activity of holding property for investment, a trade or business activity, or the activity of dealing in property.

Rental of property is incidental to an activity of holding property for investment if both of the following apply.

- The main purpose for holding the property is to realize a gain from the appreciation of the property.
- The gross rental income from such property for the tax year is less than 2% of the smaller of the property's unadjusted basis or its FMV.

Rental of property is incidental to a trade or business activity if all of the following apply.

- The partnership owns an interest in the trade or business at all times during the year.
- The rental property was mainly used in the trade or business activity during the tax year or during at least 2 of the 5 preceding tax years.
- The gross rental income from the property for the tax year is less than 2% of the smaller of the property's unadjusted basis or its FMV.

The sale or exchange of property that is both rented and sold or exchanged during the tax year (where the gain or loss is recognized) is treated as incidental to the activity of dealing in property if, at the time of the sale or exchange, the property was held primarily for sale to customers in the ordinary course of the partnership's trade or business.

See Temporary Regulations section 1.469-1T(e)(3) and Regulations section 1.469-1(e)(3) for more information on the definition of rental activities for purposes of the passive activity limitations.

In reporting the partnership's income or losses and credits from rental activities, the partnership must separately report rental real estate activities and rental activities other than rental real estate activities.

Partners who actively participate in a rental real estate activity may be able to deduct part or all of their rental real estate

losses (and the deduction equivalent of rental real estate credits) against income (or tax) from nonpassive activities. The combined amount of rental real estate losses and the deduction equivalent of rental real estate credits from all sources (including rental real estate activities not held through the partnership) that can be claimed is limited to \$25,000. This \$25,000 amount is generally reduced for high-income partners.

## Self-Charged Interest

Certain self-charged interest income and expense may be treated as passive activity gross income and passive activity deductions if the loan proceeds are used in a passive activity. Generally, self-charged interest income and deductions result from loans between the partnership and its partners. It also includes loans between the partnership and another partnership if each owner in the borrowing entity has the same proportional ownership interest in the lending entity. The partnership can elect not to apply these rules to self-charged interest income.

The self-charged interest rules do not apply to a partner's interest in a partnership if the partnership makes an election under Regulations section 1.469-7(g) to avoid the application of these rules. To make the election, the partnership must attach to its original or amended Form 1065-B, a statement that includes the name, address, and EIN of the partnership and a declaration that the election is being made under Regulations section 1.469-7(g). The election will apply to the tax year in which it was made and all subsequent tax years. Once made, the election may only be revoked with the consent of the IRS. For more details on the self-charged interest rules, see Regulations section 1.469-7.

## Other Activities

The term "*other activities*" means activities other than passive loss limitation activities. This is income or expenses connected with property held for investment, that is, portfolio income. Generally, portfolio income includes all gross income, other than income derived in the ordinary course of a trade or business, that is attributable to interest; dividends; royalties; income from a real estate investment trust, a regulated investment company, a real estate mortgage investment conduit, a common trust fund, a controlled foreign corporation, a qualified electing fund, or a cooperative; income from the disposition of property that produces income of a type defined as portfolio income; and income from the disposition of property held for investment. Portfolio income is reported separately and is reduced by portfolio deductions, allocable investment interest expense, and nonbusiness deductions. See *Self-Charged Interest* earlier for an exception.

## Special Reporting Requirements

### General Partners

### Passive Activity Reporting Requirements

To allow general partners to correctly apply the passive activity loss and credit limitation

rules, any partnership that carries on more than one activity must do the following.

1. Provide an attachment for each activity conducted through the partnership that identifies the type of activity conducted (trade or business, rental real estate, rental activity other than rental real estate, or investment). See *Grouping Activities* discussed later.

2. On the attachment for each activity, provide a statement detailing the net income or (loss), credits, and all items required to be separately stated under section 772(a) from each trade or business activity, from each rental real estate activity, from each rental activity other than a rental real estate activity, and from investments.

3. Identify the net income or (loss) and credits from each oil or gas well drilled or operated under a working interest that any partner (other than a partner whose only interest in the partnership during the year is as a limited partner) holds through the partnership. Further, if any partner had an interest as a general partner in the partnership during less than the entire year, the partnership must identify both the disqualified deductions from each well that the partner must treat as passive activity deductions, and the ratable portion of the gross income from each well that the partner must treat as passive activity gross income.

4. Identify the net income or (loss) and the partner's share of partnership interest expense from each activity of renting a dwelling unit that any partner uses for personal purposes during the year for more than the greater of 14 days or 10% of the number of days that the residence is rented at fair rental value.

5. Identify the net income or (loss) and the partner's share of partnership interest expense from each activity of trading personal property conducted through the partnership. For this purpose, personal property means property that is actively traded such as stocks, bonds, and other securities. See Temporary Regulations section 1.469-1T(e)(6).

6. For any gain or (loss) from the disposition of an interest in an activity or of an interest in property used in an activity (including dispositions before 1987 from which gain is being recognized after 1986):

a. Identify the activity in which the property was used at the time of disposition.

b. If the property was used in more than one activity during the 12 months preceding the disposition, identify the activities in which the property was used and the adjusted basis allocated to each activity.

c. For gains only, if the property was substantially appreciated at the time of the disposition and the applicable holding period specified in Regulations section 1.469-2(c)(2)(iii)(A) was not satisfied, identify the amount of the nonpassive gain and indicate whether the gain is investment income under Regulations section 1.469-2(c)(2)(iii)(F).

7. Specify the amount of gross portfolio income, the interest expense properly allocable to portfolio income, and expenses other than interest expense that are clearly and directly allocable to portfolio income.

8. Identify separately any of the following types of payments to partners.

a. Payments to a partner for services other than in the partner's capacity as a partner under section 707(a).

b. Guaranteed payments to a partner for services under section 707(c).

c. Guaranteed payments for use of capital.

d. If section 736(a)(2) payments are made for unrealized receivables or for goodwill, the amount of the payments and the activities to which the payments are attributable.

e. If section 736(b) payments are made, the amount of the payments and the activities to which the payments are attributable.

9. Identify the ratable portion of any section 481 adjustment (whether a net positive or a net negative adjustment) allocable to each partnership activity.

10. Identify the amount of gross income from each oil or gas property of the partnership.

11. Identify any gross income from sources specifically excluded from passive activity gross income, including the following.

a. Income from intangible property if the partner is an individual whose personal efforts significantly contributed to the creation of the property.

b. Income from state, local, or foreign income tax refunds.

c. Income from a covenant not to compete if the partner is an individual who contributed the covenant to the partnership.

12. Identify any deductions that are not passive activity deductions.

13. If the partnership makes a full or partial disposition of its interest in another entity, identify the gain (loss) allocable to each activity conducted through the entity, and the gain allocable to a passive activity that would have been recharacterized as nonpassive gain had the partnership disposed of its interest in property used in the activity (because the property was substantially appreciated at the time of the disposition, and the gain represented more than 10% of the partner's total gain from the disposition).

14. Identify the following items from activities that may be subject to the recharacterization rules under Temporary Regulations section 1.469-2T(f) and Regulations section 1.469-2(f).

a. Net income from an activity of renting substantially nondepreciable property.

b. The smaller of equity-financed interest income or net passive income from an equity-financed lending activity.

c. Net rental activity income from property developed (by the partner or the partnership), rented, and sold within 12 months after the rental of the property commenced.

d. Net rental activity income from the rental of property by the partnership to a trade or business activity in which the partner had an interest (either directly or indirectly).

e. Net royalty income from intangible property if the partner acquired the partner's interest in the partnership after the partnership created the intangible property or performed substantial services, or incurred substantial costs in developing or marketing the intangible property.

15. Identify separately the credits from each activity conducted by or through the partnership.

16. Identify the partner's distributive share of the partnership's self-charged

interest income or expense (see *Self-Charged Interest* discussed previously).

a. **Loans between a partner and the partnership.** Identify the lending or borrowing partner's share of the self-charged interest income or expense. If the partner made the loan to the ELP, also identify the activity in which the loan proceeds were used. If the proceeds were used in more than one activity, allocate the interest to each activity based on the amount of the proceeds used in each activity.

b. **Loans between the partnership and another partnership or an S corporation.** If the partnership's partners have the same proportional ownership interest in the partnership and the other partnership or S corporation, identify each partner's share of the interest income or expense from the loan. If the ELP was the borrower, also identify the activity in which the loan proceeds were used. If the loan proceeds were used in more than one activity, allocate the interest to each activity based on the amount of the proceeds used in each activity.

For more information on passive activities, see Pub. 925, *Passive Activity and At-Risk Rules*.

## Grouping Activities

Generally, one or more trade or business activities or rental activities may be treated as a single activity if the activities make up an appropriate economic unit for the measurement of gain or loss under the passive activity rules. Whether activities make up an appropriate economic unit depends on all the relevant facts and circumstances. The factors given the greatest weight in determining whether activities make up an appropriate economic unit are:

- Similarities and differences in types of trades or businesses,
- The extent of common control,
- The extent of common ownership,
- Geographical location, and
- Reliance between or among the activities.

**Example.** The ELP has a significant ownership interest in a bakery and a movie theater in Baltimore and a bakery and a movie theater in Philadelphia. Depending on the relevant facts and circumstances, there may be more than one reasonable method for grouping the ELP's activities. For instance, the following groupings may or may not be permissible.

- A single activity.
- A movie theater activity and a bakery activity.
- A Baltimore activity and a Philadelphia activity.
- Four separate activities.

Once the ELP chooses a grouping under these rules, it must continue using that grouping in later tax years unless a material change in the facts and circumstances makes it clearly inappropriate. The IRS may regroup the ELP's activities if the partnership's grouping fails to reflect one or more appropriate economic units and one of the primary purposes of the grouping is to avoid the passive activity limitations.

## Limitation on grouping certain activities.

The following activities may not be grouped together.

1. A rental activity with a trade or business activity unless the activities being grouped together make up an appropriate economic unit and

a. The rental activity is insubstantial relative to the trade or business activity or vice versa or

b. Each owner of the trade or business activity has the same proportionate ownership interest in the rental activity. If so, the portion of the rental activity involving the rental of property to be used in the trade or business activity may be grouped with the trade or business activity.

2. An activity involving the rental of real property with an activity involving the rental of personal property (except personal property provided in connection with the real property or vice versa).

3. Any activity with another activity in a different type of business and in which the ELP holds an interest as a limited partner or as a limited entrepreneur (as defined in section 464(e)(2)) if that other activity engages in holding, producing, or distributing motion picture films or videotapes; farming; leasing section 1245 property; or exploring for or exploiting oil and gas resources or geothermal deposits.

**Activities conducted through other partnerships.** Once a partnership determines its activities under these rules, the partnership as a partner can use these rules to group those activities with:

- Each other,
- Activities conducted directly by the partnership, or
- Activities conducted through other partnerships.

A partner cannot treat as separate activities those activities grouped together by a partnership.

## Tax-Exempt Partners

A tax-exempt partner is subject to tax on its distributive share of partnership income to the extent that the partnership activity is an unrelated business for the partner. Therefore, partnership items must be separately reported to tax-exempt partners to allow them to compute income from an unrelated business.

## Publicly Traded Partnerships (PTPs)

For ELPs, the requirement that the passive loss rules be separately applied to each PTP continues to apply.

## Partnerships Holding Residual Interests in Real Estate Mortgage Investment Conduits (REMICs)

For purposes of the excise tax on partnerships holding residual interests in REMICs, all interests in an electing large partnership are treated as held by disqualified organizations. Therefore, an ELP holding a residual interest in a REMIC is subject to an annual tax equal to 35% of the excess inclusions. The amount that is subject to tax is excluded from partnership income. To report and pay this tax, file Form 8831, Excise Taxes on Excess Inclusions of REMIC Residual Interests.

## Partnerships Holding Oil and Gas Properties

Partnerships holding oil and gas properties generally follow the same simplified reporting rules as other ELPs. However, certain partners are treated as “disqualified persons,” and special rules apply.

**Computing depletion.** Depletion is generally computed at the partnership level. The 1,000-barrel-per-day-limitation on depletion does not apply. Depletion is also computed without regard to the 65-percent-of-taxable-income limitation and the depletion basis adjustment. The depletion deduction is computed with the assumptions that the partnership is the taxpayer and that it qualifies for the percentage depletion deduction. This deduction is reported to partners (other than disqualified persons) as part of their share of the taxable income (loss) from passive loss limitation activities.

**Disqualified persons.** Two categories of taxpayers are defined as *disqualified persons*.

- Certain retailers and refiners who do not qualify for the section 613A percentage depletion deduction. See sections 613A(d)(2) and (4).
- Any other person whose average daily production of domestic crude oil and natural gas exceeds 500 barrels for its tax year in which the partnership’s tax year ends. See section 776(b) for more details.

A *disqualified person* must notify the partnership of its status as such.

**Reporting to disqualified persons.** An ELP reports information related to oil and gas activities to a *disqualified person* in box 9 of Schedule K-1 (Form 1065-B) providing the same information as required for other partnerships. This information may be provided in an attached statement if additional space is required. However, the simplified rules do apply to a *disqualified person’s* share of items not related to oil and gas activities.

**Other reporting requirements.** Unlike other partnerships, the election to deduct intangible drilling and development costs (IDCs) is made at the partnership level, and the partnership can pass through a full deduction of IDCs to its partners who are not disqualified persons. Also, an ELP (and not the partners) makes the section 59(e) election to capitalize and amortize certain specific IDCs for its partners who are not *disqualified persons*. However, partners who are *disqualified persons* are permitted to make their own separate section 59(e) election.

A single AMT adjustment (under either corporate or noncorporate rules) is made and reported to partners who are not *disqualified persons*. This separately reported item is affected by the limitation on the repeal of the tax preference for excess IDCs. For purposes of computing this limitation, the partnership is treated as the taxpayer. Thus, the limitation on repeal of the IDC preference is applied at the partnership level and is based on the cumulative reduction in the partnership’s alternative minimum taxable income resulting from repeal of that preference.

Finally, in making partnership-level computations, any item of income, gain, loss, deduction, or credit attributable to a

*disqualified person* is disregarded. For example, in computing the partnership’s net income from oil and gas for purposes of determining the IDC preference to be reported to partners as part of the AMT adjustment, *disqualified persons’* distributive shares of the partnership’s net income from oil and gas are not taken into account.

## Extraterritorial Income Exclusion

See Form 8873, Extraterritorial Income Exclusion, to determine whether the partnership qualifies for the exclusion and to figure the amount of the exclusion. If the partnership’s foreign trading gross receipts do not exceed \$5 million and the partnership does not meet the foreign economic process requirements for the exclusion, it must report certain information to its partners. See the instructions below on how to report the exclusion on the partnership’s return and the information it must report to its partners.

If applicable, the partnership must report the extraterritorial income exclusion on its return as follows.

1. If the partnership met the foreign economic process requirements explained in the Instructions for Form 8873, it can report the exclusion as a non-separately stated item on whichever of the following lines apply to that activity.

- Form 1065-B, Part I, line 5;
- Form 1065-B, Part I, line 23; or
- Form 8825, line 15.

In addition, the ELP must report, as an item of information using Code O1 in box 9 of Schedule K-1, the partner’s distributive share of foreign trading gross receipts from Form 8873, line 15.

2. If the foreign trading gross receipts of the partnership for the tax year are \$5 million or less and the partnership did not meet the foreign economic process requirements, it cannot report the extraterritorial income exclusion as a non-separately stated item on its return. Instead, the partnership must report the following separately-stated items to the partners.

• **Foreign trading gross receipts (Code O1).** Using Code O1, enter in box 9 of Schedule K-1 the partner’s distributive share of foreign trading gross receipts from the partnership’s Form 8873, line 15.

• **Extraterritorial income exclusion (Code O2).** Using Code O2, enter in box 9 of Schedule K-1 the partner’s distributive share of the extraterritorial income exclusion from the partnership’s Form 8873. For general partners only, identify the activity to which the exclusion relates. If the partnership is required to complete more than one Form 8873, combine the exclusions from line 52 and report a single exclusion amount in box 9.

**Note.** Upon request of a partner, the ELP should furnish a copy of the partnership’s Form 8873 if that partner has a reduction for international boycott operations, illegal bribes, kickbacks, etc.

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## Specific Instructions

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These instructions follow the line numbers on Form 1065-B. The accompanying

schedules are discussed separately. Specific instructions for most of the lines are provided on the following pages. Lines that are not discussed in the instructions are self-explanatory.

Fill in all applicable lines and schedules.

Enter any items specially allocated to the partners in the appropriate box of the applicable partner's Schedule K-1. Enter the total amount on the appropriate line of Schedule K. Do not enter separately stated amounts on the numbered lines on Form 1065-B, Parts I or II, on Schedule A, on Schedule D, or on Schedule D-1.

File only one Form 1065-B for each partnership. Mark "Duplicate Copy" on any copy you give to a partner.

## Name, Address, and Employer Identification Number

**Name.** Enter the legal name of the ELP as it appears in the partnership agreement.

If the ELP has changed its name, check box G(2).

**Address.** Enter the address of the principal place of business or the principal office of the ELP. 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 partnership has a P.O. box, show the box number instead.

If the ELP receives its mail in care of a third party (such as an accountant or an attorney), enter on the street address line "C/O" followed by the third party's name and street address or P.O. box.

If the ELP's address is outside the United States or its possessions or territories, enter the information on the line for "City or town, state, and ZIP code" in the following order: city, province or state, and the name of the foreign country. Follow the foreign country's practice in placing the postal code in the address. Do not abbreviate the country name.

If the ELP has had a change of address (including a change to an "in care of" address), check box G(3). If the partnership changes its mailing address after filing its return, it can notify the IRS by filing Form 8822, Change of Address.

## Items A and C

Enter the applicable activity name and the code number from the list beginning on page 34.

For example, if, as its principal business activity, the ELP (a) purchases raw materials, (b) subcontracts out for labor to make a finished product from the raw materials, and (c) retains title to the goods, the ELP is considered to be a manufacturer and must enter "Manufacturer" in item A and enter in item C one of the codes (311110 through 339900) listed under "Manufacturing" on page 34.

## Item F. Total Assets

Enter the ELP's total assets at the end of the tax year, as determined by the accounting method regularly used in keeping the ELP's books and records. If there were no assets at the end of the tax year, enter "0."

## Item J. Schedule M-3 (Form 1065)

A partnership must complete Schedule M-3 (Form 1065), Net Income (Loss) Reconciliation for Certain Partnerships, instead of Schedule M-1, if any of the following apply.

1. The amount of total assets at the end of the tax year is \$10 million or more.

2. The amount of adjusted total assets for the year is \$10 million or more. Adjusted total assets is defined in the Instructions for Schedule M-3.

3. The amount of total receipts for the tax year is \$35 million or more.

4. An entity that is a reportable entity partner with respect to the partnership owns or is deemed to own, directly or indirectly, an interest of 50% or more in the partnership's capital, profit, or loss, on any day during the tax year of the partnership. Reportable entity partner is defined in the Instructions for Schedule M-3.

A partnership filing Form 1065-B that is not required to file Schedule M-3 may voluntarily file Schedule M-3 instead of Schedule M-1.

If you are filing Schedule M-3, check box J at the top of page 1 of Form 1065-B to indicate that Schedule M-3 is attached. See the Instructions for Schedule M-3 (Form 1065) for more information.

## Part I. Taxable Income or Loss from Passive Loss Limitation Activities

Report only amounts from passive loss limitation activities in Part I. See the discussion of *Passive Loss Limitation Activities* on page 9. Do not report any tax-exempt interest income or income from the discharge of any indebtedness on lines 1a through 10. These amounts are accounted for separately by each partner and are reported in box 9 of Schedule K-1 (Form 1065-B). Income from discharge of indebtedness is also reported on line 8 of Schedule K, and tax-exempt interest income is reported on line 9 of Schedule K.

### Income

#### 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 6 through 10. For example, do not include gross receipts from farming on this line. Instead, show the net profit (loss) from farming on line 7. Also, do not include rental activity income or portfolio income.

In general, advance payments are reported in the year of receipt. To report income from long-term contracts, see section 460. For special rules for reporting certain advance payments for goods and long-term contracts, see Regulations section 1.451-5. For permissible methods for reporting advance payments for services and most goods by an accrual method partnership, see Rev. Proc. 2004-34, 2004-22 I.R.B. 991.

**Installment sales.** Generally, the installment method cannot be used for

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
- 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. See section 453(l) for details and exceptions.

For sales of timeshares and residential lots reported under the installment method, the ELP's income tax is increased by the interest payable under section 453(l)(3). In determining the amount of interest payable, the partnership is treated as subject to tax at a 35% rate. To report this addition to the tax, see the instructions for line 26.

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.

#### Nonaccrual-experience method.

Partnerships that qualify to use the nonaccrual-experience method (described on page 4) should attach a schedule showing total gross receipts, the amount not accrued as a result of the application of section 448(d)(5), and the net amount accrued. Enter the net amount on line 1a.

#### Line 2. Cost of Goods Sold

See the instructions for Schedule A.

#### Line 4. Net Rental Real Estate Income (Loss)

Enter the net income or (loss) from rental real estate activities of the partnership from Form 8825. Attach this form to Form 1065-B. If the amount entered is from more than one activity, attach a schedule identifying the amount from each activity.

#### Line 5. Net Income (Loss) From Other Rental Activities

Enter the net income from rental activities other than rental real estate activities. See page 10 of these instructions and Pub. 925 for the definition of rental activities. Include on this line the gain or (loss) from line 17 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. If the amount entered is from more than one activity, attach a schedule identifying the amount from each activity.

## Line 6. Ordinary Income (Loss) From Other Partnerships, Estates, and Trusts

Enter the ordinary income or (loss) shown on Schedule K-1 (Form 1065, 1065-B, or 1041) or other ordinary income (loss) from a foreign partnership, estate, or trust. Be sure to 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 rental activity income or (loss) from other partnerships, estates, or trusts on this line. Instead, report these amounts on line 20a of Form 8825 or line 5 of Form 1065-B, Part I.

Ordinary income or (loss) from another PTP is not reported on this line. Instead, report the amount separately on an attachment to line 15 of Schedule K and in box 9 of Schedule 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 PTP does not coincide with the tax year of the other partnership, estate, or trust, include the ordinary income or (loss) from the other entity in the tax year in which the other entity's tax year ends.

## Line 7. 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 1065-B. In figuring the partnership's net farm profit (loss), include any section 179 expense deduction. Do not include on this line any farm profit or (loss) from other partnerships. Report those amounts on line 6.

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.

## Line 9. Net Gain (Loss) From Form 4797

Include only the 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 not reported on line 9. Instead, report them on line 19 of Form 8825 or line 5 of Form 1065-B, Part I.

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

## Line 10. Other Income (Loss)

Enter trade or business income or (loss) that is not included on lines 1a through 9. Examples of such income include the following.

- Interest income derived in the ordinary course of the partnership's trade or business, such as interest charged on receivable balances.
- Recoveries of bad debts deducted in prior years under the specific charge-off method.
- Taxable income from insurance proceeds.
- The amount included in income from line 6 of Form 6478, Alcohol and Cellulosic Biofuel Fuels Credit.
- The amount included in income from line 8 of Form 8864, Biodiesel and Renewable Diesel Fuels Credit.
- All section 481 income adjustments resulting from changes in accounting methods. Show the computation of the section 481 adjustments on an attached schedule.
- The amount of any deduction previously taken under section 179A that is subject to recapture. See Regulations section 1.179A-1 for details, including how to figure the recapture.
- The recapture amount for section 280F if the business use of listed property drops to 50% or less. To figure the recapture amount, the partnership must complete Part IV of Form 4797.
- Part or all of the proceeds received from certain employer-owned life insurance contracts issued after August 17, 2006. Partnerships that own one or more employer-owned life insurance contracts issued after this date must file Form 8925, Report of Employer-Owned Life Insurance Contracts. See section 101(j) for details.

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 beginning on page 23.

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

## Deductions



*Report only trade or business activity deductions on lines 12 through 24.*

Do not report the following expenses on lines 12 through 24.

- Rental activity expenses. Report these expenses on Form 8825 or on an attached schedule for line 5 of Form 1065-B, Part I.
- Deductions allocable to portfolio income. Report these deductions on page 2, Part II.
- Nondeductible expenses (for example, expenses connected with the production of tax-exempt income). Report nondeductible expenses on an attachment to line 15 of Schedule K and in box 9 of Schedules K-1.
- Items the partnership must state separately that require separate computations by the partners. An example is foreign taxes paid. The distributive share of this expense is reported separately to each partner on Schedule K-1, box 9.

## 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 following.

- The production of real property and tangible personal property held in inventory or held for sale in the ordinary course of business. Tangible personal property produced by a partnership includes a film,

sound recording, videotape, book, or similar property.

- 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 ELP.

**Exceptions.** Section 263A does not apply to the following.

- Inventoriable items accounted for in the same manner as materials and supplies that are not incidental. See *Schedule A. Cost of Goods Sold*, for details.
- 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.
- Geological and geophysical costs amortized under section 167(h).
- Research and experimental costs under section 174.
- Intangible drilling costs for oil, gas, and geothermal property.
- Mining exploration and development costs.

**Indirect costs.** ELPs subject to the uniform capitalization 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 the following.

- 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 can 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 and organizational costs.** For business start-up and organizational costs paid or incurred after September 8, 2008, a partnership can deduct up to \$5,000 of such costs in the year it begins business (unless the partnership elects to capitalize the full amount of such costs). The \$5,000 deduction is reduced (but not below zero) by the amount the total costs exceed \$50,000. If the total costs are \$55,000 or more, the deduction is reduced to zero. Any costs not deducted must be amortized as explained below.

**Note.** For start-up and organizational costs paid or incurred after September 8, 2008, the partnership is not required to attach a statement or specifically identify the amount deducted for the election under sections 195(b) and 709(b) to be effective. It is a deemed election. Whether a partnership deducts a portion of its start-up and organizational costs under Temporary Regulations sections 1.195-1T and 1.709-1T or elects to amortize the full amount of such costs, its election is irrevocable.

For start-up and organizational costs paid or incurred after October 22, 2004, and before September 9, 2008, a partnership generally must attach the statement required by Regulations sections 1.195-1(b) and 1.709-1(c) to make the election to deduct a portion of such costs (as explained above). This election is irrevocable. However, a partnership can apply the provisions of Temporary Regulations sections 1.195-1T and 1.709-1T to start-up and organizational costs paid or incurred after October 22, 2004, provided the period of limitations on assessment has not expired for the year of election. Otherwise, the provisions under Regulations sections 1.195-1(b) and 1.709-1(c) apply.

**Amortization.** Any costs not deducted under the above rules must be amortized ratably over a 180-month period, beginning with the month the partnership begins business. See the Instructions for Form 4562 for details.

If the partnership elected to amortize business start-up and organizational costs paid or incurred before October 23, 2004, over a period of 60 months or more, it must continue to amortize those costs over the elected amortization period.

Report the deductible amount of these costs and any amortization on line 23 in Part I. For amortization that begins during the tax year, complete and attach Form 4562.

**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 13 for the treatment of syndication fees paid to a partner.

**Reducing certain expenses for which credits are allowable.** The partnership may need to reduce the otherwise allowable deductions for expenses used to figure the credit. Do not reduce the amount of the allowable deduction for any portion of the credit that was passed through to the ELP from another pass-through entity.

1. The work opportunity credit.
2. The credit for increasing research activities.
3. The disabled access credit.

4. The empowerment zone and renewal community employment credit.
5. The Indian employment credit.
6. The credit for employer social security and Medicare taxes paid on certain employee tips.
7. The orphan drug credit.
8. Credit for small employer pension plan startup costs.
9. Credit for employer-provided childcare facilities and services.
10. The low sulfur diesel fuel production credit.
11. The employer housing credit.
12. The mine rescue team training credit.
13. The agricultural chemicals security credit.
14. The credit for employer differential wage payments.

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

**Film and television production expenses.** The partnership can elect to deduct certain costs of qualified film and television productions. The deduction is subject to recapture under section 1245 if the election is voluntarily revoked or the production fails to meet the requirements for the deduction. See section 181 and Temporary Regulations sections 1.181-1T through 6T for details.

**Reforestation expenditures.** The ELP can elect to amortize over 84 months up to \$10,000 of qualified reforestation expenditures paid or incurred before October 23, 2004, from all qualified timber properties.

For qualified reforestation expenditures paid or incurred after October 22, 2004, the partnership can elect to deduct up to \$10,000 for each qualifying timber property. If the partnership makes this election, it must amortize over 84 months any amount not deducted. See Notice 2006-47, 2006-20 I.R.B. 892, for details on making this election. Provide a description of the qualified timber property on an attached statement to Form 1065-B. If the partnership is electing to deduct amounts for more than one qualified timber property, provide a description and the amount for each property on the statement.

Report the deductible amount of these expenditures and any amortization deduction on line 23. For amortization that begins during the tax year, complete and attach Form 4562. See section 194 and Pub. 535 for more information.

## Line 12. Salaries and Wages

Enter the salaries and wages paid or incurred for the tax year, reduced by the current year credits claimed on:

- Form 5884, Work Opportunity Credit;
- Form 5884-A, Credits for Affected Midwestern Disaster Area Employers;
- Form 8844, Empowerment Zone and Renewal Community Employment Credit;
- Form 8845, Indian Employment Credit;
- Form 8923, Mine Rescue Team Training Credit; and
- Form 8932, Credit for Employer Differential Wage Payments.

Do not reduce the amount of the affordable deduction for any portion of the credit that was passed through to the ELP from another pass-through entity. 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 simplified employee plan (SEP) agreement or a SIMPLE IRA plan.

## Line 13. 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 amounts paid during the tax year for insurance that constitutes medical care for a partner, a partner's spouse, or a partner's dependents.

For information on how to treat the ELP's contribution to a partner's Health Savings Account (HSA), see Notice 2005-8, 2005-4 I.R.B. 368.

Do not include any payments and credits that should be capitalized. For example, although payments or credits to a partner for services rendered in syndicating a partnership may be guaranteed payments, they are not deductible as an expense. Instead they should be charged to a capital account. They are capital expenditures. However, they should be separately reported on Schedule K, line 7, and Schedules K-1, box 9.

Do not include distributive shares of partnership profits.

Report the guaranteed payments to the appropriate partners on Schedules K-1, box 9.

## Line 14. 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.

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

## Line 15. 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 ELPs cannot take a bad debt deduction unless the amount was previously included in income.*

## Line 16. 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:

The lease term began:	And the vehicle's FMV on the first day of the lease exceeded:
After 12/31/07 but before 1/1/10 . . . . .	\$18,500
After 12/31/06 but before 1/1/08 . . . . .	\$15,500
After 12/31/04 but before 1/1/07 . . . . .	\$15,200
After 12/31/03 but before 1/1/05 . . . . .	\$17,500

If the lease term began before January 1, 2004, see Pub. 463, Travel, Entertainment, Gift, and Car Expenses, to find out if the ELP has an inclusion amount. The inclusion amount for lease terms beginning in 2010 will be published in the Internal Revenue Bulletin in early 2010.

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

### Line 17. Taxes and Licenses

Enter taxes and licenses paid or incurred in the trade or business activities of the partnership if not reflected elsewhere on the return. 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 17.

- Taxes not imposed on the partnership.
- Federal income taxes or taxes reported elsewhere on the return.
- Section 901 foreign taxes. Report these taxes separately on Schedule K, line 14g, and Schedules K-1, box 9.
- Taxes allocable to a rental activity. Report these taxes on Form 8825. Report taxes allocable to a rental activity other than a rental real estate activity on Form 1065-B on an attachment to Part I, line 5.
- Taxes allocable to portfolio income. Report these taxes on Form 1065-B in Part II, line 8 or 11.
- Taxes paid or incurred for the production or collection of income, or for the management, conservation, or maintenance of property held to produce income. Also report these taxes on Form 1065-B in Part II, line 8 or 11.

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

- Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property. These taxes must be treated as a part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition.
- Taxes assessed against local benefits that increase the value of the property assessed (such as for paving, etc.).

See section 164(d) for information on apportionment of taxes on real property between seller and purchaser.

### Line 18. Interest

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

Do not deduct interest expense on the following.

- 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. See section 263A(f) and Regulations sections 1.263A-8 through 1.263A-15.

- 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 or (loss) from rental real estate activities on line 4. Interest allocable to a rental activity other than a rental real estate activity is used in arriving at net income or (loss) from a rental activity (other than a rental real estate activity). This net amount is reported on line 5.

- 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 7 of Part II. See the instructions for Form 4952, Investment Interest Expense Deduction, for more information on investment property.

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 an ELP to a partner for the use of capital should be entered on line 13 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 ELP 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 19. Depreciation and Section 179 Expense Deduction

Enter only the depreciation (including section 179 expense deduction) claimed on assets used in a trade or business activity. Enter on line 19b the depreciation (including section 179 expense deduction) reported elsewhere on the return (for example, on Schedule A) 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 (including section 179 expense deduction) to enter on this line.

Complete and attach Form 4562 only if the ELP placed property in service during the tax year or claims depreciation on any car or other listed property.

### Line 20. Depletion

An ELP computes the deduction for oil and gas depletion at the partnership level. The deduction is computed under the assumptions that the partnership is the taxpayer and that it qualifies for the percentage depletion deduction. In computing the depletion deduction, the 1,000-barrel-per-day limitation and the 65-percent-of-taxable-income limitation do not apply.

The amount of the depletion deduction is generally reported to each partner as a component of that partner's distributive share of taxable income or loss from passive loss limitation activities. However, the ELP must report information related to oil and gas activities to a partner who is a *disqualified person* in the same manner that it reports the information under the regular partnership tax law. See *Partnerships Holding Oil and Gas Properties* on page 12 for more details.

If the ELP claims a deduction for timber depletion, complete and attach Form T (Timber), Forest Activities Schedule.

### Line 21. Retirement Plans, etc.

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 ELP contributes to an individual retirement arrangement (IRA) for employees, include the contribution in salaries and wages on Part I, line 12, or Schedule A, line 3, and not on line 21.

Employers who maintain a pension, profit-sharing, or other funded deferred compensation plan (other than a SEP or SIMPLE IRA), whether or not the plan is qualified under the Internal Revenue Code and whether or not a deduction is claimed for the current year, generally must file the applicable form listed below.

- Form 5500, Annual Return/Report of Employee Benefit Plan. File this form for a plan that is not a one-participant plan (see below).
- Form 5500-EZ, Annual Return of One-Participant (Owners and Their Spouses) Retirement Plan. File this form for a plan that only covers one or more partners (or partners and their spouses).

Penalties may be assessed for failure to file these forms on time.

### Line 22. Employee Benefit Programs

Enter the ELP's contributions to employee benefit programs not claimed elsewhere on the return (for example, insurance, health, and welfare programs) that are not part of a pension, profit-sharing, etc., plan included on line 21.

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 13 as guaranteed payments and on Schedule K, line 7, and Schedule K-1, box 9, of each

partner on whose behalf the amounts were paid.

### Line 23. Other Deductions

Enter the total allowable trade or business deductions that are not deductible elsewhere in Part I of Form 1065-B. Attach a schedule listing by type and amount each deduction included on this line. Examples of other deductions include the following.

- Amortization. See the Instructions for Form 4562 for more information. Complete and attach Form 4562 if the partnership is claiming amortization of costs that began during the tax year.
- Insurance premiums.
- Legal and professional fees.
- Supplies used and consumed in the business.
- Utilities.
- Certain business start-up expenditures and organizational expenditures that the partnership has elected to amortize or deduct. See *Limitations on Deductions* for more details.
- Film and television production expenses. See *Limitations on Deductions* for details.
- Reforestation expense deduction. See *Limitations on Deductions* for details.
- Endangered species recovery expenditures that were paid or incurred after December 31, 2008. See section 175 for details.
- Deduction for certain energy efficient commercial building property placed in service after December 31, 2005. See section 179D, Notice 2006-52, 2006-26 I.R.B. 1175, and Notice 2008-40, 2008-14 I.R.B. 725.
- Any negative net 481(a) adjustment.

Include on line 23 the deduction taken for amortization. Complete and attach Form 4562 if the ELP is claiming amortization of costs that begins during the tax year. The election to deduct intangible drilling costs under section 263(c) is made at the partnership level. An ELP also has the responsibility with respect to its partners who are not *disqualified persons* for making an election under section 59(e) to capitalize and amortize certain specified intangible drilling costs. However, *disqualified persons* make their own separate section 59(e) elections. See *Partnerships Holding Oil and Gas Properties* on page 12 for more information. See Pub. 535 for more information on amortization.

Also, see *Special Rules* below for limits on certain other deductions.

- Do not deduct the following on line 23.
- Items that must be reported separately on Schedules K and K-1.
  - Qualified expenditures to which an election under section 59(e) may apply.
  - Fines or penalties paid to a government for violating any law. Report these expenses on Schedule K, line 15.
  - Expenses allocable to tax-exempt income. Report these expenses on Schedule K, line 15.
  - Any amount that is allocable to a class of exempt income. See section 265(b) for exceptions.
  - Net operating losses. Only individuals and corporations may claim a net operating loss deduction.
  - 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.

- 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.

### Special Rules

**Commercial revitalization deduction.** If the ELP constructs, purchases, or substantially rehabilitates a qualified building in a renewal community it may qualify for a deduction of either (a) 50% of qualified capital expenditures in the year the building is placed in service or (b) amortization of 100% of the qualified capital expenditures over a 120-month period beginning with the month the building is placed in service. If the partnership elects to amortize these expenditures, complete and attach Form 4562. To qualify, the building must be nonresidential (as defined in section 168(e)(2)) and placed in service by the partnership. The partnership must be the original user of the building unless it is substantially rehabilitated. The amount of the qualified expenditures cannot exceed the lesser of \$10 million or the amount allocated to the building by the commercial revitalization agency of the state in which the building is located. Any remaining expenditures are depreciated over the regular depreciation recovery period. See Pub. 954, Tax Incentives for Distressed Communities, and section 1400I for details.

**Rental real estate.** Do not report this deduction on line 23 if the building is placed in service as rental real estate. A commercial revitalization deduction for rental real estate is not deducted by the partnership but is passed through to the partners. Report this deduction on an attachment to line 15 of Schedule K and in box 9 of Schedule K-1 using Code Q.

**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. Also, 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 paid or incurred in its trade or business. 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 ELP can deduct amounts paid or incurred for membership dues in civic or public service organizations, professional organizations, 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 cannot 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 ELP 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.

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

### Line 26. Tax

**Net recapture taxes.** Recapture of the low-income housing credit under section 42(j) and investment credit under section 50 is imposed at the partnership level, and the amount of recapture is determined by assuming that the credit was fully utilized to reduce tax. Credit recapture does not result from any transfer of an interest in an ELP. Report partnership level recapture of low-income housing and investment credit as follows.

1. Apply the recapture to reduce any current year credit of the same type.
2. Report any remaining recapture on line 26. The partnership is liable to pay any unapplied recapture amount. Complete Form 4255 for recapture of investment credit and Form 8611 for recapture of low-income housing credit and check the appropriate box on line 26.

Report recapture of any other credit as a separately stated item in box 9 of Schedule K-1 using code U (see page 30).

### Interest on deferred tax attributable to installment sales of certain timeshares and residential lots.

For sales of timeshares and residential lots reported under the installment method, the ELP's income tax is increased by the interest payable under section 453(l)(3). In determining the amount of interest payable, the partnership is treated as subject to tax at a 35% rate. Report this amount on line 26 with the notation "Section 453(l)(3) interest." Attach a schedule showing the computation.

**Interest on tax deferred under the installment method for certain nondealer installment obligations.** If an obligation arising from the disposition of property to which section 453A applies is outstanding at the close of the year, the partnership must

include the interest due under section 453A(c). In determining the amount of interest payable, the partnership is treated as subject to tax at a 35% rate. Report this amount on line 26 with the notation "Section 453A(c) interest." Attach a schedule showing the computation.

### Line 27

Enter the total amounts from line 2 of Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains, and line 17 of Form 4136, Credit for Federal Tax Paid on Fuels. The credit for tax paid on undistributed capital gains of a RIC or a REIT and the refundable credit for fuel used for certain purposes are allowed to the ELP. They are not separately reported to partners.

### Line 28

Attach a check or money order payable to the "United States Treasury." Write "2009 Form 1065-B," and the ELP's name, address, phone number, and EIN on the payment.

You can e-file Form 1065-B and e-pay the balance due in a single step by authorizing an electronic funds withdrawal from your bank account when filing.

If you are enrolled in the Electronic Federal Tax Payment System (EFTPS), you can pay your balance due online or by phone. EFTPS is a free service provided by the U.S. Department of Treasury. If you are not required to use EFTPS, you may still participate voluntarily. To get more information or to enroll in EFTPS, call 1-800-555-4477, or visit [www.eftps.gov](http://www.eftps.gov).

## Part II. Taxable Income or Loss From Other Activities

Report in Part II only income or (loss) and deductions from activities not included in Part I (for example, portfolio income and deductions). See *Other Activities* on page 10 for a definition of portfolio income.

### Line 1

Enter only taxable interest (not from passive loss limitation activities) on line 1.

Include interest income from the credit to holders of tax credit bonds. See the instructions for Form 8912 for details.

**Schedule K-1.** Enter each partner's distributive share of interest income in box 5 of Schedule K-1. If the partnership is reporting interest income from clean renewable energy bonds, Gulf tax credit bonds, or Midwestern tax credit bonds, attach a statement to Schedule K-1 that shows each partner's distributive share of interest income from these credits. Partners need this information to properly adjust the basis of their interest in the partnership.

### Lines 2a Through 2c

Enter only taxable ordinary dividends on line 2a. On line 2b enter all qualified dividends from line 2a.

**Qualified dividends.** Except as provided below, qualified dividends are dividends received after December 31, 2002, from domestic corporations and qualified foreign corporations.

**Exceptions.** The following dividends are not qualified dividends.

- Dividends the ELP received on any share of stock held for less than 61 days during the 121-day period that began 60 days before the ex-dividend date. When determining the number of days the partnership held the stock, it cannot count certain days during which the partnership's risk of loss was diminished. The ex-dividend date is the first date following the declaration of a dividend on which the purchaser of a stock is not entitled to receive the next dividend payment. When counting the number of days the ELP held the stock, include the day the ELP disposed of the stock but not the day the ELP acquired it.
- Dividends attributable to periods totaling more than 366 days that the partnership received on any share of preferred stock held for less than 91 days during the 181-day period that began 90 days before the ex-dividend date. When determining the number of days the partnership held the stock, do not count certain days during which the partnership's risk of loss was diminished. Preferred dividends attributable to periods totaling less than 367 days are subject to the 61-day holding period rule above.
- Dividends that relate to payments that the partnership is obligated to make with respect to short sales or positions in substantially similar or related property.
- Dividends paid by a regulated investment company that are not treated as qualified dividend income under section 854.
- Dividends paid by a real estate investment trust that are not treated as qualified dividend income under section 857(c).

See Pub. 550 for more details.

**Qualified foreign corporation.** A foreign corporation is a qualified foreign corporation if it is:

1. Incorporated in a possession of the United States or
2. Eligible for benefits of a comprehensive income tax treaty with the United States that the Secretary determines is satisfactory for this purpose and that includes an exchange of information program. See Notice 2006-101, 2006-47 I.R.B. 930, for details.

If the foreign corporation does not meet either 1 or 2, then it can be treated as a qualified foreign corporation for any dividend paid by the corporation if the stock associated with the dividend paid is readily tradable on an established securities market in the United States.

However, qualified dividends do not include dividends paid by a passive foreign investment company (defined in section 1297).

Report the qualified dividend on line 3 of Schedule K. See Pub. 550 and Notice 2006-3, 2006-3 I.R.B. 306, for more details.

### Line 5

Report and identify other income or (loss) on an attachment for line 5.

### Line 7

Investment interest is 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. Investment interest does not include interest expense allocable to passive loss limitation activities.

To figure the deductible amount of investment interest, complete Form 4952. Enter the amount from line 8 of Form 4952.

### Line 8

Include state and local income taxes paid by the ELP that would be allowed as itemized deductions on any partners' income tax returns if they were paid directly by the partner for the same purpose.

### Line 9

Enter contributions or gifts actually paid during the tax year to or for the use of charitable and governmental organizations described in section 170(c). The total amount claimed may not be more than 10% of the ELP's taxable income (total income minus deductions) figured without regard to the deduction for charitable contributions. The deduction for certain contributions of ordinary income and capital gain property is reduced under section 170(e).

**Substantiation requirements.** Generally, no deduction is allowed for any contribution of \$250 or more unless the partnership obtains a written acknowledgment from the charitable organization that shows the amount of cash contributed, describes any property contributed, and gives an estimate of the value of any goods or services provided in return for the contribution. The acknowledgment must be obtained by the due date (including extensions) of the ELP's return or, if earlier, the date the partnership files its return. Do not attach the acknowledgment to the tax return, but keep it with the partnership's records. These rules apply in addition to the filing requirements for Form 8283, Noncash Charitable Contributions, discussed below.

**Contributions of property.** If the deduction claimed for noncash contributions exceeds \$500, complete Form 8283 and attach to Form 1065-B. See Pub. 526, Charitable Contributions, and Form 8283 for more information.

If the ELP made a qualified conservation contribution, under section 170(h), include the FMV of the underlying property before and after the donation, as well as the type of legal interest contributed, and describe the conservation purpose furthered by the donation.

### **Conservation contributions of agricultural or livestock production property.**

Generally, conservation contributions of property used in (or available for) agricultural or livestock production made by an ELP that is a qualified farmer or rancher (as defined in Section 170(b)(1)(E)(v)) are not subject to the 10% taxable income limit. Instead, the deduction for these contributions is allowed to the extent it does not exceed the excess of the partnership's taxable income over the amount of allowable charitable contributions. The carryover period for conservation contributions of agricultural or livestock production property exceeding the taxable income limitation is 15 years.

**Charitable contributions of food inventory.** The deduction for the charitable contribution under section 170(e)(3) of qualified food inventory that was donated for the care of the ill, needy, and infants (see section 170(e)(3)(C)). To qualify for the deduction, the food must meet all the quality and labeling standards imposed by federal, state, and local laws and regulations. The amount of the charitable contribution for donated food inventory is the lesser of (a) the basis of the donated food plus one-half of the appreciation (gain if the donated food were sold at fair market value on the date of the gift) or (b) twice the amount of basis of the donated food.

The ELP's deduction for food inventory contributions cannot exceed 10 percent of the ELP's aggregate net income for the tax year from the business activities from which the food inventory contribution was made (including your share of net income from another partnership or S corporation businesses that made food inventory contributions that were passed through to the ELP as a partner or shareholder).

**Contributions of used vehicles.**

Special rules apply to contributions of used motor vehicles, boats, or airplanes with a claimed value of more than \$500. See section 170(f)(12).

**Reduced deduction for contributions of certain property.** For a charitable contribution of property, the ELP must reduce the contribution by the sum of:

- The ordinary income and short-term capital gain that would have resulted if the property were sold at its FMV and
- For certain contributions, the long-term capital gain that would have resulted if the property were sold at its FMV.

The reduction for the long-term capital gain applies to:

- Contributions of tangible personal property for use by an exempt organization for a purpose or function unrelated to the basis for its exemption,
- Contributions of any property to or for the use of certain private foundations except for stock for which market quotations are readily available (section 170(e)(5)), and
- Any patent or certain other intellectual property contributed after June 3, 2004. See section 170(e)(1)(B). However, the partnership can deduct certain qualified donee income from this property. See section 170(m).

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

**Lines 10a and 10b**

Enter on line 10a miscellaneous itemized deductions as defined in section 67(b). These deductions include expenses for the production or collection of income under section 212, such as investment advisory fees, subscriptions to investment advisory publications, and the cost of safe deposit boxes. Multiply line 10a by 30% (.30) and enter the result on line 10b. The remaining 70% of the amount on line 10a is not allowed as a deduction to the partnership or its partners.

**Line 11**

Other allowable deductions include items such as:

- Real estate taxes and personal property taxes on investment property,
- Casualty and theft losses on income-producing property, and
- Any penalty on the early withdrawal of savings.

Attach a schedule for line 11 listing the type and amount of each allowable deduction for which there is no separate line in Part II of Form 1065-B.

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**Schedule A. Cost of Goods Sold**

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Generally, inventories are required at the beginning and end of each tax year if the production, purchase, or sale of merchandise is an income-producing factor. See Regulations section 1.471-1.

However, if the partnership is a qualifying taxpayer or a qualifying small business taxpayer, it can adopt or change its accounting method to account for inventoriable items in the same manner as materials and supplies that are not incidental (unless its business is a tax shelter (as defined in section 448(d)(3))).

A *qualifying taxpayer* is a taxpayer that, with respect to each prior tax year ending after December 16, 1998, has average annual gross receipts of \$1 million or less for the 3-tax-year period ending with that prior tax year. See Rev. Proc. 2001-10, 2001-2 I.R.B. 272 for details.

A *qualifying small business taxpayer* is a taxpayer (a) that, with respect to each prior tax year ending on or after December 31, 2000, has average annual gross receipts of \$10 million or less for the 3-tax-year period ending with that prior tax year and (b) whose principal business activity is not an ineligible activity. See Rev. Proc. 2002-28, 2002-18 I.R.B. 815 for details.

Under this accounting method, inventory costs for raw materials purchased for use in producing finished goods and merchandise purchased for resale are deductible in the year the finished goods or merchandise are sold (but not before the year the partnership paid for the raw materials or merchandise if it is also using the cash method). For additional guidance on this method of accounting for inventoriable items, see Pub. 538.

Enter amounts paid for all raw materials and merchandise during the tax year on line 2. The amount the partnership can deduct for the tax year is figured on line 8.

ELPs that have not elected to treat inventoriable items as materials and supplies that are not incidental should see *Section 263A uniform capitalization rules* on page 14 before completing Schedule A.

**Line 1. Inventory at Beginning of Year**

If the ELP is changing its method of accounting for the current tax year, it must refigure last year's closing inventory using its new method of accounting and enter the result on line 1. If there is a difference between last year's closing inventory and the refigured amount, attach an explanation and take it into account when figuring the partnership's section 481(a) adjustment (explained on page 4).

**Line 2. Purchases**

Reduce purchases by items withdrawn for personal use. The cost of items withdrawn for personal use should be shown as property distributions on an attachment to line 15 of Schedule K and in box 9 of Schedule K-1.

**Line 4. Additional Section 263A Costs**

An entry is required on this line only for partnerships that have elected a simplified method.

For ELPs that have elected the simplified production method, additional section 263A costs are generally those costs, other than interest, that were not capitalized under the partnership's method of accounting immediately prior to the effective date of section 263A that are required to be capitalized under section 263A. Interest must be accounted for separately. For new partnerships, additional section 263A costs are the costs, other than interest, that must be capitalized under section 263A, but which the partnership would not have been required to capitalize if it had existed before the effective date of section 263A. For more details, see Regulations section 1.263A-2(b).

For ELPs that have elected the simplified resale method, additional section 263A costs are generally those costs incurred with respect to the following categories.

- Off-site storage or warehousing.
- Purchasing.
- Handling, such as processing, assembling, repackaging, and transporting.
- General and administrative costs (mixed service costs).

For details, see Regulations section 1.263A-3(d).

Enter the balance of section 263A costs paid or incurred during the tax year not includible on lines 2, 3, and 5. Attach a statement listing these costs.

**Line 5. Other Costs**

Enter any other inventoriable costs paid or incurred during the tax year not entered on lines 2 through 4. Attach a statement.

**Line 7. Inventory at End of Year**

See Regulations sections 1.263A-1 through 1.263A-3 for details on figuring the amount of additional section 263A costs to be included in ending inventory.

If the ELP accounts for inventoriable items in the same manner as materials and supplies that are not incidental, enter on line 7 the portion of its raw materials and merchandise purchased for resale that is included on line 6 and was not sold during the year.

**Lines 9a Through 9e. Inventory Valuation Methods**

Inventories can be valued at:

- Cost,
- Cost or market value (whichever is lower), or
- Any other method approved by the IRS that conforms to the requirements of the applicable regulations cited below.

However, if the partnership is using the cash method of accounting, it is required to use cost.

ELPs that account for inventoriable items in the same manner as materials and supplies that are not incidental can currently deduct expenditures for direct labor and all indirect costs that would otherwise be included in inventory costs. See Rev. Proc. 2001-10 and Rev. Proc. 2002-28 for more information.

The average cost (rolling average) method of valuing inventories generally does not conform to the requirements of the regulations. See Rev. Rul. 71-234, 1971-1 C.B. 148. However, if a partnership uses the average cost method for financial accounting purposes, there are two safe harbors under which this method will be deemed to clearly reflect income for federal income tax purposes. See Rev. Proc. 2008-43, 2008-30 I.R.B. 186 and Rev. Proc. 2008-52, 2008-36 I.R.B. 587 for details.

Partnerships that use erroneous valuation methods must change to a method permitted for federal tax purposes. Use Form 3115 to make this change.

On line 9a, check the methods used for valuing inventories. Under lower of cost or market, the term "market" (for normal goods) means the current bid price prevailing on the inventory valuation date for the particular merchandise in the volume usually purchased by the taxpayer. For a manufacturer, market applies to the basic elements of cost: raw materials, labor, and burden. If section 263A applies to the taxpayer, the basic elements of cost must reflect the current bid price of all direct costs and all indirect costs properly allocable to goods on hand at the inventory date.

Inventory can be valued below cost when the merchandise is unsalable at normal prices or unusable in the normal way because the goods are subnormal due to damage, imperfections, shopwear, etc., within the meaning of Regulations section 1.471-2(c). These goods may be valued at the bona fide selling price, minus the direct cost of disposition (but not less than scrap value). Bona fide selling price means the price at which goods are actually offered during a period ending not later than 30 days after the inventory date.

If this is the first year the Last-in First-out (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method, attach Form 970, Application To Use LIFO Inventory Method, or a statement with the information required by Form 970. Also check the box on line 9c.

If the partnership has changed or extended its inventory method to LIFO and has had to write up its opening inventory to cost in the year of election, report the effect of this write-up as income (line 10, Part I, Form 1065-B) proportionately over a 3-year period that begins in the tax year of the LIFO election.

For more information on inventory valuation methods, see Pub. 538, Accounting Periods and Methods.

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## Schedule B. Other Information

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### Question 1

Check box 1f for any other type of entity and state the type.

### Question 3

The partnership must answer "Yes" if during the tax year:

- It owned an interest in another partnership (foreign or domestic) or
- It was the "tax owner" of a foreign disregarded entity (FDE) under Regulations sections 301.7701-2 and 301.7701-3. The tax owner of an FDE is the person that is treated as owning the assets and liabilities of the FDE for purposes of U.S. income tax law.

If the partnership answered "Yes" to this question, it must do the following.

1. Show each partnership's name, EIN (if any), and the country under whose laws the partnership was organized, on an attached schedule, if the partnership directly or indirectly owned at least a 10% interest in any other foreign or domestic partnership (other than any partnership for which a Form 8865 is attached to the tax return).

2. Complete and attach Form 8858, Information Return of U.S. Persons With Respect To Foreign Disregarded Entities, for each FDE. For more information, see the Instructions for Form 8858.

**Note.** Clearly indicate whether each entity in the attached schedule is a partnership or a disregarded entity.

### Question 4. Foreign Partners

Answer "Yes" if the ELP had any foreign partners (for purposes of section 1446) at any time during the tax year. Otherwise, answer "No."

If the ELP had gross income effectively connected with a trade or business in the United States and foreign partners, it may be required to withhold tax under section 1446 on income allocable to foreign partners (without regard to distributions) and file Forms 8804, 8805, and 8813. See Regulations sections 1.1446-1 through 7 for more information.

### Question 5

Answer "Yes" if interests in the partnership are traded on an established securities market or are readily tradable on a secondary market (or its substantial equivalent).

### Question 6

Answer "Yes" if the ELP filed, or is required to file, a return under section 6111 to provide information on any reportable transaction by a material advisor. Use Form 8918, Material Advisor Disclosure Statement, to provide the information. See the Instructions for Form 8918.

### Question 7. Foreign Accounts

Answer "Yes" if either 1 or 2 below applies to the ELP. Otherwise, check the "No" box.

1. At any time during the 2009 calendar year the partnership had an interest in or signature or other authority over a bank account, securities account, or other

financial account in a foreign country (see Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts); and

- The combined value of the accounts was more than \$10,000 at any time during the calendar year and

- The accounts were not with a U.S. military banking facility operated by a U.S. financial institution.

2. The ELP owns more than 50% of the stock in any corporation that would answer the question "Yes" based on item 1 above.

If you checked the "Yes" box for the question:

- Enter the name of the foreign country or countries. Attach a separate statement if more space is needed.
- File Form TD F 90-22.1 by June 30, 2010, with the Department of the Treasury at the address shown on the form. Because Form TD F 90-22.1 is not a tax return, do not file it with Form 1065-B. You can order Form TD F 90-22.1 by calling 1-800-TAX-FORM (1-800-829-3676) or you can download it from the IRS website at [www.irs.gov](http://www.irs.gov).

### Question 8

The ELP may be required to file Form 3520, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts, if:

- It directly or indirectly transferred property or money to a foreign trust. For this purpose, any U.S. person who created a foreign trust is considered a transferor.
- It is treated as the owner of any part of the assets of a foreign trust under the grantor trust rules.
- It received a distribution from a foreign trust.

For more information, see the Instructions for Form 3520.

**Note.** An owner of a foreign trust must ensure that the trust files an annual information return on Form 3520-A, Annual Information Return of Foreign Trust With a U.S. Owner.

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## Schedule D. Capital Gains and Losses

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### Purpose of Schedule

Use the Schedule D of Form 1065-B 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 specially allocated capital gains (losses) directly on line 4a or 4b of Schedule K, or on an attachment to line 15 of Schedule K and in box 3, 4, or 9 of Schedule K-1, whichever applies. See *How Income Is Shared Among Partners* on page 23.

**Note.** Do not report on Schedule D gains or losses from the sale or exchange of qualified preferred stock of the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac). Instead, each partner's distributive share of such gains and losses must be reported as a separately stated item in box 9 of Schedule K-1 using code U. See item 20, *Other information (Code U)*, for more information.

## What are Capital Assets?

Each item of property the partnership held (whether or not connected with its trade or business) is a capital asset except the following.

- Stock in trade or other property included in inventory or held mainly for sale to customers.
- Accounts or notes receivable acquired in the ordinary course of the trade or business for services rendered or from the sale of stock in trade or other property held mainly for sale to customers.
- Depreciable or real property used in the trade or business, even if it is fully depreciated.
- Certain copyrights; literary, musical, or artistic compositions; letters or memoranda; or similar property. See section 1221(a)(3).
- U.S. Government publications, including the Congressional Record, that the partnership received from the Government, other than by purchase at the normal sales price, or that the partnership got from another taxpayer who had received it in a similar way, if the partnership's basis is determined by reference to the previous owner.
- Certain commodities derivative financial instruments held by a dealer. See section 1221(a)(6).
- Certain hedging transactions entered into in the normal course of the trade or business. See section 1221(a)(7).
- Supplies regularly used in the trade or business.

## Overview of Large Partnership Provisions

For ELPs, capital gains and losses generally are netted at the partnership level. A partner in a large partnership takes into account separately his distributive share of the partnership's net capital gain or net capital loss. Such net capital gain (loss) is treated as long-term capital gain (loss). The 28% rate gain (loss) is treated in the same manner.

Any excess of net short-term capital gain over net long-term capital loss is not separately stated. Instead, it is consolidated with the partnership's other taxable income.

A partner's distributive share is divided between passive loss limitation activities and other activities. Capital gain (loss) is allocated to passive loss limitation activities to the extent that it is from sales and exchanges of property used in connection with a trade or business or rental activity. Any excess is allocated to other activities (that is, portfolio income).

Section 1231 gains are also netted at the partnership level. The net gain is generally treated as long-term capital gain. The net loss is treated as an ordinary loss and is included in computing the partnership's taxable income.

## Items for Special Treatment

- Use Form 4797, Sales of Business Property, to report (a) sales or exchanges of property used in a trade or business, (b) sales or exchanges of depreciable or amortizable property, (c) sales or other dispositions of securities or commodities held in connection with a trading business, if the partnership made a mark-to-market election (see page 4), (d) involuntary conversions (other than from casualties or

thefts), and (e) the disposition of noncapital assets (other than inventory or property held primarily for sale to customers in the ordinary course of a trade or business).

- Use Form 4684, Casualties and Thefts, to report involuntary conversions of property due to a casualty or theft.
- Gains and losses from section 1256 contracts and straddles are reported on Form 6781, Gains and Losses From Section 1256 Contracts and Straddles.
- An exchange of business or investment property for property of a like kind is reported on Form 8824, Like-Kind Exchanges.
- Transactions by a securities dealer. See section 1236.
- See Pub. 550, Investment Income and Expenses, for information on bonds and other debt instruments.
- For certain real estate subdivided for sale that may be considered a capital asset, see section 1237.
- Gain on the sale of depreciable property to a more-than-50%-owned entity, or to a trust in which the partnership is a beneficiary, is treated as ordinary gain.
- For liquidating distributions from a corporation, see Pub. 550.
- See section 1248 for gain on the sale or exchange of stock in certain foreign corporations.
- For gain or loss on options to buy or sell, including closing transactions, see Pub. 550.
- Gain or loss from a short sale of property. See Pub. 550 for details.
- For undistributed capital gains from a RIC or a REIT, the partnership will receive information on Form 2439.
- See section 84 for the transfer of property to a political organization if the FMV of the property exceeds the partnership's adjusted basis in such property.
- Any loss on the disposition of converted wetland or highly erodible cropland that is first used for farming after March 1, 1986, is reported as a long-term capital loss on Schedule D, but any gain on such a disposition is reported as ordinary income on Form 4797. See section 1257 for details.
- See Rev. Rul. 84-111, 1984-2 C.B. 88, for the transfer of partnership assets and liabilities to a newly formed corporation in exchange for all of its stock.
- See section 897 for the disposition of foreign investment in a U.S. real property interest.
- Any loss from a sale or exchange of property between the partnership and certain related persons is not allowed, except for distributions in a complete liquidation of a corporation. See sections 267 and 707(b) for details.
- Any loss from securities that are capital assets that become worthless during the year is treated as a loss from the sale or exchange of a capital asset on the last day of the tax year.
- Nonrecognition of gain on sale of stock to an employee stock ownership plan (ESOP) or an eligible cooperative. See section 1042 and Temporary Regulations section 1.1042-1T for rules under which the partnership can elect not to recognize gain from the sale of certain stock to an ESOP or an eligible cooperative.
- A nonbusiness bad debt must be treated as a short-term capital loss and can be deducted only in the year the debt becomes totally worthless. For each bad debt, enter

the name of the debtor and "Schedule Attached" in column (a) of line 1 and the amount of the bad debt as a loss in column (f). Also attach a statement of facts to support each bad debt deduction.

- Any loss from a wash sale of stock or securities (including contracts or options to acquire or sell stock or securities) cannot be deducted unless the partnership is a dealer in stock or securities and the loss was sustained in a transaction made in the ordinary course of the partnership's trade or business. A wash sale occurs if the partnership acquires (by purchase or exchange), or has a contract or option to acquire, substantially identical stock or securities within 30 days before or after the date of the sale or exchange. See section 1091.
- Gain from installment sales. If the partnership sold property at a gain and it will receive a payment in a tax year after the year of sale, it generally must report the sale on the installment method unless it elects not to. However, the installment method cannot be used to report sales of stock or securities traded on an established securities market. Use Form 6252, Installment Sale Income, to report the sale on the installment method. Also use Form 6252 to report any payment received during the tax year from a sale made in an earlier year that was reported on the installment method.

If the ELP wants to elect out of the installment method, it must report the full amount of the gain on a timely filed return (including extensions). If the partnership filed Form 1065-B on time, the election can be made on an amended return filed no later than 6 months after the due date (excluding extensions) of the original return. Write "See attached Form 8082 for AAR per IRC section 6251; Filed pursuant to section 301.9100-2" in the top margin of the amended return, and file it at the same address the original return was filed. See *Administrative Adjustment Requests* on page 5 for details.

- A sale or other disposition of an interest in a partnership owning unrealized receivables or inventory items may result in ordinary gain or loss. See Pub. 541, Partnerships, for more details.
- Certain constructive ownership transactions. Gain in excess of the gain that would have been recognized if the partnership had held a financial asset directly during the term of a derivative contract must be treated as ordinary income. See section 1260 for details.

**Constructive sale treatment for certain appreciated positions.** Generally, the ELP must recognize gain (but not loss) on the date it enters into a constructive sale of any appreciated position in stock, a partnership interest, or certain debt instruments as if the position were disposed of at FMV on that date.

The ELP is treated as making a constructive sale of an appreciated position when it (or a related person, in some cases) does one of the following.

- Enters into a short sale of the same or substantially identical property (that is, a "short sale against the box").
- Enters into an offsetting notional principal contract relating to the same or substantially identical property.

• Enters into a futures or forward contract to deliver the same or substantially identical property.

• Acquires the same or substantially identical property (if the appreciated position is a short sale, offsetting notional principal contract, or a futures or forward contract).

**Exception.** Generally, constructive sale treatment does not apply if:

- The partnership closed the transaction before the end of the 30th day after the end of the year in which it was entered into,
- The partnership held the appreciated position to which the transaction relates throughout the 60-day period starting on the date the transaction was closed, and
- At no time during that 60-day period was the partnership's risk of loss reduced by holding certain other positions.

For details and other exceptions to these rules, see Pub. 550.

#### Special rules for traders in securities.

Traders in securities are engaged in the business of buying and selling securities for their own account. To be engaged in business as a trader in securities you must meet all the following conditions.

- The ELP must seek to profit from daily market movements in the prices of securities and not from dividends, interest, or capital appreciation.
- The ELP's trading activity must be substantial.
- The partnership must carry on the activity with continuity and regularity.

The following facts and circumstances should be considered in determining if a partnership's activity is a business.

- Typical holding periods for securities bought and sold.
- The frequency and dollar amount of the partnership's trades during the year.
- The extent to which the partners pursue the activity to produce income for a livelihood.
- The amount of time devoted to the activity.

Like an investor, a trader must report each sale of securities (taking into account commissions and any other costs of acquiring or disposing of the securities) on Schedule D or D-1 or on an attached statement containing all the same information for each sale in a similar format. However, if a trader made the mark-to-market election, each transaction is reported in Part II of Form 4797 instead of Schedule D or D-1. Regardless of whether a trader reports its gains and losses on Schedule D or D-1 or Form 4797, the gain or loss from the disposition of securities is not taken into account when figuring net earnings from self-employment on Schedules K and K-1. See section 1402(i) for an exception that applies to section 1256 contracts.

The limitation on investment interest expense that applies to investors does not apply to interest paid or incurred in a trading business. A trader reports interest expense and other expenses (excluding commissions and other costs of acquiring or disposing of securities) from a trading business in Part I of Form 1065-B.

A trader also can hold securities for investment. The rules for investors generally will apply to those securities. Allocate interest and other expenses between the partnership's trading business and its

investment securities. Investment interest expense is reported on line 7 of Part II, Form 1065-B.

**Rollover of gain from qualified stock.** If the partnership sold qualified small business stock (defined later) it held for more than 6 months, it can postpone gain if it purchased other qualified small business stock during the 60-day period that began on the date of the sale. The partnership must recognize gain to the extent the sale proceeds exceed the cost of the replacement stock. Reduce the basis of the replacement stock by any postponed gain.

If the partnership chooses to postpone gain, report the entire gain realized on the sale on line 1 or 6. Directly below the line on which the partnership reported the gain, enter in column (a) "Section 1045 Rollover" and enter as a (loss) in column (f) the amount of the postponed gain.

Attach a statement to Form 1065-B that (a) identifies the replacement qualified small business stock, (b) shows the computation of the adjustment to the partnership's basis in the replacement stock for the amount of any postponed gain under section 1045, and (c) shows the dates on which the replacement stock was acquired by the partnership.



*The ELP also must separately state the amount of the gain rolled over on qualified stock under section 1045 on an attachment to Form 1065-B, Schedule K, line 15. Each partner must determine if he or she qualifies for the rollover at the partner level or if he or she wants to opt out of the section 1045 election. Also, the partnership must separately state on that line (and not on Schedule D) any gain that would qualify for the section 1045 rollover at the partner level instead of the partnership level (because a partner was entitled to purchase replacement stock) and any gain on qualified stock that could qualify for the partial exclusion under section 1202.*

To be qualified small business stock, the stock must meet all of the following tests.

- It must be stock in a C corporation (that is, not S corporation stock).
- It must have been originally issued after August 10, 1993.
- As of the date the stock was issued, the corporation was a qualified small business. A qualified small business is a domestic C corporation with total gross assets of \$50 million or less (a) at all times after August 9, 1993, and before the stock was issued, and (b) immediately after the stock was issued. Gross assets include those of any predecessor of the corporation. All corporations that are members of the same parent-subsidiary controlled group are treated as one corporation.
- The partnership must have acquired the stock at its original issue (either directly or through an underwriter), either in exchange for money or other property or as pay for services (other than as an underwriter) to the corporation. In certain cases, the partnership can meet the test if it acquired the stock from another person who met this test (such as by gift or inheritance) or through a conversion or exchange of qualified small business stock held by the partnership.
- During substantially all the time the partnership held the stock:

1. The corporation was a C corporation,
2. At least 80% of the value of the corporation's assets were used in the active conduct of one or more qualified businesses (defined below), and

3. The issuing corporation was not a foreign corporation, domestic international sales corporation (DISC), former DISC, interest charge domestic international sales corporation (IC-DISC), former IC-DISC, corporation that has made (or that has a subsidiary that has made) a section 936 election, regulated investment company (RIC), real estate investment trust (REIT), real estate mortgage investment conduit (REMIC), financial asset securitization investment trust (FASIT), or cooperative.

**Note.** A specialized small business investment company (SSBIC) is treated as having met test 2 above.

A qualified business is any business other than the following.

- One involving services performed in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, or brokerage services.
- One whose principal asset is the reputation or skill of one or more employees.
- Any banking, insurance, financing, leasing, investing, or similar business.
- Any farming business (including raising or harvesting of trees).
- Any business involving the production of products for which percentage depletion can be claimed.
- Any business of operating a hotel, motel, restaurant, or similar business.

**Rollover of gain from empowerment zone assets.** If the partnership sold a qualified empowerment zone asset it held for more than 1 year, it may be able to elect to postpone part or all of the gain. For details, see Pub. 954, Tax Incentives for Distressed Communities, and section 1397B.

#### Exclusion of gain from DC Zone assets.

If the ELP sold or exchanged a District of Columbia Enterprise Zone (DC Zone) asset that it held for more than 5 years, it may be able to exclude the qualified capital gain. The DC Zone asset must have been acquired after 1997, but before 2010, to qualify as an asset for which the partnership may be able to take the exclusion. The sale or exchange of DC Zone capital assets reported on Schedule D include the following.

- Stock in a domestic corporation that was a DC Zone business.
- Interest in a partnership that was a DC Zone business.

Report the sale or exchange of property used in the partnership's DC Zone business on Form 4797.

**Gains not qualified for exclusion.** The following gains do not qualify for the exclusion of gain from DC Zone assets.

- Gain on the sale of an interest in a partnership which is a DC Zone business attributable to unreaptured section 1250 gain. See the instructions for line 15 of Schedule K for information on how to report unreaptured section 1250 gain.
- Gain on the sale of an interest in a partnership or S corporation, which is a DC Zone business, attributable to real property or an intangible asset which is not an integral part of the DC Zone business.

• Gain from a related-party transaction. See *Sales and Exchanges Between Related Persons* in Pub. 544.

See Pub. 954 and section 1400B for more details on DC Zone assets and special rules.

**How to report.** Report the entire gain realized from the sale or exchange on Schedule D, Part II, line 6, as the ELP otherwise would without regard to the exclusion. To report the exclusion, enter "DC Zone Asset Exclusion" on a separate entry on Schedule D, line 6, column (a) and enter as a (loss) in column (f) the amount of the exclusion.

## Specific Instructions

### Columns (b) and (c). Date Acquired and Date Sold

Use the trade dates for date acquired and date sold for stocks and bonds traded on an exchange or over-the-counter market. The acquisition date for an asset the partnership held on January 1, 2001, for which it made an election to recognize any gain on a deemed sale, is the date of the deemed sale and reacquisition.

### Column (d). Sales Price

Enter either the gross sales price or the net sales price from the sale. On sales of stocks and bonds, report the gross amount as reported to the partnership by the partnership's broker on Form 1099-B, Proceeds From Broker and Barter Exchange Transactions, or similar statement. However, if the broker advised the partnership that gross proceeds (gross sales price) less commissions and option premiums were reported to the IRS, enter that net amount in column (d).

### Column (e). Cost or Other Basis

In general, the cost or other basis is the cost of the property plus purchase commissions and improvements minus depletion. If the partnership got the property in a tax-free exchange, involuntary conversion, or wash sale of stock, it may not be able to use the actual cash cost as the basis. If the partnership does not use cash cost, attach an explanation of the basis.

If the ELP sold stock, adjust the basis by subtracting all the stock-related nontaxable distributions received before the sale. This includes nontaxable distributions from utility company stock and mutual funds. Also adjust the basis for any stock splits or stock dividends.

If the ELP elected to recognize gain on an asset held on January 1, 2001, its basis in the asset is its closing market price or FMV, whichever applies, on the date of the deemed sale and reacquisition, whether the deemed sale resulted in a gain or an unallowed loss.

If a charitable contribution deduction is allowed because of a bargain sale of property to a charitable organization, the adjusted basis for purposes of determining gain from the sale is the amount which has the same ratio to the adjusted basis as the amount realized has to the FMV.

See section 852(f) for the treatment of certain load charges incurred in acquiring stock in a mutual fund with a reinvestment right.

If the gross sales price is reported in column (d), increase the cost or other basis by any expense of sale, such as broker's fees, commissions, or option premiums, before making an entry in column (e).

For more details, see Pub. 551, Basis of Assets.

### Column (f). Gain or (Loss)

Make a separate entry in this column for each transaction reported on lines 1 and 6 and any other lines that apply to the partnership. For lines 1 and 6, subtract the amount in column (e) from the amount in column (d). Enter negative amounts in parentheses.

### Part IV-Net Capital Gain (Loss) From Passive Loss Limitation Activities

**Line 17.** Redetermine the amount on line 14 by taking into account only gains and losses from passive loss limitation activities.

### Capital Gains and Losses From Other Partnerships, Estates, and Trusts

See the Schedule K-1 or other information supplied to you by the other partnership, estate, or trust. Enter the gains (losses) on line 1 or 6, whichever applies. Do not complete columns (a) through (e). Instead, write "From Schedule K-1 (Form 1065, 1065-B, or 1041)" across these columns.

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## Schedules K and K-1. Partners' Shares of Income, Credits, Deductions, etc.

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### Purpose of Schedules

The partners are liable for tax on their shares of the partnership income, whether or not distributed, and must include their shares on their tax returns.

**Schedule K** (page 4 of Form 1065-B) is a summary schedule of all the partners' shares of the partnership's income, credits, deductions, etc.

**Schedule K-1** (Form 1065-B) shows each partner's separate share. Attach a copy of each Schedule K-1 to the Form 1065-B filed with the IRS; keep a copy with a copy of the partnership return as a part of the partnership's records; and furnish a copy to each partner. If a partnership interest is held by a nominee on behalf of another person, the partnership may be required to furnish Schedule K-1 to the nominee. See Temporary Regulations sections 1.6031(b)-1T and 1.6031(c)-1T for more information.

Give each partner a copy of either the Partner's Instructions for Schedule K-1 (Form 1065-B) or specific instructions for each item reported on the partner's Schedule K-1 (Form 1065-B).

### Substitute Forms

The partnership does not need IRS approval to use a substitute Schedule K-1 if it is an exact copy of the IRS schedule. The boxes must use the same numbers and titles and must be in the same order and format as on the comparable IRS Schedule K-1. The

substitute schedule must include the OMB number. The partnership must provide each partner with the Partner's Instructions for Schedule K-1 (Form 1065-B) or other prepared specific instructions for each item reported on the partner's Schedule K-1.

The partnership must request IRS approval to use other substitute Schedules K-1. To request approval, write to Internal Revenue Service, Attention: Substitute Forms Program, SE:W:CAR:MP:T:T:SP, 1111 Constitution Avenue NW, IR-6526, Washington, DC 20224.

Each partner's information must be on a separate sheet of paper. Therefore, separate all continuously printed substitutes before you file them with the IRS.

The partnership may be subject to a penalty if it files Schedules K-1 that do not conform to the specifications discussed in Pub. 1167, General Rules and Specifications for Substitute Forms and Schedules.

### How Income Is Shared Among Partners

Generally, allocate shares of income, gain, loss, deduction, or credit among the partners according to the partnership agreement for sharing income or loss. However, partners can agree to allocate specific items in a ratio different from the ratio for sharing income or loss.

In determining the amounts required to be separately taken into account by a partner, those provisions of the large partnership rules governing computation of taxable income are applied separately with respect to that partner by taking into account that partner's distributive share of the partnership's items of income, gain, loss, deduction, or credit. This rule permits partnerships to make otherwise valid special allocations of partnership items to partners.

Report the specially allocated items in the appropriate box of the applicable partner's Schedule K-1 and the total on the appropriate line of Schedule K, instead of on Parts I or II of Form 1065-B or Schedules A, D, or D-1. For example, specially allocated net capital gain from passive activities is entered in box 4a of Schedule K-1, and the total is entered on line 4a of Schedule K, along with any net capital gain from line 18 of Schedule D (Form 1065-B).

If a partner's interest changed during the year, see section 706(d) before determining each partner's distributive share of any item of income, gain, loss, deduction, etc. Income (loss) is allocated to a partner only for the part of the year in which that person is a member of the partnership. The partnership will either allocate on a daily basis or divide the partnership year into segments and allocate income, loss, or special items in each segment among the persons who were partners during that segment. Partnerships that report their income on the cash basis must allocate interest expense, taxes, and any payment for services or for the use of property on a daily basis if there is any change in any partner's interest during the year.

Special rules on the allocation of income, gain, loss, and deductions generally apply if a partner contributes property to the partnership and the FMV of that property at the time of contribution differs from the contributing partner's adjusted tax basis.

Under these rules, the partnership must use a reasonable method of making allocations of income, gain, loss, and deductions from the property so that the contributing partner receives the tax burdens and benefits of any built-in gain or loss (for example, pre-contribution appreciation or diminution of value of the contributed property). See Regulations section 1.704-3 for details on how to make these allocations, including a description of specific allocation methods that are generally reasonable.

See *Dispositions of Contributed Property* on page 9 for special rules on the allocation of income, gain, loss, and deductions on the disposition of property contributed to the partnership by a partner.

If the partnership agreement does not provide for the partner's share of income, gain, loss, deduction, or credit, or if the allocation under the agreement does not have substantial economic effect, the partner's share is determined according to the partner's interest in the partnership. See Regulations section 1.704-1 for more information.

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## Specific Instructions for Schedules K and K-1

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Generally, the ELP is required to prepare and give a Schedule K-1 to each person who was a partner in the partnership at any time during the year.

However, if a foreign partnership meets each of the following four requirements, it is not required to file or provide Schedule K-1 for foreign partners (unless the foreign partner is a pass-through entity through which a U.S. person holds an interest in the foreign partnership).

- The partnership had no gross income effectively connected with the conduct of a trade or business within the United States during its tax year.
- All required Forms 1042 and 1042-S were filed by the partnership or another withholding agent as required by Regulations sections 1.1461-1(b) and (c).
- The tax liability of each partner for amounts reportable under Regulations sections 1.1461-1(b) and (c) has been fully satisfied by the withholding of tax at the source.
- The partnership is not a withholding foreign partnership as defined in Regulations section 1.1441-5(c)(2)(i).

Generally, any person who holds an interest in a partnership as a nominee for another person must furnish to the partnership the name, address, etc., of the other person.

On each Schedule K-1, enter the names, addresses, and identifying numbers of the partner and partnership and the partner's distributive share of each item.

For an individual partner, enter the partner's social security number (SSN) or individual taxpayer identification number (ITIN). For all other partners, enter the partner's EIN. However, if a partner is an individual retirement arrangement (IRA), enter the identifying number of the custodian of the IRA. Do not enter the SSN of the person for whom the IRA is maintained.

Foreign partners without a U.S. taxpayer identifying number should be notified by the partnership of the necessity of obtaining one. Certain aliens who are not eligible to obtain an SSN can apply for an ITIN on Form W-7, Application for IRS Individual Taxpayer Identification Number.

If a husband and wife each had an interest in the partnership, prepare a separate Schedule K-1 for each of them. If a husband and wife held an interest together, prepare one Schedule K-1 if the two of them are considered to be one partner.

Use the codes listed starting on page 31 for box 9 of Schedule K-1 to report various items. If more space is needed, include the information in an attachment to box 9.

**Due date.** Unlike other partnerships, an ELP must provide a Schedule K-1 to each partner by the first March 15 following the close of the partnership's tax year. For calendar year 2009 partnerships, the due date is March 15, 2010.

### Partner's Share of Liabilities (Schedule K-1)

Enter each partner'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 of loss is determined under the rules of Regulations section 1.752-2. Do not include partnership-level qualified nonrecourse financing (defined below) on the line for nonrecourse liabilities.

If the partner terminated his or her interest in the partnership during the year, enter the share that existed immediately before the total disposition. In all other cases, enter it as of the end of the year.

If the ELP is engaged in two or more different types of at-risk activities, or a combination of at-risk activities and any other activity, attach a statement showing the partner's share of nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other liabilities for each activity. See Pub. 925, *Passive Activity and At-Risk Rules*, to determine if the partnership is engaged in more than one at-risk activity.

The at-risk rules of section 465 generally apply to any activity carried on by the partnership as a trade or business or for the production of income. These rules generally limit the amount of loss and other deductions a partner can claim from any partnership activity to the amount for which that partner is considered at risk. However, for partners who acquired their partnership interests before 1987, the at-risk rules do not apply to losses from an activity of holding real property the partnership placed in service before 1987. The activity of holding mineral property does not qualify for this exception. Identify on an attachment to Schedule K-1 the amount of any losses that are not subject to the at-risk rules.

If the ELP is engaged in an activity subject to the limitations of section 465(c)(1) (such as films or videotapes, leasing section 1245 property, farming, or oil and gas property), give each partner his or her share

of the total pre-1976 losses from that activity for which there existed a corresponding amount of nonrecourse liability at the end of each year in which the losses occurred. See Form 6198, *At-Risk Limitations*, and related instructions for more information.

Qualified nonrecourse financing secured by real property used in an activity of holding real property that is subject to the at-risk rules is treated as an amount at risk. "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 loaned or guaranteed by a federal, state, or local government or that is borrowed from a "qualified" person. Qualified persons include any person actively and regularly engaged in the business of lending money, such as a bank or savings and loan association. Qualified persons generally do not include related parties (unless the nonrecourse financing is commercially reasonable and on substantially the same terms as loans involving unrelated persons), the seller of the property, or a person who receives a fee for the partnership's investment in the real property. See section 465 for more information on qualified nonrecourse financing.

The partner as well as the partnership must meet the qualified nonrecourse rules. Therefore, the partnership must enter on an attached statement any other information the partner needs to determine if the qualified nonrecourse rules are also met at the partner level.

**Note.** The following line numbers correspond with Schedule K. However, each line instruction also provides reporting information for Schedule K-1. Letter codes required for entries in box 9 of Schedule K-1 start on page 31.

### Line 1. Taxable Income (Loss) From Passive Loss Limitation Activities

Enter the amount from Form 1065-B, page 1, line 25, on Schedule K, line 1a. Enter the income or (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.

Allocate the income (loss) from passive loss limitation activities (line 1a of Schedule K) to interests held as a general partner as follows.

**Step 1.** Allocate the amount reported on line 1a to the following categories.

- Trade or business activities.
- Rental real estate activities.
- Other rental activities.

**Step 2.** Report on lines 1b(1), 1b(2), and 1b(3) of Schedule K that portion of each amount from Step 1 that will be allocated to interests held as a general partner (the combined distributive shares and any separate allocations for all general partner interests).

General partners in an ELP must separately account for any items attributable to passive loss limitation activities to the extent necessary to comply with the passive activity rules.

Because general partners must comply with the passive activity rules, report the information on lines 1b(1), 1b(2), and 1b(3) of Schedule K separately for each activity of the partnership using Codes A1, B1, and C1 in box 9 of Schedule K-1. The remaining amount on line 1d of Schedule K is reported in box 1 of Schedule K-1 for limited partners (including interests held as a limited partner by general partners).

## Line 2. Taxable Income (Loss) From Other Activities

On Schedule K, line 2, enter the amount from Form 1065-B, Part II, line 13. Report amounts for both general and limited partners in box 2 of Schedule K-1.

## Line 3. Qualified Dividends

Enter the qualified dividends from other activities from Form 1065-B, Part II, line 2b. Report amounts for both general and limited partners in box 3 of Schedule K-1.

## Line 4a. Net Capital Gain (Loss) From Passive Loss Limitation Activities

Enter the net capital gain or (loss) from passive loss limitation activities from Schedule D (Form 1065-B), line 18. Report the amount allocated to interests held as a limited partner in box 4a of Schedule K-1.

Because general partners must comply with the passive activity rules, report the line 4a amount allocated to interests held as a general partner separately for each activity using Codes A2, B2, and C2, in box 9 of Schedule K-1.

## Line 4b. Net Capital Gain (Loss) From Other Activities

Enter the net capital gain (loss) from other activities from Schedule D (Form 1065-B), line 20. Report this amount to all partners in box 4b of Schedule K-1.

## Lines 5 and 6

For an ELP, the alternative minimum tax (AMT) adjustments and preferences are combined at the partnership level. The partnership computes net AMT adjustments separately for passive loss limitation activities and other activities.

In determining a partner's alternative minimum taxable income, a partner's distributive share of any net AMT adjustment is taken into account instead of making separate AMT adjustments for different partnership items. The net AMT adjustment is determined by using the adjustments and preferences applicable to individuals for partners other than corporations, and by using the adjustments and preferences applicable to corporations for corporate partners. See Form 6251, *Alternative Minimum Tax—Individuals*, and Form 4626, *Alternative Minimum Tax—Corporations*, to figure the partnership's AMT adjustments and preferences.

The net passive AMT adjustment is reported on line 5 of Schedule K and in box 5 of Schedule K-1 for interests held as a limited partner. Because general partners must comply with the passive activity rules, report the amounts allocated to interests held as a general partner separately for each activity in box 9 using Codes A5, B7, and C5.

The net other AMT adjustment is reported on line 6 of Schedule K and in box 6 of Schedule K-1 for all partners.

## Line 7. Guaranteed Payments to Partners

Guaranteed payments to partners include:

- Payments for salaries, health insurance, and interest deducted by the partnership and reported on Form 1065-B, Part I, line 13; on a schedule attached to line 5, Part I; or on Form 8825;
- Compensation deferred under a section 409A nonqualified deferred compensation plan that does not meet the requirements of section 409A reported on line 15 of Schedule K; and
- Payments the partnership must capitalize. See the instructions for Part 1, line 13.

Report guaranteed payments to the partners receiving them in box 9 of Schedule K-1 using Code F.



*The transfer of property to a partner as part or all of a guaranteed payment is a sale or exchange of property and must be reported on Schedule D of the Form 1065-B. See Rev. Rul. 2007-40, 2007-25 I.R.B. 1426 for details.*

## Line 8. Income From Discharge of Indebtedness



*Do not include on line 8 any income from discharge of indebtedness for which the partnership has made the election to defer income from the cancellation of the debt. See section 108(i) and Rev. Proc. 2009-37, 2009-36 I.R.B. 309, for more information.*

Income from the discharge of indebtedness is separately reported to each partner. In addition, the section 108 rules governing the income are the same as for other partnerships.

Enter the income from discharge of indebtedness on line 8 of Schedule K and in box 9 of Schedule K-1 for each partner using Code G.

**Note.** Include the amount of income the partnership must recognize for a transfer of a partnership interest, after October 21, 2004, in satisfaction of a partnership debt when the debt relieved exceeds the FMV of the partnership interest. See section 108(e)(8) for more information.

## Line 9. Tax-Exempt Interest Income

Enter tax-exempt interest income, including any exempt-interest dividends received from a mutual fund or other regulated investment company. Individuals must report this amount 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). Report this amount to partners in box 9 of Schedule K-1 using Code H.

## Line 10. General Credits

The term "*general credits*" means any credit, other than the low-income housing credit, the rehabilitation credit from rental real estate activities, and the foreign tax credit.

General credits are separately reported to partners as a single item. A partner's distributive share of general credits is taken into account as a current year general

business credit. The tax liability limit for the general business credit is applied at the partner level.

Combine the following credits and report them under "general credits" on line 10.

- Credit for backup withholding on dividends, interest, and other types of income.
- Qualified railroad track maintenance credit (Form 8900).
- Investment credit (other than rehabilitation credits from rental real estate activities) (Form 3468).
- Work opportunity credit (Form 5884).
- Alcohol and cellulosic biofuel fuels credit (Form 6478).
- Credit for increasing research activities (Form 6765).
- Disabled access credit (Form 8826).
- Renewable electricity, refined coal, and Indian coal production credit (Form 8835).
- Empowerment zone and renewal community 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).
- Biodiesel and renewable diesel fuels credit (Form 8864).
- New markets credit (Form 8874).
- Credit for small employer pension plan startup costs (Form 8881).
- Credit for employer-provided childcare facilities and services (Form 8882).
- Low sulfur diesel fuel production credit (Form 8896).
- General credits from other ELPs.
- Distilled spirits credit (Form 8906).
- Nonconventional source fuel credit (Form 8907).
- Energy efficient home credit (Form 8908).
- Energy efficient appliance credit (Form 8909).
- Alternative motor vehicle credit (Form 8910).
- Alternative fuel vehicle refueling property credit (Form 8911).
- Credit to holders of tax credit bonds (Form 8912).
- Mine rescue team training credit (Form 8923).
- Agricultural chemicals security credit (Form 8931).
- Credit for employer differential wage payments (Form 8932).
- Carbon dioxide sequestration credit (Form 8933).
- Employer housing credit for affected Midwestern disaster area employers (Form 5884-A).
- Qualified plug-in electric drive motor vehicle credit (Form 8936).
- Qualified plug-in electric vehicle credit (Part I of Form 8834).
- Welfare-to-work credit, only if the credit was passed through to the partnership.
- Credit for contributions to selected community development corporations, only if the credit was passed through to the partnership.
- Employee retention credit for affected Midwestern disaster area employers, only if the credit was passed through to the partnership.

**Exception.** The refundable credit for federal tax paid on fuels and the refund or credit for tax paid on undistributed capital gains of a RIC or a REIT are claimed by the

partnership. Therefore, they are not separately reported to partners.

General credits are reported as a single figure on line 10 of Schedule K and are reported in box 7 of Schedule K-1 for limited partners. However, for general partners, credits allocable to passive loss limitation activities must be separately stated for each trade or business activity, rental real estate activity, and rental activity other than rental real estate. Provide this information to general partners in box 9 of Schedule K-1 using Codes A4, B4, and C4 so they can comply with section 469.

### Line 11. Low-Income Housing Credit

Section 42 provides a credit that can be claimed by owners of low-income residential rental buildings. To qualify for this credit, the partnership must file Form 8609, Low-Income Housing Credit Allocation and Certification, separately with the IRS. Do not attach Form 8609 to Form 1065-B. Complete and attach Form 8609-A, Annual Statement for Low-Income Housing Credit, and Form 8586, Low-Income Housing Credit, to Form 1065-B.

Report this credit for buildings placed in service before 2008 on line 11. If part or all of the credit is for buildings placed in service after 2007, enter "STMT" on line 11 and attach a statement showing separately the amount of the credit for buildings placed in service after 2007, and the amount of the credit for buildings placed in service before 2008.

**Schedule K-1.** For limited partners, if all of the low-income housing credit is for buildings placed in service before 2008, report each limited partner's distributive share of the credit in box 8. If part or all of the credit is for buildings placed in service after 2007, enter "STMT" in box 8 and attach a statement that separately provides each limited partner's distributive share of the credit for buildings placed in service before 2008, and the credit for buildings placed in service after 2007.

For general partners, enter code B5 in box 9 and attach a statement showing separately each partner's distributive share of the credit for buildings placed in service before 2008, and the credit for buildings placed in service after 2007. Also, credits allocable to passive loss limitation activities must be separately stated for each rental real estate activity so general partners can comply with the passive activity limitation requirements of section 469.

### Line 12. Rehabilitation Credit From Rental Real Estate Activities

Report the rehabilitation credit from rental real estate activities on line 12. Complete the lines on Form 3468, Investment Credit, that apply to the rehabilitation credit and attach it to Form 1065-B.

For limited partners, report the rehabilitation credit from rental real estate activities reported on line 12 in box 9 of Schedule K-1 using Code I. However, for general partners, credits allocable to passive loss limitation activities must be separately stated for each rental real estate activity. For general partners, report the rehabilitation credit reported on line 12 in box 9 of Schedule K-1 using Code B6 so general partners can comply with section 469.

**Note.** Any rehabilitation credits from an activity other than a rental real estate activity are included in general credits reported on line 10 of Schedule K.

### Line 13. Net Earnings From Self-Employment

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

- Dividends on any shares of stock and interest on any bonds, debentures, notes, etc., unless the dividend or interest income is 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.

**Schedule K.** Enter on line 13a the amount from line 5 of the worksheet below. On line 13b, enter the amount of gross nonfarm income from self-employment.

**Note.** For purposes of self-employment tax, no income from an electing large partnership is treated as fishing or farming income.

**Schedules K-1.** Do not complete box 9 for any partner that is an estate, trust, corporation, exempt organization, or individual retirement arrangement (IRA).

Using Code J1, enter in box 9 of Schedule K-1 each individual general partner's share of the amount shown on line 5 of the worksheet below and each individual limited partner's share of the amount shown on line 4c of the worksheet. Using Code J2, enter the partner's share of gross nonfarm income in box 9.

### Worksheet Instructions

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

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

<b>1a</b> Income (loss) from Schedule K, line 1b(1) . . . . .	<b>1a</b>		
<b>b</b> Certain rental real estate activity income (loss) from Schedule K, line 1b(2) (see instructions) . . . . .	<b>1b</b>		
<b>c</b> Other rental activity income (loss) from Schedule K, line 1b(3) . . . . .	<b>1c</b>		
<b>d</b> Net loss from Form 4797, Part II, line 17, included on lines 1a through 1c 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 17, included on lines 1a through 1c 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 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 in box 9 of Schedule K-1 . . . . .			<b>3c</b>
<b>4a</b> Guaranteed payments to partners (Schedule K, line 7) 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 other than 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 in box 9 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 13a . . . . .			<b>5</b>

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.

**Line 4a.** Include any guaranteed payments to partners reported on Schedule K, line 7, and derived from a trade or business as defined in section 1402(c). Also, include other ordinary income and expense items reported on Schedules K and K-1 that are used to figure self-employment earnings under section 1402.

## Line 14. Foreign Tax Credit Information

Lines 14a through 14h must be completed if the partnership has foreign income, deductions, or losses or has paid or accrued foreign taxes. See Pub. 514, Foreign Tax Credit for Individuals, for more information.

### Line 14a. 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 ELP received 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 14a through 14h.

Using Code K1, enter this information in box 9 of Schedule K-1 or on an attached schedule.

### Line 14b. Gross Income From All Sources

Enter the partnership's gross income from all sources (both U.S. and foreign).

Using Code K2, enter this information in box 9 of Schedule K-1 or on an attached schedule.

### Line 14c. Gross Income Sourced at Partner Level

Enter the total gross income of the partnership that is required to be sourced at the partner level. This includes income from the sale of most personal property other than inventory, depreciable property, and certain intangible property. See Pub. 514 and section 865 for details. Attach a statement showing the following information.

- The amount of this gross income (without regard to its source) in each category identified in the instructions for line 14d, including each of the listed categories.
- Specifically identify gains on the sale of personal property other than inventory, depreciable property, and certain intangible property on which a foreign tax of 10% or more was paid or accrued. Also list losses on the sale of such property if the foreign country would have imposed a 10% or higher tax had the sale resulted in a gain. See *Determining the Source of Income From the Sales or Exchanges of Certain Personal Property* in Pub. 514 and section 865.

- Specify the net foreign source capital gain or loss within each separate limitation category shown below in the instructions for line 14d(3). Also, in the case of noncorporate partners, separately identify the net foreign source gain or loss within each separate limitation category that is 28% rate gain (loss) and unrecaptured section 1250 gain.

Using Code K3, enter this information in box 9 of Schedule K-1 or on an attached schedule.

### Line 14d. Foreign Gross Income Sourced at Partnership Level

Separately report gross income from sources outside the United States by category of income as follows. For partnership and corporate partners only, attach a schedule identifying the total amount of foreign gross income in each category of income attributable to foreign branches. See Pub. 514 for information on the categories of income.

**Line 14d(1).** Passive category foreign source income.

This category includes the following income.

- Passive income.
- Dividends from a domestic international sales corporation (DISC) or a former DISC.
- Distributions from a former foreign sales corporation (FSC).

See line 14d(3) for exceptions.



*Passive income does not include export financing interest.*

Using Code K4(a), enter this information in box 9 of Schedule K-1 or on an attached schedule.

**Line 14d(2).** General category foreign source income. Include all foreign income sourced at the partnership level that is not passive category income. See line 14d(3) for exceptions.

Using Code K4(b), enter this information in box 9 of Schedule K-1 or on an attached schedule.

**Line 14d(3).** Other category foreign source income. Attach a schedule listing section 901(j) income and income re-sourced by treaty.

Using Code K4(c), enter this information in box 9 of Schedule K-1 or on an attached schedule.

### Line 14e. Deductions Allocated and Apportioned at Partner Level

Enter on line 14e(1) the partnership's total interest expense (including interest equivalents under Temporary Regulations section 1.861-9T(b)). Do not include interest directly allocable under Temporary Regulations section 1.861-10T to income from a specific property. This type of interest is allocated and apportioned at the partnership level and is included on lines 14f(1) through (3).

Using Code K5, enter the total interest expense in box 9 of Schedule K-1 or on an attached schedule.

On line 14e(2), enter the total of all other deductions or losses that are required to be allocated at the partner level. For example, include on line 14e(2) research and experimental expenditures (see Regulations section 1.861-17(f)). Using Code K6, enter

this information in box 9 of Schedule K-1 or on an attached schedule.

### Line 14f. Deductions Allocated and Apportioned at Partnership Level to Foreign Source Income

Separately report partnership deductions that are allocated and apportioned at the partnership level to (1) passive category foreign source income, (2) general category foreign source income, and (3) the other category of foreign source income. See the instructions for line 14d, earlier, for a description of categories (1)–(3). Also, see Pub. 514 for more information.

**Note.** Creditable foreign expenditures generally must be allocated in accordance with each partner's interest in the partnership. See Treasury Decision 9292, 2006-47 I.R.B. 914 for details.

For partnership and corporate partners only, attach a schedule identifying the total amount of deductions apportioned to each category of income shown in the instructions for line 14d that are attributable to foreign branches.

Using Code K7(a) for passive category foreign source income, Code K7(b) for general category foreign source income, and Code K7(c) for the other category of foreign source income, enter this information in box 9 of Schedule K-1 or on an attached schedule.

### Line 14g. 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 (according to its method of accounting for such taxes). Translate these amounts into U.S. dollars by using the applicable exchange rate (see Pub. 514).

**Line 14g. Foreign taxes paid.** If the partnership uses the cash method of accounting, enter foreign taxes paid during the year on line 14g and check the "Paid" box. Report each partner's distributive share in box 9 of Schedule K-1 using Code K8(a).

**Line 14g. Foreign taxes accrued.** If the partnership uses the accrual method of accounting, enter foreign taxes accrued on line 14g and check the "Accrued" box. Report each partner's distributive share in box 9 of Schedule K-1 using Code K8(b).

A partnership reporting foreign taxes using the cash method can make an irrevocable election to report the taxes using the accrual method for the year of the election and all future years. Make this election by reporting all foreign taxes using the accrual method on line 14g (see Regulations section 1.905-1).

Attach a schedule reporting the following information.

1. The total amount of foreign taxes (including foreign taxes on income sourced at the partner level) relating to each category of income (see instructions for line 14d).

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, and
- Other foreign taxes paid or accrued.

## Line 14h. Reduction in Taxes Available for Credit

Attach a schedule showing the total reductions in taxes available for credit.

Separately show the reductions for the following.

- Taxes on foreign mineral income (section 901(e)).
- Taxes on foreign oil and gas extraction income and foreign oil related income (section 907(a)).
- Taxes attributable to boycott operations (section 908).
- Failure to timely file (or furnish all of the information required on) Forms 5471 and 8865.
- Any other items (specify).

Using Code K9 for reduction in taxes available for credit, enter this information in box 9 of Schedule K-1 or on an attached schedule.

## Line 15

Attach a schedule listing other items and amounts required to be reported separately to partners. Enter each partner's share in box 9 or on an attached schedule to Schedule K-1. Examples of items to report include the following.

1. Any information a partnership must separately report to its disqualified partners regarding its oil and gas activities. See *Partnerships Holding Oil and Gas Properties* on page 12 for more information. Enter this information as Code L in box 9 of Schedule K-1 or on an attached schedule.

2. Other tax-exempt income. On the schedule for line 15, enter all income of the partnership exempt from tax other than tax-exempt interest income (for example, 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). Enter this amount as Code M1 in box 9 of Schedule K-1.

3. Nondeductible expenses. Enter nondeductible expenses paid or incurred by the partnership. Do not include 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). Enter this amount as Code M2 in box 9 of Schedule K-1.

4. Unrelated business taxable income. Any information a partner that is a tax-exempt organization may need to figure that partner's 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 the Instructions for Form 990-T, Exempt Organization Business Income Tax Return, and Pub. 598, Tax on Unrelated Business Income of Exempt Organizations, for more information. Enter this amount as Code M3 in box 9 of Schedule K-1.

5. Amounts paid during the tax year for health insurance coverage for a partner (including that partner's spouse and dependents). See Chapter 6 of Pub. 535 for more information. Enter this amount as Code M4 in box 9 of Schedule K-1.

6. Distributions of money (cash and marketable securities). Enter 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 this amount includes marketable securities treated as money, state separately on an attachment (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). Also include the amount of the credit for the following bonds that are treated as distributions under section 54A(g). These bonds include **new** clean renewable energy bonds, qualified energy conservation bonds, qualified forestry conservation bonds, and qualified zone academy bonds. These credit amounts are included in the credit to holders of these tax credit bonds that is included in the ELP's general credit. See the instructions for Form 8912 for more information. Enter this information as Code M5 in box 9 of Schedule K-1 or on an attached schedule.

7. Distributions of property other than money. Enter the total distributions of property other than money. In computing the amount of the distribution, use the adjusted basis of the property to the partnership immediately before the distribution. On an attachment also include the adjusted basis and FMV of each property distributed. Enter this information as Code M6 in box 9 of Schedule K-1 or on an attached schedule.

8. Gain from the sale or exchange of qualified small business (QSB) stock (as defined in the instructions for Schedule D) that is eligible for the partial section 1202 exclusion. The section 1202 exclusion applies only to QSB stock issued after August 10, 1993, and 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 using Code M7 in box 9 of Schedule K-1. Each partner will determine if he or she qualifies for the section 1202 exclusion. Report with Code M7 on an attachment to Schedule K-1 for each sale or exchange (a) the name of the corporation that issued the QSB stock, (b) the partner's share of the partnership's adjusted basis and sales price of the QSB stock, and (c) the dates the QSB stock was bought and sold.

9. Gain eligible for section 1045 rollover (replacement stock purchased by the partnership). Include only gain from the sale or exchange of qualified small business (QSB) stock (as defined in the instructions for Schedule D) that was deferred by the partnership under section 1045 and reported on Schedule D. See the instructions for Schedule D for more details. The partnership makes the election for a section 1045 rollover on a timely filed (including extensions) return for the year in which the sale occurred. Corporate partners are not eligible for the section 1045 rollover.

Additional limitations apply at the partner level. Each partner will determine if he or she qualifies for the rollover. Report with Code M8 on an attachment to Schedule K-1 for each sale or exchange (a) the name of the corporation that issued the QSB stock, (b) the partner's share of the partnership's adjusted basis and sales price of the QSB stock, (c) the dates the stock was bought and sold, (d) the partner's distributive share of gain from the sale of the QSB stock, and (e) the partner's distributive share of the gain that was deferred by the partnership under section 1045.

### ***Distribution of replacement QSB stock to a partner that reduces another partner's interest in replacement QSB stock.***

A partner must recognize gain upon a distribution of replacement QSB stock to another partner that reduces the partner's share of the replacement QSB stock held by a partnership. The amount of gain that the partner must recognize is based on the amount of gain that the partner would recognize upon a sale of the distributed replacement QSB stock for its fair market value on the date of the distribution, not to exceed the amount that the partner previously deferred under section 1045 with respect to the distributed replacement QSB stock. If the partnership distributed a partner's share of replacement QSB stock to another partner, the partnership should give the partner whose share of the replacement QSB stock is reduced (a) the name of the corporation that issued the replacement QSB stock, (b) the date the replacement QSB stock was distributed to another partner or partners, and (c) the partner's share of the partnership's adjusted basis and fair market value of the replacement QSB stock on such date. Use Code M8 to report this information, and include this information on the relevant attachment prepared for Code M8.

10. 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 (QSB) stock (as defined in the instructions for Schedule D) the partnership held for more than 6 months but that was not deferred by the partnership under section 1045. See the instructions for Schedule D for more details. 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 QSB stock during the 60-day period that began on the date the QSB stock was sold by the partnership. Additional limitations apply at the partner level. Report with Code M9 on an attachment to Schedule K-1 for each sale or exchange (a) the name of the corporation that issued the QSB stock, (b) the partner's share of the partnership's adjusted basis and sales price of the QSB stock, (c) the dates the QSB stock was bought and sold, and (d) the partner's distributive share of gain from the sale of the QSB stock. For more information, see Regulations section 1.1045-1.

11. Unrecaptured section 1250 gain. Use the worksheet on page 30 to figure the unrecaptured section 1250 gain.

12. 28% rate gain (loss). Use the worksheet below to figure the 28% rate gain (loss) (that is, collectibles gain or loss). A collectibles gain or loss is any long-term gain or deductible long-term loss from the sale or exchange of a collectible that is a capital asset. Collectibles include works of art, rugs, antiques, metals (such as gold, silver, and platinum bullion), gems, stamps, coins, alcoholic beverages, and certain other tangible property. Also include on the worksheet any gain (but not loss) from the sale or exchange of an interest in a partnership or trust held more than 1 year and attributable to unrealized appreciation of collectibles. For details, see Regulations section 1.1(h)-1. Also attach the statement required under Regulations section 1.1(h)-1(e).

13. Any information needed by a partner to figure the interest due under section 1260(b). If any portion of a constructive ownership transaction was open in any prior year, each partner's tax liability must be increased by the partner's *pro rata* share of interest due on any deferral of gain recognition. See section 1260(b) for details, including how to figure the interest.

14. Extraterritorial income exclusion. See the instructions on page 12 for the information and codes that are required to be reported in box 9 of Schedule K-1.

15. Any income or gain reported on lines 1 through 4 of Schedule K that qualifies as inversion gain, if the partnership is an expatriated entity or is a partner in an expatriated entity. For details, see section 7874. Attach a statement to Form 1065-B that shows the amount of each type of income or gain included in the inversion gain. The partnership must report each partner's distributive share of the inversion gain in box 9 of Schedule K-1 using Code P. Attach a statement to Schedule K-1 that shows the partner's distributive share of the amount of each type of income or gain included in the inversion gain.

16. Commercial revitalization deduction from rental real estate activities. Enter this amount as Code Q in box 9 of Schedule K-1. If the deduction is for a nonrental building, it is deducted by the partnership on line 23 of Form 1065-B. See the instructions for line 23 on page 17.

17. For corporate partners only, enter the following information in box 9 for purposes of the interest deduction limitations under section 163(j). Using Code R1, enter the corporate partner's distributive share of interest income reported in Parts I and II of the return. Using Code R2, enter the corporate partner's distributive share of interest expense reported in Parts I and II of the return.

18. Domestic production activities deduction (Codes S1, S2, and S3).

The partnership does not compute the domestic production activities deduction, but must provide its partners with the information they need to compute the deduction on Form 8903, Domestic Production Activities Deduction. If the partnership meets certain requirements (explained below), it can choose to calculate qualified production activities income (QPAI) and Form W-2 wages (W-2 wages) at the partnership level and report these amounts on Schedule K-1 for its qualified partners using Codes S2 and S3. See *QPAI and Form W-2 wages computed at partnership level (Codes S2 and S3)*, below, for details.

If the partnership does not compute QPAI and W-2 wages at the partnership level or it has partners that are required to compute QPAI and W-2 wages at the partner level, it must report on Schedule

K-1, using Code S1, the partner's distributive share of the information listed under *QPAI and Form W-2 wages computed at partner level (Code S1)*, next.

**QPAI and Form W-2 wages computed at partner level (Code S1).** If the partnership does not calculate QPAI and W-2 wages at the partnership level, attach a statement to Schedule K-1 providing each partner's distributive share of the following information for Code S1 of box 9.

- Domestic production gross receipts (DPGR).
- Gross receipts from all sources.
- Cost of goods sold allocable to DPGR.
- Cost of goods sold from all sources.
- Total deductions, expenses, and losses directly allocable to DPGR.
- Total deductions, expenses, and losses directly allocable to a non-DPGR class of income.
- Other deductions, expenses, and losses not directly allocable to DPGR or another class of income.
- W-2 wages properly allocable to DPGR.
- Any other information a partner needs to use the section 861 method to allocate and apportion cost of goods sold and deductions between DPGR and other receipts.

See Form 8903 and its instructions for more details. If the partnership chooses to compute QPAI and Form W-2 wages at the partnership level, see the instructions below.

**QPAI and Form W-2 wages computed at partnership level (Codes S2 and S3).** Eligible partnerships can choose to compute QPAI and W-2 wages at the partnership level and report each qualified partner's distributive share of QPAI (using Code S2) and W-2 wages (using Code S3) on Schedule K-1. See the special rules for non-qualifying partners of an eligible section 861 partnership below.

Generally, the partnership must allocate QPAI to its partners in the same proportion as gross income and allocate W-2 wages in the same proportion as wage expense. For information on computing QPAI and W-2 wages at the partnership level, see Rev. Proc. 2007-34, 2007-23 I.R.B. 1345, available at [www.irs.gov/pub/irs-irbs/irb07-23.pdf](http://www.irs.gov/pub/irs-irbs/irb07-23.pdf), and the Instructions for Form 8903. See the eligibility requirements and reporting rules for each type of eligible partnership below. Qualifying in-kind partnerships and expanded affiliated group partnerships (defined in Regulations section 1.199-3(i)(7) and (8)) are not eligible to compute QPAI and W-2 wages at the partnership level.

a. **Eligible section 861 partnership.** An eligible section 861 partnership is a partnership that satisfies each of the following requirements for its current tax year.

- i. It has at least 100 partners on any day during the partnership's tax year.
- ii. At least 70% of the partnership is owned, at all times during its tax year, by qualifying partners. A *qualifying partner* is a partner that, on each day during the partnership's tax year that the partner owns an interest in the partnership: (a) is not a general partner or a managing member of a partnership organized as a limited liability company, (b) does not materially participate in the activities of the partnership, (c) does not own, alone or combined with the interests of all related persons, 5% or more of the profits or capital interests in the partnership, or (d) is not an ineligible partnership (qualifying in-kind partnerships and expanded affiliated group partnerships defined in Regulations section 1.199-3(i)(7) and (8)).
- iii. It has DPGR.

An eligible section 861 partnership must use the section 861 method of cost allocation to figure QPAI and W-2 wages (see the Instructions for Form 8903 for details). The partnership cannot allocate QPAI and W-2 wages computed at the partnership level to non-qualifying partners (qualifying partners are defined as part of the definition of an eligible section 861 partnership above). Instead, it must attach a statement to the Schedule K-1 for non-qualifying partners that provides the partner's distributive share of the items listed under *QPAI and Form W-2 wages computed at partner level (Code S1)* above. The partnership items allocated to non-qualifying partners must be excluded for purposes of computing QPAI and W-2 wages at the partnership level.

b. **Eligible widely-held pass-through partnership.** An eligible widely-held pass-through partnership is a partnership that satisfies each of the following requirements for the current tax year.

- i. It has average annual gross receipts for the 3 tax years preceding the current tax year of \$100 million or less, or has total assets at the end of the current tax year of \$10 million or less.
- ii. It has total cost of goods sold and deductions that, together, are \$100 million or less.
- iii. It has DPGR.
- iv. On every day during the current tax year, all of its partners are individuals, estates, or trusts described or treated as described in section 1361(c)(2).
- v. On every day during the current tax year, no partner owns, alone or combined with the ownership interests of all related persons, more than 10% of the profits or capital interests in the partnership.

An eligible widely-held pass-through partnership must use the simplified

**28% Rate Gain Worksheet—Line 15**

*Keep for Your Records*

1.	Enter the total of all collectibles gain or (loss) from items reported on lines 6 through 10, column (f) of Schedule D (Form 1065-B). . . . .	1.	_____
2.	If Schedule D, line 5, is a (loss), enter here. Otherwise, enter -0-. . . . .	2.	_____
3.	Combine lines 1 and 2. If zero or less, enter -0-. . . . .	3.	_____
4.	Redetermine the amount on line 3 by taking into account 28% rate gain and losses from passive loss limitation activities. Report the amount allocated to interests held as a limited partner in box 9 of Schedule K-1 using Code D. Report amounts allocated to general partners using Codes A3, B3, and C3, in box 9 of Schedule K-1. . . . .	4.	_____
5.	Subtract line 4 from line 3. Report the amount to all partners in box 9 of Schedule K-1 using Code E. . . . .	5.	_____

deduction method of cost allocation to figure QPAI and W-2 wages (see the Instructions for Form 8903 for details).

**c. Eligible small pass-through partnership.** An eligible small pass-through partnership is a partnership that satisfies each of the following requirements for the current tax year.

i. The partnership satisfies one of the following: **(a)** It has average annual gross receipts for the 3 tax years preceding the current tax year of \$5 million or less, **(b)** it is engaged in the trade or business of farming and is not required to use the accrual method of accounting, or **(c)** it is eligible to use the cash method of accounting under Rev. Proc. 2002-28, 2002-18 I.R.B. 815 (that is, it has average annual gross receipts of \$10 million or less and is not excluded from using the cash method under section 448).

ii. It has total costs of goods sold and deductions that, together, are \$5 million or less.

iii. It has DPGR.

iv. It does not have a partner that is an ineligible partnership (qualifying in-kind partnerships and expanded affiliated group partnerships defined in Regulations section 1.199-3(i)(7) and (8)).

An eligible small pass-through partnership must use the small business simplified overall method to figure QPAI and W-2 wages (see the Instructions for Form 8903 for details).

**Note.** If a partnership satisfies the requirements for more than one type of eligible partnership, it may choose any one of the allocation methods for which it qualifies to figure QPAI and W-2 wages. See Rev. Proc. 2007-34 for more information on the eligibility requirements and rules for computing QPAI and W-2 wages at the partnership level.

19. Compensation to partners deferred under a section 409A nonqualified deferred compensation plan that does not meet the requirements of section 409A. Include in this amount any earnings on these deferrals. Enter this amount in box 9 of Schedule K-1 using Code T. This amount must also be included on line 7 of Schedule K, Guaranteed Payments to Partners. If the section 409A deferred compensation was part of a transaction in which the partner was not acting as a member of the partnership (under section 707(a)), report the income and section 409A deferred compensation information on Form 1099-MISC.

20. Other information (Code U). Use Code U to report the following items.

- Recapture of credits. Report the recapture of any credit (other than partnership level low-income housing credit or investment credit) as a separately stated item. See the instructions for line 26 on page 17 for reporting partnership level recapture of the low-income housing credit and investment credit.

- Any information a partner that is a PTP 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 PTP.

- If the partnership participates in a transaction that must be disclosed on Form 8886, both the partnership and its partners may be required to file Form 8886. The partnership must determine if any of its partners are required to disclose the transaction and provide those partners with information they will need to file Form 8886. This determination is based on the category(s) under which a transaction qualified for disclosure. See the Instructions for Form 8886 for details.

- The partner's distributive share of any conservation reserve program payments made to the partnership.

- The partner's distributive share of the partnership's gain or loss attributable to the sale or exchange of qualified preferred stock of the Federal National Mortgage

## Unrecaptured Section 1250 Gain Worksheet—Line 15



If any of the following apply, the partnership does not have to complete all of the worksheet. Instead, follow the instructions below.

- Go to line 4 if the partnership's only unrecaptured section 1250 gain is from an installment sale of trade or business property held more than 1 year that the partnership is reporting on Form 6252.
- Go to line 5 if the partnership's only unrecaptured section 1250 gain is from a Schedule K-1 reporting such gain from another partnership.
- Go to line 10 if the partnership's only unrecaptured section 1250 gain is from the sale or exchange of an interest in another partnership.
- Go to line 11 if the partnership's only unrecaptured section 1250 gain is from a Schedule K-1, Form 1099-DIV, or Form 2439 reporting such gain from an estate, trust, real estate investment trust, or regulated investment company (including a mutual fund).

- If the partnership had a section 1250 property in Part III of Form 4797 for which there was an entry in Part I of Form 4797 (but not on Form 6252), enter the smaller of line 22 or line 24 of Form 4797 for that property. If the partnership had more than one such property, see instructions . . . . . **1.** \_\_\_\_\_
- Enter the amount from Form 4797, line 26g, for the property for which the partnership made an entry on line 1 . . . . . **2.** \_\_\_\_\_
- Subtract line 2 from line 1 . . . . . **3.** \_\_\_\_\_
- Enter the total unrecaptured section 1250 gain included on line 26 or 37 of Form(s) 6252 from installment sales of trade or business property held more than 1 year (see instructions) . . . . . **4.** \_\_\_\_\_
- Enter the total of any amounts reported to the partnership on Schedules K-1 from another partnership as "unrecaptured section 1250 gain" . . . . . **5.** \_\_\_\_\_
- Add lines 3 through 5 . . . . . **6.** \_\_\_\_\_
- Enter the smaller of line 6 or the gain, if any, from Form 4797, line 7 . . . . . **7.** \_\_\_\_\_
- Enter the amount, if any, from Form 4797, line 8 . . . . . **8.** \_\_\_\_\_
- Subtract line 8 from line 7. If zero or less, enter -0- . . . . . **9.** \_\_\_\_\_
- Enter the gain from the sale or exchange of an interest in another partnership attributable to unrecaptured section 1250 gain. See Regulations section 1.1(h)-1 and attach the statement required under Regulations section 1.1(h)-1(e) . . . . . **10.** \_\_\_\_\_
- Enter the total of any amounts reported to the partnership on Schedule K-1, Form 1099-DIV, or Form 2439 as "Unrecaptured section 1250 gain" from an estate, trust, real estate investment trust, or mutual fund (or other regulated investment company) . . . . . **11.** \_\_\_\_\_
- Add lines 9 through 11. This is the partnership's "unrecaptured section 1250 gain." Report each partner's distributive share with Code N in box 9 of Schedule K-1 . . . . . **12.** \_\_\_\_\_

Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). On an attached statement, show (a) the gain or loss attributable to the sale or exchange of the qualified preferred stock, (b) the date the stock was acquired by the partnership, and (c) the date the stock was sold or exchanged by the partnership. See Rev. Proc. 2008-64, 2008-47 I.R.B. 1195 for more information.

• Section 108(i) information. Report the following.

a. For the deferred cancellation of debt (COD) income, report the partner's deferred amount that has not been included in income in the current or prior tax years.

b. For the deferred original issue discount (OID) deduction, report the partner's share of the partnership's OID deduction deferred under section 108(i)(2)(A)(i) that has not been deducted in the current or prior tax years.

c. For the section 752(b) distribution, report the partner's share of the deferred section 752 amount that is treated as a distribution of money to the partner under section 752 in the current tax year.

d. For the deferred section 752(b) distribution, report the partner's deferred section 752 amount remaining as of the end of the current tax year.

e. Any income previously deferred as a result of a section 108(i) election that is includible in the current year. See section 108(i) for events that will cause previously deferred income to be reportable, and a special rule for allocating deferred income to the partners. For more information, see *Election to defer income from cancelled debt* on page 8.

f. Current year section 108(i) OID deduction. If the partnership issued a debt instrument with original issue discount (OID) that is subject to section 108(i)(2) because of an election under section 108(i) to defer the recognition of income from the cancellation of debt (COD), the deduction for all or a portion of the OID that accrues prior to the first tax year the COD is includible in income is deferred until the COD is includible in income. The aggregate amount of OID that is deferred during this period is generally allowed as a deduction ratably over the five-year period the COD is includible in income under section 108(i). The amount deferred is limited to the amount of COD subject to the section 108(i) election. For more information, see *Election to defer income from cancelled debt* on page 8.

#### Special rule for filers of Form 8865.

Filers of Form 8865, Return of U.S. Persons With Regard to Certain Foreign Partnerships, cannot report a section 108(i) OID deduction on Form 8865, in accordance with the section 108(i) election, unless the foreign partnership filed a U.S. partnership return and made this election. A foreign partnership must file Form 1065 or Form 1065-B to make the section 108(i) election. These foreign partnerships also have an annual reporting requirement on Form 1065 or Form 1065-B for each tax year after the election until all items deferred under section 108(i) have been recognized. See Rev. Proc. 2009-37, 2009-36 I.R.B. 309 for details.

• The information needed to complete Schedule P (Form 1120-F), *List of Foreign Partner Interests in Partnerships*, on an

attached statement for a partner that is (a) A corporation (identified as a foreign partner under Regulations section 1.1446-1(c)(3)) or (b) A partnership (domestic or foreign) if you know, or have reason to know, that one or more of the partners is a foreign corporation. If the partnership allocates effectively connected income to the partner, provide the information needed to complete lines 1 through 9, 12, 13, 14b, 16a, 16b, and 17 of Schedule P (Form 1120-F). If the partnership does not allocate effectively connected income to the partner, provide the information needed to complete lines 12, 13, and 17 of Schedule P (Form 1120-F). The information must be provided in a format which references the specific line numbers of Schedule P for which the information is provided. For more information, see the Instructions for Schedule P (Form 1120-F).

**Exceptions.** The statement is not required in the following situations.

1. The direct or indirect foreign corporate partner provides the partnership with a valid Form W-8BEN (within the meaning of Regulations section 1.1446-2(b)(2)(iii)) on which the corporation claims an exemption from U.S. tax by operation of an income tax treaty or reciprocal agreement on the grounds that none of the income is attributable to a permanent establishment of the partner.

2. The partnership does not allocate any effectively connected income to the partner (foreign corporation or partnership) and the partnership receives a written statement from the partner (corporation or partnership) indicating that the information is not needed to determine its (or its direct or indirect partner(s)) U.S. federal income tax liabilities.

• The partner's share of the credit for each separate bond credit that was reported on the partnership's Form 8912. Report the following separately: Clean renewable energy bond credit, Gulf tax credit bond credit, Midwestern tax credit bond credit, **new** clean renewable energy bond credit, qualified energy conservation bond credit, qualified forestry conservation bond credit, qualified zone academy bond credit, qualified school construction bond credit, and build America bond credit.

• Any other information a partner may need to file his or her return that is not shown elsewhere on Schedule K-1. Enter this information on an attachment to Schedule K-1.

## Instructions for the Unrecaptured Section 1250 Gain Worksheet

**Lines 1 through 3.** If the partnership had more than one property described on line 1, complete lines 1 through 3 for each property on a separate worksheet. Enter the total of the line 3 amounts for all properties on line 3 and go to line 4.

**Line 4.** The total unrecaptured section 1250 gain for an installment sale of property held more than 1 year is figured for the year of sale in a manner similar to that used to figure line 3 of the worksheet. However, the 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. Figure the unrecaptured section 1250 gain for installment payments received during the tax year as the smaller of (a) the amount from line 26 or line 37 of Form 6252 (whichever applies) or (b) the total unrecaptured section 1250 gain for the sale reduced by all gain reported in prior years (excluding section 1250 ordinary income recapture). However, if the partnership chose not to treat all of the gain from payments received after May 6, 1997, and before August 24, 1999, as unrecaptured section 1250 gain, use only the amount the partnership chose to treat as unrecaptured section 1250 gain for those payments to reduce the total unrecaptured section 1250 gain remaining to be reported for the sale.

## Box 9 Codes (Schedule K-1)

The following codes should be used to describe the information located in box 9.

- Code A1—General partner's taxable income (loss) from trade or business activities.
- Code A2—General partner's net capital gain (loss) from trade or business activities.
- Code A3—General partner's 28% rate gain (loss) from trade or business activities.
- Code A4—General partner's general credits from trade or business activities.
- Code A5—General partner's alternative minimum tax adjustment from trade or business activities.
- Code B1—General partner's taxable income (loss) from rental real estate activities.
- Code B2—General partner's net capital gain (loss) from rental real estate activities (for the entire year).
- Code B3—General partner's 28% rate gain (loss) from rental real estate activities.
- Code B4—General partner's general credits from rental real estate activities.
- Code B5—General partner's low-income housing credit from rental real estate activities.
- Code B6—General partner's rehabilitation credit from rental real estate activities.
- Code B7—General partner's alternative minimum tax adjustment from rental real estate activities.
- Code C1—General partner's taxable income (loss) from other rental activities.
- Code C2—General partner's net capital gain (loss) from other rental activities.
- Code C3—General partner's 28% rate gain (loss) from other rental activities.
- Code C4—General partner's general credits from other rental activities.
- Code C5—General partner's alternative minimum tax adjustment from other rental activities.
- Code D—Limited partner's 28% rate gain (loss) from passive activities.
- Code E—Limited partner's 28% rate gain (loss) from other activities.
- Code F—Guaranteed payments.
- Code G—Income from discharge of indebtedness.
- Code H—Tax-exempt interest income.
- Code I—Limited partner's rehabilitation credit from rental real estate activities.
- Code J1—Net earnings (loss) from self-employment.
- Code J2—Gross nonfarm income.

- Code K1—Name of foreign country or U.S. possession.
- Code K2—Gross income from all sources.
- Code K3—Gross income sourced at partner level.
- Code K4(a)—Passive category foreign source income.
- Code K4(b)—General category foreign source income.
- Code K4(c)—Other category foreign source income.
- Code K5—Interest expense allocated and apportioned at the partner level.
- Code K6—Other expenses allocated and apportioned at the partner level.
- Code K7(a)—Deductions allocated and apportioned at partnership level to passive category foreign source income.
- Code K7(b)—Deductions allocated and apportioned at partnership level to general category foreign source income.
- Code K7(c)—Deductions allocated and apportioned at partnership level to the other category of foreign source income.
- Code K8(a)—Total foreign taxes paid.
- Code K8(b)—Total foreign taxes accrued.
- Code K9—Reduction in taxes available for credit.
- Code L—Oil and gas activities.
- Code M1—Other tax-exempt income.
- Code M2—Nondeductible expenses.
- Code M3—Unrelated business taxable income.
- Code M4—Health insurance.
- Code M5—Distributions of money (cash and marketable securities).
- Code M6—Distributions of property other than money.
- Code M7—Gain eligible for section 1202 exclusion.
- Code M8—Gain eligible for section 1045 rollover—stock replaced.
- Code M9—Gain eligible for section 1045 rollover—stock not replaced.
- Code N—Unrecaptured section 1250 gain.
- Code O1—Foreign trading gross receipts.
- Code O2—Extraterritorial income exclusion.
- Code P—Inversion gain.
- Code Q—Commercial revitalization deduction.
- Code R1—Corporate partner's interest income.
- Code R2—Corporate partner's interest expense.
- Code S1—Domestic production activities information.
- Code S2—Qualified production activities income.
- Code S3—Employer's W-2 wages.
- Code T—Section 409A nonqualified deferred compensation.
- Code U—Other information.

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## Analysis of Net Income (Loss)

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For each type of partner shown, enter the portion of the amount shown on line 1 that was allocated to that type of partner. Report all amounts for limited liability company members on the line for limited partners. The sum of the amounts shown on line 2 must equal the amount shown on line 1. In addition, the amount on line 1 must equal

the amount on line 9, Schedule M-1. If the partnership files Schedule M-3, the amount on line 1 must equal the amount in column (d) of line 26, Part II of Schedule M-3.

In classifying partners who are individuals as "active" or "passive," the partnership should apply the rules below. In applying these rules, a partnership should classify each partner to the best of its knowledge and belief. It is assumed that in most cases the level of a particular partner's participation in an activity will be apparent.

1. If the partnership's principal activity is a trade or business, classify a general partner as "active" if the partner materially participated in all partnership trade or business activities; otherwise, classify a general partner as "passive."

2. If the partnership's principal activity consists of a working interest in an oil or gas well, classify a general partner as "active."

3. If the partnership's principal activity is a rental real estate activity, classify a general partner as "active" if the partner actively participated in all of the partnership's rental real estate activities; otherwise, classify a general partner as "passive."

4. Classify as "passive" all partners in a partnership whose principal activity is a rental activity other than a rental real estate activity.

5. If the partnership's principal activity is a portfolio activity, classify all partners as "active."

6. Classify as "passive" all limited partners and LLC members in a partnership whose principal activity is a trade or business or rental activity.

7. If the partnership cannot make a reasonable determination whether a partner's participation in a trade or business activity is material or whether a partner's participation in a rental real estate activity is active, classify the partner as "passive."

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## Schedule L. Balance Sheets per Books

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The balance sheets should agree with the partnership's books and records. Attach a statement explaining any differences.

Partnerships reporting to the Interstate Commerce Commission (ICC) or to any national, state, municipal, or other public officer can send copies of their balance sheets prescribed by the ICC or national, state, or municipal authorities, as of the beginning and end of the tax year, instead of completing Schedule L. However, statements filed under this procedure must contain sufficient information to enable the IRS to reconstruct a balance sheet similar to that contained on Form 1065-B without contacting the partnership during processing.

All amounts on the balance sheet should be reported in U.S. dollars. If the partnership's books and records are kept in a foreign currency, the balance sheet should be translated in accordance with U.S. generally accepted accounting principles (GAAP).

**Exception.** If the partnership or any qualified business unit of the partnership uses the United States dollar approximate

separate transactions method, Schedule L should reflect the tax balance sheet prepared and translated into U.S. dollars according to Regulations section 1.985-3(d), and not a U.S. GAAP balance sheet.

## Partnerships Required To File Schedule M-3

For partnerships required to file Schedule M-3, the amounts reported on Schedule L must be the same as the amounts from financial statements used to complete Schedule M-3. If the partnership prepares non-tax-basis financial statements, Schedule M-3 and Schedule L must report non-tax-basis financial statement amounts. If the partnership does not prepare non-tax-basis financial statements, Schedule L must be based on the partnership's books and records and may show tax-basis balance sheet amounts if the partnership books and records reflect only tax-basis amounts.

## Line 5. Tax-Exempt Securities

Include on this line:

1. State and local government obligations, the interest on which is excludable from gross income under section 103(a) and
2. Stock in a mutual fund or other regulated investment company that distributed exempt-interest dividends during the tax year of the partnership.

## Line 14. Total Assets

Generally, total assets at the beginning of the year (Schedule L, line 14, column (b)), must equal total assets at the close of the prior tax year (Schedule L, line 14, column (d)). If total assets at the beginning of the year do not equal total assets at the close of the prior year, attach a statement explaining the difference.

For purposes of measuring total assets at the end of the year, the partnership's assets may not be netted against or reduced by partnership liabilities. In addition, asset amounts may not be reported as a negative number. If the partnership has an interest in another partnership and uses a tax-basis method for Schedule L, it must show as an asset the adjusted basis of its interest in the other partnership and separately show as a liability its share of the other partnership's liabilities (which are included in the computation of its adjusted basis). See the Partner's Instructions for Schedule K-1 (Form 1065-B) for details on how to figure the adjusted basis of a partnership interest. If Schedule L is non-tax-basis, investment in a partnership may be shown as appropriate under the non-tax-basis accounting method of the partnership including, if required by the non-tax-basis accounting method of the partnership, the equity method of accounting for investments, but must be shown as a non-negative amount.

**Example.** Partnership A prepares a tax-basis Schedule L and is a general partner in Partnership B, a general partnership. Partnership A's adjusted basis in Partnership B at the end of the tax year is \$16 million. Partnership A's share of Partnership B's liabilities is \$20 million, which is included in the \$16 million adjusted basis amount. On its Schedule L, Partnership A must report \$16 million on line 8 as the amount of its investment asset in

Partnership B and report on line 20 its \$20 million share of Partnership B's liabilities. These amounts cannot be netted on Schedule L.

### Line 18. All Nonrecourse Loans

Nonrecourse loans are those liabilities of the partnership for which no partner bears the economic risk of loss. If the partnership's nonrecourse liabilities include its share of the liabilities of another partnership, the partnership's share of those liabilities must be reflected on line 18.

### Line 20. Other Liabilities

A partnership that is a partner in a tiered partnership must include as a liability on line 20 the partner's share of the tiered partnership's liabilities to the extent they are recourse liabilities to the partner.

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

**Note.** Schedule M-3 may be required instead of Schedule M-1. See *Item J. Schedule M-3 (Form 1065)* earlier. See the Instructions for Schedule M-3 for more information.

### Line 2

Report on this line income included on Schedule K, lines 1c, 1d, 2, 3, 4a, 4b, and 8 not recorded on the partnership's books this year. Describe each such item of income. Attach a statement if necessary.

### Line 3. Guaranteed Payments

Include on this line guaranteed payments shown on Schedule K, line 7.

### Line 4b. Travel and Entertainment

Include on this line the following.

- Meal and entertainment expenses not deductible under section 274(n).
- Expenses for the use of an entertainment facility.
- The part of business gifts over \$25.
- Expenses of an individual allocable to conventions on cruise ships over \$2,000.
- Employee achievement awards over \$400.
- The part of the cost of entertainment tickets that exceeds face value (also subject to 50% limit).
- The part of the cost of skyboxes that exceeds the face value of nonluxury box seat tickets.
- The part of the cost of luxury water travel expenses not deductible under section 274(m).
- Expenses for travel as a form of education.
- Nondeductible club dues.
- Other travel and entertainment expenses not allowed as a deduction.

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

Show what caused the changes during the tax year in the partners' capital accounts as reflected on the partnership's books and records.

The partnership may use tax-basis amount or apply 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 2a the amount of money contributed and on line 2b the amount of 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 net income (loss) shown on the partnership books used in maintaining the partners' capital accounts for purposes of Schedule K-1.

### Line 6. Distributions

**Line 6a. Cash.** Enter on line 6a the amount of money distributed to each partner by the partnership. For purposes of line 6a, "money" includes marketable securities, as described in section 731(c).

**Line 6b. Property.** Enter on line 6b the amount of property distributed to each partner by the partnership as reflected on the partnership's books and records. Include withdrawals from inventory for the personal use of a partner.

**Privacy Act and Paperwork Reduction Act Notice.** We ask for the information on these forms 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. Section 6109 requires return preparers to provide their identifying numbers on the return.

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 the following forms and related schedules will vary depending on individual circumstances. The estimated average times are:

Form	Recordkeeping	Learning about the law or the form	Preparing the form	Copying, assembling, and sending the form to the IRS
Form 1065-B	52 hr., 24 min.	23 hr., 51 min.	35 hr., 2 min.	2 hr., 40 min.
Schedule D (Form 1065-B)	14 hr., 6 min.	2 hr., 40 min.	3 hr., 1 min.	
Schedule D-1 (Form 1065-B)	4 hr., 18 min.		4 min.	
Schedule K-1 (Form 1065-B)	9 hr., 34 min.	7 hr., 43 min.	11 hr., 57 min.	1 hr., 4 min.
Schedule L (Form 1065-B)	15 hr., 46 min.	12 min.	27 min.	
Schedule M-1 (Form 1065-B)	3 hr., 21 min.	12 min.	15 min.	
Schedule M-2 (Form 1065-B)	3 hr., 6 min.	6 min.	9 min.	
Schedule M-3 (Form 1065-B)	66 hr.	9 hr., 3 min.	12 hr., 29 min.	3 hr., 29 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms simpler, we would be happy to hear from you. You can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6256, Washington, DC 20224. Do not send the tax form to this address. Instead, see *Where To File* on page 3.

## 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 (Part I, line 1a); all other income from Part I, lines 5, 6, 7, 9, and 10; Part II, lines 1, 2a, 3, and 5; income or net gain from Schedule D, lines 5 and 11; and income or net gain 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 C. Also enter a brief description of the business activity in item A and the principal product or service of the business in item B.

<p><i>Code</i></p> <p><b>Agriculture, Forestry, Fishing and Hunting</b></p> <p><b>Crop Production</b></p> <p>111100 Oilseed &amp; Grain Farming</p> <p>111210 Vegetable &amp; Melon Farming (including potatoes &amp; yams)</p> <p>111300 Fruit &amp; Tree Nut Farming</p> <p>111400 Greenhouse, Nursery, &amp; Floriculture Production</p> <p>111900 Other Crop Farming (including tobacco, cotton, sugarcane, hay, peanut, sugar beet &amp; all other crop farming)</p> <p><b>Animal Production</b></p> <p>112111 Beef Cattle Ranching &amp; Farming</p> <p>112112 Cattle Feedlots</p> <p>112120 Dairy Cattle &amp; Milk Production</p> <p>112210 Hog &amp; Pig Farming</p> <p>112300 Poultry &amp; Egg Production</p> <p>112400 Sheep &amp; Goat Farming</p> <p>112510 Aquaculture (including shellfish &amp; finfish farms &amp; hatcheries)</p> <p>112900 Other Animal Production</p> <p><b>Forestry and Logging</b></p> <p>113110 Timber Tract Operations</p> <p>113210 Forest Nurseries &amp; Gathering of Forest Products</p> <p>113310 Logging</p> <p><b>Fishing, Hunting and Trapping</b></p> <p>114110 Fishing</p> <p>114210 Hunting &amp; Trapping</p> <p><b>Support Activities for Agriculture and Forestry</b></p> <p>115110 Support Activities for Crop Production (including cotton ginning, soil preparation, planting, &amp; cultivating)</p> <p>115210 Support Activities for Animal Production</p> <p>115310 Support Activities For Forestry</p>	<p><i>Code</i></p> <p>237310 Highway, Street, &amp; Bridge Construction</p> <p>237990 Other Heavy &amp; Civil Engineering Construction</p> <p><b>Specialty Trade Contractors</b></p> <p>238100 Foundation, Structure, &amp; Building Exterior Contractors (including framing carpentry, masonry, glass, roofing, &amp; siding)</p> <p>238210 Electrical Contractors</p> <p>238220 Plumbing, Heating, &amp; Air-Conditioning Contractors</p> <p>238290 Other Building Equipment Contractors</p> <p>238300 Building Finishing Contractors (including drywall, insulation, painting, wallcovering, flooring, tile, &amp; finish carpentry)</p> <p>238900 Other Specialty Trade Contractors (including site preparation)</p>	<p><i>Code</i></p> <p>321900 Other Wood Product Mfg</p> <p><b>Paper Manufacturing</b></p> <p>322100 Pulp, Paper, &amp; Paperboard Mills</p> <p>322200 Converted Paper Product Mfg</p> <p><b>Printing and Related Support Activities</b></p> <p>323100 Printing &amp; Related Support Activities</p> <p><b>Petroleum and Coal Products Manufacturing</b></p> <p>324110 Petroleum Refineries (including integrated)</p> <p>324120 Asphalt Paving, Roofing, &amp; Saturated Materials Mfg</p> <p>324190 Other Petroleum &amp; Coal Products Mfg</p> <p><b>Chemical Manufacturing</b></p> <p>325100 Basic Chemical Mfg</p> <p>325200 Resin, Synthetic Rubber, &amp; Artificial &amp; Synthetic Fibers &amp; Filaments Mfg</p> <p>325300 Pesticide, Fertilizer, &amp; Other Agricultural Chemical Mfg</p> <p>325410 Pharmaceutical &amp; Medicine Mfg</p> <p>325500 Paint, Coating, &amp; Adhesive Mfg</p> <p>325600 Soap, Cleaning Compound, &amp; Toilet Preparation Mfg</p> <p>325900 Other Chemical Product &amp; Preparation Mfg</p>	<p><i>Code</i></p> <p>333200 Industrial Machinery Mfg</p> <p>333310 Commercial &amp; Service Industry Machinery Mfg</p> <p>333410 Ventilation, Heating, Air-Conditioning, &amp; Commercial Refrigeration Equipment Mfg</p> <p>333510 Metalworking Machinery Mfg</p> <p>333610 Engine, Turbine &amp; Power Transmission Equipment Mfg</p> <p>333900 Other General Purpose Machinery Mfg</p> <p><b>Computer and Electronic Product Manufacturing</b></p> <p>334110 Computer &amp; Peripheral Equipment Mfg</p> <p>334200 Communications Equipment Mfg</p> <p>334310 Audio &amp; Video Equipment Mfg</p> <p>334410 Semiconductor &amp; Other Electronic Component Mfg</p> <p>334500 Navigational, Measuring, Electromedical, &amp; Control Instruments Mfg</p> <p>334610 Manufacturing &amp; Reproducing Magnetic &amp; Optical Media</p>
<p><b>Mining</b></p> <p>211110 Oil &amp; Gas Extraction</p> <p>212110 Coal Mining</p> <p>212200 Metal Ore Mining</p> <p>212310 Stone Mining &amp; Quarrying</p> <p>212320 Sand, Gravel, Clay, &amp; Ceramic &amp; Refractory Minerals Mining &amp; Quarrying</p> <p>212390 Other Nonmetallic Mineral Mining &amp; Quarrying</p> <p>213110 Support Activities for Mining</p>	<p><b>Manufacturing</b></p> <p><b>Food Manufacturing</b></p> <p>311110 Animal Food Mfg</p> <p>311200 Grain &amp; Oilseed Milling</p> <p>311300 Sugar &amp; Confectionery Product Mfg</p> <p>311400 Fruit &amp; Vegetable Preserving &amp; Specialty Food Mfg</p> <p>311500 Dairy Product Mfg</p> <p>311610 Animal Slaughtering and Processing</p> <p>311710 Seafood Product Preparation &amp; Packaging</p> <p>311800 Bakeries &amp; Tortilla Mfg</p> <p>311900 Other Food Mfg (including coffee, tea, flavorings &amp; seasonings)</p> <p><b>Beverage and Tobacco Product Manufacturing</b></p> <p>312110 Soft Drink &amp; Ice Mfg</p> <p>312120 Breweries</p> <p>312130 Wineries</p> <p>312140 Distilleries</p> <p>312200 Tobacco Manufacturing</p> <p><b>Textile Mills and Textile Product Mills</b></p> <p>313000 Textile Mills</p> <p>314000 Textile Product Mills</p> <p><b>Apparel Manufacturing</b></p> <p>315100 Apparel Knitting Mills</p> <p>315210 Cut &amp; Sew Apparel Contractors</p> <p>315220 Men's &amp; Boys' Cut &amp; Sew Apparel Mfg</p> <p>315230 Women's &amp; Girls' Cut &amp; Sew Apparel Mfg</p> <p>315290 Other Cut &amp; Sew Apparel Mfg</p> <p>315990 Apparel Accessories &amp; Other Apparel Mfg</p>	<p><b>Plastics and Rubber Products Manufacturing</b></p> <p>326100 Plastics Product Mfg</p> <p>326200 Rubber Product Mfg</p> <p><b>Nonmetallic Mineral Product Manufacturing</b></p> <p>327100 Clay Product &amp; Refractory Mfg</p> <p>327210 Glass &amp; Glass Product Mfg</p> <p>327300 Cement &amp; Concrete Product Mfg</p> <p>327400 Lime &amp; Gypsum Product Mfg</p> <p>327900 Other Nonmetallic Mineral Product Mfg</p> <p><b>Primary Metal Manufacturing</b></p> <p>331110 Iron &amp; Steel Mills &amp; Ferroalloy Mfg</p> <p>331200 Steel Product Mfg from Purchased Steel</p> <p>331310 Alumina &amp; Aluminum Production &amp; Processing</p> <p>331400 Nonferrous Metal (except Aluminum) Production &amp; Processing</p> <p>331500 Foundries</p> <p><b>Fabricated Metal Product Manufacturing</b></p> <p>332110 Forging &amp; Stamping</p> <p>332210 Cutlery &amp; Handtool Mfg</p> <p>332300 Architectural &amp; Structural Metals Mfg</p> <p>332400 Boiler, Tank, &amp; Shipping Container Mfg</p> <p>332510 Hardware Mfg</p> <p>332610 Spring &amp; Wire Product Mfg</p> <p>332700 Machine Shops; Turned Product; &amp; Screw, Nut, &amp; Bolt Mfg</p> <p>332810 Coating, Engraving, Heat Treating, &amp; Allied Activities</p> <p>332900 Other Fabricated Metal Product Mfg</p>	<p><b>Electrical Equipment, Appliance, and Component Manufacturing</b></p> <p>335100 Electric Lighting Equipment Mfg</p> <p>335200 Household Appliance Mfg</p> <p>335310 Electrical Equipment Mfg</p> <p>335900 Other Electrical Equipment &amp; Component Mfg</p> <p><b>Transportation Equipment Manufacturing</b></p> <p>336100 Motor Vehicle Mfg</p> <p>336210 Motor Vehicle Body &amp; Trailer Mfg</p> <p>336300 Motor Vehicle Parts Mfg</p> <p>336410 Aerospace Product &amp; Parts Mfg</p> <p>336510 Railroad Rolling Stock Mfg</p> <p>336610 Ship &amp; Boat Building</p> <p>336990 Other Transportation Equipment Mfg</p> <p><b>Furniture and Related Product Manufacturing</b></p> <p>337000 Furniture &amp; Related Product Manufacturing</p> <p><b>Miscellaneous Manufacturing</b></p> <p>339110 Medical Equipment &amp; Supplies Mfg</p> <p>339900 Other Miscellaneous Manufacturing</p>
<p><b>Utilities</b></p> <p>221100 Electric Power Generation, Transmission &amp; Distribution</p> <p>221210 Natural Gas Distribution</p> <p>221300 Water, Sewage &amp; Other Systems</p> <p>221500 Combination Gas &amp; Electric</p>	<p><b>Leather and Allied Product Manufacturing</b></p> <p>316110 Leather &amp; Hide Tanning &amp; Finishing</p> <p>316210 Footwear Mfg (including rubber &amp; plastics)</p> <p>316990 Other Leather &amp; Allied Product Mfg</p> <p><b>Wood Product Manufacturing</b></p> <p>321110 Sawmills &amp; Wood Preservation</p> <p>321210 Veneer, Plywood, &amp; Engineered Wood Product Mfg</p>	<p><b>Machinery Manufacturing</b></p> <p>333100 Agriculture, Construction, &amp; Mining Machinery Mfg</p>	<p><b>Wholesale Trade</b></p> <p><b>Merchant Wholesalers, Durable Goods</b></p> <p>423100 Motor Vehicle &amp; Motor Vehicle Parts &amp; Supplies</p> <p>423200 Furniture &amp; Home Furnishings</p> <p>423300 Lumber &amp; Other Construction Materials</p> <p>423400 Professional &amp; Commercial Equipment &amp; Supplies</p> <p>423500 Metal &amp; Mineral (except Petroleum)</p> <p>423600 Electrical &amp; Electronic Goods</p> <p>423700 Hardware, &amp; Plumbing &amp; Heating Equipment &amp; Supplies</p>

**Codes for Principal Business Activity and Principal Product or Service (continued)**

<p><i>Code</i></p> <p>423800 Machinery, Equipment, &amp; Supplies</p> <p>423910 Sporting &amp; Recreational Goods &amp; Supplies</p> <p>423920 Toy &amp; Hobby Goods &amp; Supplies</p> <p>423930 Recyclable Materials</p> <p>423940 Jewelry, Watch, Precious Stone, &amp; Precious Metals</p> <p>423990 Other Miscellaneous Durable Goods</p> <p><b>Merchant Wholesalers, Nondurable Goods</b></p> <p>424100 Paper &amp; Paper Products</p> <p>424210 Drugs &amp; Druggists' Sundries</p> <p>424300 Apparel, Piece Goods, &amp; Notions</p> <p>424400 Grocery &amp; Related Products</p> <p>424500 Farm Product Raw Materials</p> <p>424600 Chemical &amp; Allied Products</p> <p>424700 Petroleum &amp; Petroleum Products</p> <p>424800 Beer, Wine, &amp; Distilled Alcoholic Beverages</p> <p>424910 Farm Supplies</p> <p>424920 Book, Periodical, &amp; Newspapers</p> <p>424930 Flower, Nursery Stock, &amp; Florists' Supplies</p> <p>424940 Tobacco &amp; Tobacco Products</p> <p>424950 Paint, Varnish, &amp; Supplies</p> <p>424990 Other Miscellaneous Nondurable Goods</p> <p><b>Wholesale Electronic Markets and Agents and Brokers</b></p> <p>425110 Business to Business Electronic Markets</p> <p>425120 Wholesale Trade Agents &amp; Brokers</p> <p><b>Retail Trade</b></p> <p><b>Motor Vehicle and Parts Dealers</b></p> <p>441110 New Car Dealers</p> <p>441120 Used Car Dealers</p> <p>441210 Recreational Vehicle Dealers</p> <p>441221 Motorcycle Dealers</p> <p>441222 Boat Dealers</p> <p>441229 All Other Motor Vehicle Dealers</p> <p>441300 Automotive Parts, Accessories, &amp; Tire Stores</p> <p><b>Furniture and Home Furnishings Stores</b></p> <p>442110 Furniture Stores</p> <p>442210 Floor Covering Stores</p> <p>442291 Window Treatment Stores</p> <p>442299 All Other Home Furnishings Stores</p> <p><b>Electronics and Appliance Stores</b></p> <p>443111 Household Appliance Stores</p> <p>443112 Radio, Television, &amp; Other Electronics Stores</p> <p>443120 Computer &amp; Software Stores</p> <p>443130 Camera &amp; Photographic Supplies Stores</p> <p><b>Building Material and Garden Equipment and Supplies Dealers</b></p> <p>444110 Home Centers</p> <p>444120 Paint &amp; Wallpaper Stores</p> <p>444130 Hardware Stores</p> <p>444190 Other Building Material Dealers</p> <p>444200 Lawn &amp; Garden Equipment &amp; Supplies Stores</p> <p><b>Food and Beverage Stores</b></p> <p>445110 Supermarkets and Other Grocery (except Convenience) Stores</p> <p>445120 Convenience Stores</p> <p>445210 Meat Markets</p> <p>445220 Fish &amp; Seafood Markets</p> <p>445230 Fruit &amp; Vegetable Markets</p> <p>445291 Baked Goods Stores</p> <p>445292 Confectionery &amp; Nut Stores</p> <p>445299 All Other Specialty Food Stores</p> <p>445310 Beer, Wine, &amp; Liquor Stores</p>	<p><i>Code</i></p> <p><b>Health and Personal Care Stores</b></p> <p>446110 Pharmacies &amp; Drug Stores</p> <p>446120 Cosmetics, Beauty Supplies, &amp; Perfume Stores</p> <p>446130 Optical Goods Stores</p> <p>446190 Other Health &amp; Personal Care Stores</p> <p><b>Gasoline Stations</b></p> <p>447100 Gasoline Stations (including convenience stores with gas)</p> <p><b>Clothing and Clothing Accessories Stores</b></p> <p>448110 Men's Clothing Stores</p> <p>448120 Women's Clothing Stores</p> <p>448130 Children's &amp; Infants' Clothing Stores</p> <p>448140 Family Clothing Stores</p> <p>448150 Clothing Accessories Stores</p> <p>448190 Other Clothing Stores</p> <p>448210 Shoe Stores</p> <p>448310 Jewelry Stores</p> <p>448320 Luggage &amp; Leather Goods Stores</p> <p><b>Sporting Goods, Hobby, Book, and Music Stores</b></p> <p>451110 Sporting Goods Stores</p> <p>451120 Hobby, Toy, &amp; Game Stores</p> <p>451130 Sewing, Needlework, &amp; Piece Goods Stores</p> <p>451140 Musical Instrument &amp; Supplies Stores</p> <p>451211 Book Stores</p> <p>451212 News Dealers &amp; Newsstands</p> <p>451220 Prerecorded Tape, Compact Disc, &amp; Record Stores</p> <p><b>General Merchandise Stores</b></p> <p>452110 Department Stores</p> <p>452900 Other General Merchandise Stores</p> <p><b>Miscellaneous Store Retailers</b></p> <p>453110 Florists</p> <p>453210 Office Supplies &amp; Stationery Stores</p> <p>453220 Gift, Novelty, &amp; Souvenir Stores</p> <p>453310 Used Merchandise Stores</p> <p>453910 Pet &amp; Pet Supplies Stores</p> <p>453920 Art Dealers</p> <p>453930 Manufactured (Mobile) Home Dealers</p> <p>453990 All Other Miscellaneous Store Retailers (including tobacco, candle, &amp; trophy shops)</p> <p><b>Nonstore Retailers</b></p> <p>454110 Electronic Shopping &amp; Mail-Order Houses</p> <p>454210 Vending Machine Operators</p> <p>454311 Heating Oil Dealers</p> <p>454312 Liquefied Petroleum Gas (Bottled Gas) Dealers</p> <p>454319 Other Fuel Dealers</p> <p>454390 Other Direct Selling Establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, &amp; coffee-break service providers)</p> <p><b>Transportation and Warehousing</b></p> <p><b>Air, Rail, and Water Transportation</b></p> <p>481000 Air Transportation</p> <p>482110 Rail Transportation</p> <p>483000 Water Transportation</p> <p><b>Truck Transportation</b></p> <p>484110 General Freight Trucking, Local</p> <p>484120 General Freight Trucking, Long-distance</p> <p>484200 Specialized Freight Trucking</p> <p><b>Transit and Ground Passenger Transportation</b></p> <p>485110 Urban Transit Systems</p> <p>485210 Interurban &amp; Rural Bus Transportation</p> <p>485310 Taxi Service</p>	<p><i>Code</i></p> <p>485320 Limousine Service</p> <p>485410 School &amp; Employee Bus Transportation</p> <p>485510 Charter Bus Industry</p> <p>485990 Other Transit &amp; Ground Passenger Transportation</p> <p><b>Pipeline Transportation</b></p> <p>486000 Pipeline Transportation</p> <p><b>Scenic &amp; Sightseeing Transportation</b></p> <p>487000 Scenic &amp; Sightseeing Transportation</p> <p><b>Support Activities for Transportation</b></p> <p>488100 Support Activities for Air Transportation</p> <p>488210 Support Activities for Rail Transportation</p> <p>488300 Support Activities for Water Transportation</p> <p>488410 Motor Vehicle Towing</p> <p>488490 Other Support Activities for Road Transportation</p> <p>488510 Freight Transportation Arrangement</p> <p>488990 Other Support Activities for Transportation</p> <p><b>Couriers and Messengers</b></p> <p>492110 Couriers</p> <p>492210 Local Messengers &amp; Local Delivery</p> <p><b>Warehousing and Storage</b></p> <p>493100 Warehousing &amp; Storage (except lessors of miniwarehouses &amp; self-storage units)</p> <p><b>Information Publishing Industries (except Internet)</b></p> <p>511110 Newspaper Publishers</p> <p>511120 Periodical Publishers</p> <p>511130 Book Publishers</p> <p>511140 Directory &amp; Mailing List Publishers</p> <p>511190 Other Publishers</p> <p>511210 Software Publishers</p> <p><b>Motion Picture and Sound Recording Industries</b></p> <p>512100 Motion Picture &amp; Video Industries (except video rental)</p> <p>512200 Sound Recording Industries</p> <p><b>Broadcasting (except Internet)</b></p> <p>515100 Radio &amp; Television Broadcasting</p> <p>515210 Cable &amp; Other Subscription Programming</p> <p><b>Telecommunications</b></p> <p>517000 Telecommunications (including paging, cellular, satellite, cable &amp; other program distribution, resellers, other telecommunications, &amp; internet service providers)</p> <p><b>Data Processing Services</b></p> <p>518210 Data Processing, Hosting, &amp; Related Services</p> <p><b>Other Information Services</b></p> <p>519100 Other Information Services (including news syndicates, libraries, internet publishing &amp; broadcasting)</p> <p><b>Finance and Insurance</b></p> <p><b>Depository Credit Intermediation</b></p> <p>522110 Commercial Banking</p> <p>522120 Savings Institutions</p> <p>522130 Credit Unions</p> <p>522190 Other Depository Credit Intermediation</p> <p><b>Nondepository Credit Intermediation</b></p> <p>522210 Credit Card Issuing</p> <p>522220 Sales Financing</p> <p>522291 Consumer Lending</p> <p>522292 Real Estate Credit (including mortgage bankers &amp; originators)</p>	<p><i>Code</i></p> <p>522293 International Trade Financing</p> <p>522294 Secondary Market Financing</p> <p>522298 All Other Nondepository Credit Intermediation</p> <p><b>Activities Related to Credit Intermediation</b></p> <p>522300 Activities Related to Credit Intermediation (including loan brokers, check clearing, &amp; money transmitting)</p> <p><b>Securities, Commodity Contracts, and Other Financial Investments and Related Activities</b></p> <p>523110 Investment Banking &amp; Securities Dealing</p> <p>523120 Securities Brokerage</p> <p>523130 Commodity Contracts Dealing</p> <p>523140 Commodity Contracts Brokerage</p> <p>523210 Securities &amp; Commodity Exchanges</p> <p>523900 Other Financial Investment Activities (including portfolio management &amp; investment advice)</p> <p><b>Insurance Carriers and Related Activities</b></p> <p>524140 Direct Life, Health, &amp; Medical Insurance &amp; Reinsurance Carriers</p> <p>524150 Direct Insurance &amp; Reinsurance (except Life, Health &amp; Medical) Carriers</p> <p>524210 Insurance Agencies &amp; Brokerages</p> <p>524290 Other Insurance Related Activities (including third-party administration of insurance and pension funds)</p> <p><b>Funds, Trusts, and Other Financial Vehicles</b></p> <p>525100 Insurance &amp; Employee Benefit Funds</p> <p>525910 Open-End Investment Funds (Form 1120-RIC)</p> <p>525920 Trusts, Estates, &amp; Agency Accounts</p> <p>525990 Other Financial Vehicles (including mortgage REITs &amp; closed-end investment funds)</p> <p>"Offices of Bank Holding Companies" and "Offices of Other Holding Companies" are located under <i>Management of Companies (Holding Companies)</i> below.</p> <p><b>Real Estate and Rental and Leasing</b></p> <p><b>Real Estate</b></p> <p>531110 Lessors of Residential Buildings &amp; Dwellings (including equity REITs)</p> <p>531114 Cooperative Housing (including equity REITs)</p> <p>531120 Lessors of Nonresidential Buildings (except Miniwarehouses) (including equity REITs)</p> <p>531130 Lessors of Miniwarehouses &amp; Self-Storage Units (including equity REITs)</p> <p>531190 Lessors of Other Real Estate Property (including equity REITs)</p> <p>531210 Offices of Real Estate Agents &amp; Brokers</p> <p>531310 Real Estate Property Managers</p> <p>531320 Offices of Real Estate Appraisers</p> <p>531390 Other Activities Related to Real Estate</p> <p><b>Rental and Leasing Services</b></p> <p>532100 Automotive Equipment Rental &amp; Leasing</p> <p>532210 Consumer Electronics &amp; Appliances Rental</p> <p>532220 Formal Wear &amp; Costume Rental</p>
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**Codes for Principal Business Activity and Principal Product or Service (continued)**

<p><i>Code</i></p> <p>532230 Video Tape &amp; Disc Rental 532290 Other Consumer Goods Rental</p> <p>532310 General Rental Centers 532400 Commercial &amp; Industrial Machinery &amp; Equipment Rental &amp; Leasing</p> <p><b>Lessors of Nonfinancial Intangible Assets (except copyrighted works)</b> 533110 Lessors of Nonfinancial Intangible Assets (except copyrighted works)</p>	<p><i>Code</i></p> <p><b>Administrative and Support and Waste Management and Remediation Services</b> <b>Administrative and Support Services</b> 561110 Office Administrative Services 561210 Facilities Support Services 561300 Employment Services 561410 Document Preparation Services</p> <p>561420 Telephone Call Centers 561430 Business Service Centers (including private mail centers &amp; copy shops)</p> <p>561440 Collection Agencies 561450 Credit Bureaus 561490 Other Business Support Services (including repossession services, court reporting, &amp; stenotype services)</p> <p>561500 Travel Arrangement &amp; Reservation Services 561600 Investigation &amp; Security Services 561710 Exterminating &amp; Pest Control Services 561720 Janitorial Services 561730 Landscaping Services 561740 Carpet &amp; Upholstery Cleaning Services 561790 Other Services to Buildings &amp; Dwellings 561900 Other Support Services (including packaging &amp; labeling services, &amp; convention &amp; trade show organizers)</p> <p><b>Waste Management and Remediation Services</b> 562000 Waste Management &amp; Remediation Services</p>	<p><i>Code</i></p> <p>621491 HMO Medical Centers 621492 Kidney Dialysis Centers 621493 Freestanding Ambulatory Surgical &amp; Emergency Centers 621498 All Other Outpatient Care Centers</p> <p><b>Medical and Diagnostic Laboratories</b> 621510 Medical &amp; Diagnostic Laboratories</p> <p><b>Home Health Care Services</b> 621610 Home Health Care Services</p> <p><b>Other Ambulatory Health Care Services</b> 621900 Other Ambulatory Health Care Services (including ambulance services &amp; blood &amp; organ banks)</p> <p><b>Hospitals</b> 622000 Hospitals</p> <p><b>Nursing and Residential Care Facilities</b> 623000 Nursing &amp; Residential Care Facilities</p> <p><b>Social Assistance</b> 624100 Individual &amp; Family Services 624200 Community Food &amp; Housing, &amp; Emergency &amp; Other Relief Services 624310 Vocational Rehabilitation Services 624410 Child Day Care Services</p>	<p><i>Code</i></p> <p>721210 RV (Recreational Vehicle) Parks &amp; Recreational Camps 721310 Rooming &amp; Boarding Houses</p> <p><b>Food Services and Drinking Places</b> 722110 Full-Service Restaurants 722210 Limited-Service Eating Places 722300 Special Food Services (including food service contractors &amp; caterers) 722410 Drinking Places (Alcoholic Beverages)</p>
<p><b>Professional, Scientific, and Technical Services</b> <b>Legal Services</b> 541110 Offices of Lawyers 541190 Other Legal Services</p> <p><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</p> <p><b>Architectural, Engineering, and Related Services</b> 541310 Architectural Services 541320 Landscape Architecture Services 541330 Engineering Services 541340 Drafting Services 541350 Building Inspection Services 541360 Geophysical Surveying &amp; Mapping Services 541370 Surveying &amp; Mapping (except Geophysical) Services 541380 Testing Laboratories</p> <p><b>Specialized Design Services</b> 541400 Specialized Design Services (including interior, industrial, graphic, &amp; fashion design)</p> <p><b>Computer Systems Design and Related Services</b> 541511 Custom Computer Programming Services 541512 Computer Systems Design Services 541513 Computer Facilities Management Services 541519 Other Computer Related Services</p> <p><b>Other Professional, Scientific, and Technical Services</b> 541600 Management, Scientific, &amp; Technical Consulting Services 541700 Scientific Research &amp; Development Services 541800 Advertising &amp; Related Services 541910 Marketing Research &amp; Public Opinion Polling 541920 Photographic Services 541930 Translation &amp; Interpretation Services 541940 Veterinary Services 541990 All Other Professional, Scientific, &amp; Technical Services</p>	<p><b>Educational Services</b> 611000 Educational Services (including schools, colleges, &amp; universities)</p>	<p><b>Arts, Entertainment, and Recreation</b> <b>Performing Arts, Spectator Sports, and Related Industries</b> 711100 Performing Arts Companies 711210 Spectator Sports (including sports clubs &amp; racetracks) 711300 Promoters of Performing Arts, Sports, &amp; Similar Events 711410 Agents &amp; Managers for Artists, Athletes, Entertainers, &amp; Other Public Figures 711510 Independent Artists, Writers, &amp; Performers</p> <p><b>Museums, Historical Sites, and Similar Institutions</b> 712100 Museums, Historical Sites, &amp; Similar Institutions</p> <p><b>Amusement, Gambling, and Recreation Industries</b> 713100 Amusement Parks &amp; Arcades 713200 Gambling Industries 713900 Other Amusement &amp; Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, &amp; bowling centers)</p>	<p><b>Other Services</b> <b>Repair and Maintenance</b> 811110 Automotive Mechanical &amp; Electrical Repair &amp; Maintenance 811120 Automotive Body, Paint, Interior, &amp; Glass Repair 811190 Other Automotive Repair &amp; Maintenance (including oil change &amp; lubrication shops &amp; car washes) 811210 Electronic &amp; Precision Equipment Repair &amp; Maintenance 811310 Commercial &amp; Industrial Machinery &amp; Equipment (except Automotive &amp; Electronic) Repair &amp; Maintenance 811410 Home &amp; Garden Equipment &amp; Appliance Repair &amp; Maintenance 811420 Reupholstery &amp; Furniture Repair 811430 Footwear &amp; Leather Goods Repair 811490 Other Personal &amp; Household Goods Repair &amp; Maintenance</p> <p><b>Personal and Laundry Services</b> 812111 Barber Shops 812112 Beauty Salons 812113 Nail Salons 812190 Other Personal Care Services (including diet &amp; weight reducing centers) 812210 Funeral Homes &amp; Funeral Services 812220 Cemeteries &amp; Crematories 812310 Coin-Operated Laundries &amp; Drycleaners 812320 Drycleaning &amp; Laundry Services (except Coin-Operated) 812330 Linen &amp; Uniform Supply 812910 Pet Care (except Veterinary) Services 812920 Photofinishing 812930 Parking Lots &amp; Garages 812990 All Other Personal Services</p> <p><b>Religious, Grantmaking, Civic, Professional, and Similar Organizations</b> 813000 Religious, Grantmaking, Civic, Professional, &amp; Similar Organizations (including condominium and homeowners associations)</p>
<p><b>Management of Companies (Holding Companies)</b> 551111 Offices of Bank Holding Companies 551112 Offices of Other Holding Companies</p>	<p><b>Health Care and Social Assistance</b> <b>Offices of Physicians and Dentists</b> 621111 Offices of Physicians (except mental health specialists) 621112 Offices of Physicians, Mental Health Specialists 621210 Offices of Dentists</p> <p><b>Offices of Other Health Practitioners</b> 621310 Offices of Chiropractors 621320 Offices of Optometrists 621330 Offices of Mental Health Practitioners (except Physicians) 621340 Offices of Physical, Occupational &amp; Speech Therapists, &amp; Audiologists 621391 Offices of Podiatrists 621399 Offices of All Other Miscellaneous Health Practitioners</p> <p><b>Outpatient Care Centers</b> 621410 Family Planning Centers 621420 Outpatient Mental Health &amp; Substance Abuse Centers</p>	<p><b>Accommodation and Food Services</b> <b>Accommodation</b> 721110 Hotels (except Casino Hotels) &amp; Motels 721120 Casino Hotels 721191 Bed &amp; Breakfast Inns 721199 All Other Traveler Accommodation</p>	

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