

# 2004



Department of the Treasury  
Internal Revenue Service

# Partner's Instructions for Schedule K-1 (Form 1065)

## Partner's Share of Income, Deductions, Credits, etc. (For Partner's Use Only)

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

### What's New

- The instructions have been revised in accordance with the redesign of Schedule K-1, which uses codes to identify many of the items reported on the schedule. See the specific instructions for Part III on page 5 for more information on the codes and how attached statements are identified on Schedule K-1.
- There is a new worksheet on page 2 of these instructions that you can use to keep track of your adjusted basis in your partnership interest.

### General Instructions

#### Purpose of Schedule K-1

The partnership uses Schedule K-1 to report your share of the partnership's income, deductions, credits, etc. Keep it for your records. Do not file it with your tax return. The partnership has filed a copy with the IRS.

Although the partnership generally is not subject to income tax, you are liable for tax on your share of the partnership income, whether or not distributed. Include your share on your tax return if a return is required. Use these instructions to help you report the items shown on Schedule K-1 on your tax return.

The amount of loss and deduction that you may claim on your tax return may be less than the amount reported on Schedule K-1. It is the partner's responsibility to consider and apply any applicable limitations. See *Limitations on Losses, Deductions, and Credits* beginning on page 2 for more information.

#### Inconsistent Treatment of Items

Generally, you must report partnership items shown on your Schedule K-1 (and any attached schedules) the same way that the partnership treated the items on its return. This rule does not apply if your partnership is within the "small partnership exception" and does not elect to have the tax treatment of partnership items determined at the partnership level.

If the treatment on your original or amended return is inconsistent with the partnership's treatment, or if the partnership was required to but has not filed a return,

you must file Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR), with your original or amended return to identify and explain any inconsistency (or to note that a partnership return has not been filed).

If you are required to file Form 8082 but fail to do so, you may be subject to the accuracy-related penalty. This penalty is in addition to any tax that results from making your amount or treatment of the item consistent with that shown on the partnership's return. Any deficiency that results from making the amounts consistent may be assessed immediately.

#### Errors

If you believe the partnership has made an error on your Schedule K-1, notify the partnership and ask for a corrected Schedule K-1. Do not change any items on your copy of Schedule K-1. Be sure that the partnership sends a copy of the corrected Schedule K-1 to the IRS. If you are a partner in a partnership that does not meet the small partnership exception and you report any partnership item on your return in a manner different from the way the partnership reported it, you must file Form 8082.

#### Sale or Exchange of Partnership Interest

Generally, a partner who sells or exchanges a partnership interest in a section 751(a) exchange must notify the partnership, in writing, within 30 days of the exchange (or, if earlier, by January 15 of the calendar year following the calendar year in which the exchange occurred). A "section 751(a) exchange" is any sale or exchange of a partnership interest in which any money or other property received by the partner in exchange for that partner's interest is attributable to unrealized receivables (as defined in section 751(c)) or inventory items (as defined in section 751(d)).

The written notice to the partnership must include the names and addresses of both parties to the exchange, the identifying numbers of the transferor and (if known) of the transferee, and the exchange date.

An exception to this rule is made for sales or exchanges of publicly traded partnership interests for which a broker is required to file Form 1099-B, *Proceeds From Broker and Barter Exchange Transactions*.

If a partner is required to notify the partnership of a section 751(a) exchange but fails to do so, a \$50 penalty may be imposed for each such failure. However, no penalty will be imposed if the partner can show that the failure was due to reasonable cause and not willful neglect.

#### Nominee Reporting

Any person who holds, directly or indirectly, an interest in a partnership as a nominee for another person must furnish a written statement to the partnership by the last day of the month following the end of the partnership's tax year. This statement must include the name, address, and identifying number of the nominee and such other person, description of the partnership interest held as nominee for that person, and other information required by Temporary Regulations section 1.6031(c)-1T. A nominee that fails to furnish this statement must furnish to the person for whom the nominee holds the partnership interest a copy of Schedule K-1 and related information within 30 days of receiving it from the partnership.

A nominee who fails to furnish when due all the information required by Temporary Regulations section 1.6031(c)-1T, or who furnishes incorrect information, is subject to a \$50 penalty for each statement for which a failure occurs. The maximum penalty is \$100,000 for all such failures during a calendar year. If the nominee intentionally disregards the requirement to report correct information, each \$50 penalty increases to \$100 or, if greater, 10% of the aggregate amount of items required to be reported, and the \$100,000 maximum does not apply.

#### International Boycotts

Every partnership that had operations in, or related to, a boycotting country, company, or a national of a country must file Form 5713, *International Boycott Report*.

If the partnership cooperated with an international boycott, it must give you a copy of its Form 5713. You must file your own Form 5713 to report the partnership's activities and any other boycott operations that you may have. You may lose certain tax benefits if the partnership participated in, or cooperated with, an international boycott. See Form 5713 and its instructions for more information.

## Definitions

### General Partner

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

### 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).

### Nonrecourse Loans

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

## Elections

Generally, the partnership decides how to figure taxable income from its operations. However, certain elections are made by you separately on your income tax return and not by the partnership. These elections are made under the following code sections:

- Section 59(e) (deduction of certain qualified expenditures ratably over the period of time specified in that section). For more information, see the instructions for code K in box 13 on page 8.
- Section 108(b)(5) (income from the discharge of indebtedness).
- Section 263A(d) (preproductive expenses). See the instructions for code O in box 13.
- Section 617 (deduction and recapture of certain mining exploration expenditures).
- Section 901 (foreign tax credit).

If the partnership attaches a statement to Schedule K-1 indicating that it has changed its tax year and that you may elect to report your distributive share of the income attributable to that change ratably over 4 tax years, see Rev. Proc. 2003-79, 2003-45 I.R.B. 1036, for details on making the election. To make the election, you must file Form 8082 with your income tax return for each of the 4 tax years. File Form 8082 for this purpose in accordance with Rev. Proc. 2003-79 instead of the Form 8082 instructions.

## Additional Information

For more information on the treatment of partnership income, deductions, credits, etc., see Pub. 541, Partnerships, and Pub. 535, Business Expenses.

To get forms and publications, see the instructions for your tax return.

## Limitations on Losses, Deductions, and Credits

There are three separate potential limitations on the amount of partnership losses that you may deduct on your return. These limitations and the order in which you must apply them are as follows: the basis

rules, the at-risk limitations, and the passive activity limitations. Each of these limitations is discussed separately below.

Other limitations may apply to specific deductions (for example, the section 179 expense deduction). Generally, specific limitations apply before the basis, at-risk, and passive loss limitations.

## Basis Rules

Generally, you may not claim your share of a partnership loss (including a capital loss) to the extent that it is greater than the adjusted basis of your partnership interest at the end of the partnership's tax year. Any losses and deductions not allowed this year because of the basis limit can be carried forward indefinitely and deducted in a later year subject to the basis limit for that year.

The partnership is not responsible for keeping the information needed to figure the basis of your partnership interest. Although the partnership does provide an analysis of the changes to your capital account in item N of Schedule K-1, that information is based

on the partnership's books and records and cannot be used to figure your basis.

You can figure the adjusted basis of your partnership interest by adding items that increase your basis and then subtracting items that decrease your basis.

Use the worksheet below to figure the basis of your interest in the partnership.

For more details on the basis rules, see Pub. 541.

## At-Risk Limitations

Generally, if you have (a) a loss or other deduction from any activity carried on as a trade or business or for the production of income by the partnership and (b) amounts in the activity for which you are not at risk, you will have to complete Form 6198, At-Risk Limitations, to figure your allowable loss.

The at-risk rules generally limit the amount of loss and other deductions that you can claim to the amount you could actually lose in the activity. These losses and deductions include a loss on the

### Worksheet for Adjusting the Basis of a Partner's Interest in the Partnership (Keep for your records.)

- |   |           |
|---|-----------|
| 1. Your adjusted basis at the end of the prior year. Do not enter less than zero. Enter -0- if this is your first tax year . . . . .  | 1. _____  |
| Increases:  |           |
| 2. Money and your adjusted basis in property contributed to the partnership less the associated liabilities (but not less than zero) . . . .  | 2. _____  |
| 3. Your increased share of or assumption of partnership liabilities (Subtract your share of liabilities shown in Item D of your 2003 Schedule K-1 from your share of liabilities shown in Item M of your 2004 Schedule K-1 and add the amount of any partnership liabilities you assumed during the tax year) . . . . . | 3. _____  |
| 4. Your share of the partnership's income or gain (including tax-exempt income) . . . . .   | 4. _____  |
| 5. Any gain recognized this year on contributions of property. Do not include gain from transfer of liabilities . . . . .   | 5. _____  |
| 6. Your share of the excess of the deductions for depletion (other than oil and gas depletion) over the basis of the property subject to depletion . . . . .  | 6. _____  |
| Decreases:  |           |
| 7. Withdrawals and distributions of money and the adjusted basis of property distributed to you from the partnership. Do not include the amount of property distributions included in the partner's income (taxable income) . . . . .   | 7. _____  |
| <b>Caution:</b> A distribution may be taxable if the amount exceeds your adjusted basis of your partnership interest immediately before the distribution.   |           |
| 8. Your share of the partnership's nondeductible expenses that are not capital expenditures . . . . .   | 8. _____  |
| 9. Your share of the partnership's losses and deductions (including capital losses). However, include your share of the partnership's section 179 expense deduction for this year even if you cannot deduct all of it because of limitations . . . . .  | 9. _____  |
| 10. The amount of your deduction for depletion of any partnership oil and gas property, not to exceed your allocable share of the adjusted basis of that property . . . . .   | 10. _____ |
| 11. Your adjusted basis in the partnership at end of this tax year. (Add lines 1 through 6 and subtract lines 7 through 10 from the total. If zero or less, enter -0-.) . . . . .   | 11. _____ |

**Caution:** The deduction for your share of the partnership's losses and deductions is limited to your adjusted basis in your partnership interest. If you entered zero on line 11 and the amount computed for line 11 was less than zero, a portion of your share of the partnership losses and deductions may not be deductible. (See *Basis Rules* above for more information.)

disposition of assets and the section 179 expense deduction. However, if you acquired your partnership interest before 1987, the at-risk rules do not apply to losses from an activity of holding real property placed in service before 1987 by the partnership. The activity of holding mineral property does not qualify for this exception. The partnership should identify on an attachment to Schedule K-1 the amount of any losses that are not subject to the at-risk limitations.

Generally, you are not at risk for amounts such as the following:

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity, that are not secured by your own property (other than the property used in the activity). See the instructions for item F on page 5 for the exception for qualified nonrecourse financing secured by real property.
- Cash, property, or borrowed amounts used in the activity (or contributed to the activity, or used to acquire your interest in the activity) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).
- Amounts borrowed for use in the activity from a person who has an interest in the activity, other than as a creditor, or who is related, under section 465(b)(3), to a person (other than you) having such an interest.

You should get a separate statement of income, expenses, etc., for each activity from the partnership.

## Passive Activity Limitations

Section 469 provides rules that limit the deduction of certain losses and credits. These rules apply to partners who:

- Are individuals, estates, trusts, closely held corporations, or personal service corporations and
- Have a passive activity loss or credit for the tax year.

Generally, passive activities include:

1. Trade or business activities in which you did not materially participate and
2. Activities that meet the definition of rental activities under Temporary Regulations section 1.469-1T(e)(3) and Regulations section 1.469-1(e)(3).

Passive activities do not include:

1. Trade or business activities in which you materially participated.
2. Rental real estate activities in which you materially participated if you were a "real estate professional" for the tax year. You were a real estate professional only if you met both of the following conditions:
  - a. More than half of the personal services you performed in trades or businesses were performed in real property trades or businesses in which you materially participated and
  - b. You performed more than 750 hours of services in real property trades or businesses in which you materially participated.

**Note.** For a closely held C corporation (defined in section 465(a)(1)(B)), the above conditions are treated as met if more than 50% of the corporation's gross receipts were from real property trades or businesses in

which the corporation materially participated.

For purposes of this rule, each interest in rental real estate is a separate activity, unless you elect to treat all interests in rental real estate as one activity. For details on making this election, see the Instructions for Schedule E (Form 1040).

If you are married filing jointly, either you or your spouse must separately meet both of the above conditions, without taking into account services performed by the other spouse.

A real property trade or business is any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business. Services you performed as an employee are not treated as performed in a real property trade or business unless you owned more than 5% of the stock (or more than 5% of the capital or profits interest) in the employer.

3. Working interests in oil or gas wells if you were a general partner.

4. The rental of a dwelling unit any partner used for personal purposes during the year for more than the greater of 14 days or 10% of the number of days that the residence was rented at fair rental value.

5. Activities of trading personal property for the account of owners of interests in the activities.

If you are an individual, an estate, or a trust, and you have a passive activity loss or credit, use Form 8582, Passive Activity Loss Limitations, to figure your allowable passive losses and Form 8582-CR, Passive Activity Credit Limitations, to figure your allowable passive credits. For a corporation, use Form 8810, Corporate Passive Activity Loss and Credit Limitations. See the instructions for these forms for more information.

If the partnership had more than one activity, it will attach a statement to your Schedule K-1 that identifies each activity (trade or business activity, rental real estate activity, rental activity other than rental real estate, etc.) and specifies the income (loss), deductions, and credits from each activity.

**Material participation.** You must determine if you materially participated (a) in each trade or business activity held through the partnership and (b) if you were a real estate professional (defined above), in each rental real estate activity held through the partnership. All determinations of material participation are made based on your participation during the partnership's tax year.

Material participation standards for partners who are individuals are listed below. Special rules apply to certain retired or disabled farmers and to the surviving spouses of farmers. See the Instructions for Form 8582 for details.

Corporations should refer to the Instructions for Form 8810 for the material participation standards that apply to them.

**Individuals (other than limited partners).** If you are an individual (either a general partner or a limited partner who owned a general partnership interest at all times during the tax year), you materially participated in an activity only if one or more of the following apply:

1. You participated in the activity for more than 500 hours during the tax year.
2. Your participation in the activity for the tax year constituted substantially all the participation in the activity of all individuals (including individuals who are not owners of interests in the activity).
3. You participated in the activity for more than 100 hours during the tax year, and your participation in the activity for the tax year was not less than the participation in the activity of any other individual (including individuals who were not owners of interests in the activity) for the tax year.
4. The activity was a significant participation activity for the tax year, and you participated in all significant participation activities (including activities outside the partnership) during the year for more than 500 hours. A significant participation activity is any trade or business activity in which you participated for more than 100 hours during the year and in which you did not materially participate under any of the material participation tests (other than this test 4).
5. You materially participated in the activity for any 5 tax years (whether or not consecutive) during the 10 tax years that immediately precede the tax year.
6. The activity was a personal service activity and you materially participated in the activity for any 3 tax years (whether or not consecutive) preceding the tax year. A personal service activity involves the performance of personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other trade or business in which capital is not a material income-producing factor.
7. Based on all the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis during the tax year.

**Limited partners.** If you are a limited partner, you do not materially participate in an activity unless you meet one of the tests in paragraphs 1, 5, or 6 above.

**Work counted toward material participation.** Generally, any work that you or your spouse does in connection with an activity held through a partnership (where you own your partnership interest at the time the work is done) is counted toward material participation. However, work in connection with the activity is not counted toward material participation if either of the following applies.

1. The work is not the type of work that owners of the activity would usually do and one of the principal purposes of the work that you or your spouse does is to avoid the passive loss or credit limitations.

2. You do the work in your capacity as an investor and you are not directly involved in the day-to-day operations of the activity. Examples of work done as an investor that would not count toward material participation include:

- a. Studying and reviewing financial statements or reports on operations of the activity.
- b. Preparing or compiling summaries or analyses of the finances or operations of the activity for your own use.
- c. Monitoring the finances or operations of the activity in a nonmanagerial capacity.



**Effect of determination.** Income (loss), deductions, and credits from an activity are nonpassive if you determine that:

- You materially participated in a trade or business activity of the partnership or
- You were a real estate professional (defined on page 3) in a rental real estate activity of the partnership.

If you determine that you did not materially participate in a trade or business activity of the partnership or if you have income (loss), deductions, or credits from a rental activity of the partnership (other than a rental real estate activity in which you materially participated as a real estate professional), the amounts from that activity are passive. Report passive income (losses), deductions, and credits as follows:

1. If you have an overall gain (the excess of income over deductions and losses, including any prior year unallowed loss) from a passive activity, report the income, deductions, and losses from the activity as indicated in these instructions.
2. If you have an overall loss (the excess of deductions and losses, including any prior year unallowed loss, over income) or credits from a passive activity, report the income, deductions, losses, and credits from all passive activities using the Instructions for Form 8582 or Form 8582-CR (or Form 8810), to see if your deductions, losses, and credits are limited under the passive activity rules.

**Publicly traded partnerships.** The passive activity limitations are applied separately for items (other than the low-income housing credit and the rehabilitation credit) from each publicly traded partnership (PTP). Thus, a net passive loss from a PTP may not be deducted from other passive income. Instead, a passive loss from a PTP is suspended and carried forward to be applied against passive income from the same PTP in later years. If the partner's entire interest in the PTP is completely disposed of, any unused losses are allowed in full in the year of disposition.

If you have an overall gain from a PTP, the net gain is nonpassive income. In addition, the nonpassive income is included in investment income to figure your investment interest expense deduction.

Do not report passive income, gains, or losses from a PTP on Form 8582. Instead, use the following rules to figure and report on the proper form or schedule your income, gains, and losses from passive activities that you held through each PTP you owned during the tax year.

1. Combine any current year income, gains and losses, and any prior year unallowed losses to see if you have an overall gain or loss from the PTP. Include only the same types of income and losses you would include in your net income or loss from a non-PTP passive activity. See Pub. 925, Passive Activity and At-Risk Rules, for more details.
2. If you have an overall gain, the net gain portion (total gain minus total losses) is nonpassive income. On the form or schedule you normally use, report the net gain portion as nonpassive income and the remaining income and the total losses as passive income and loss. To the left of the entry space, write "From PTP." It is important to identify the nonpassive income because the nonpassive portion is included

in modified adjusted gross income for purposes of figuring on Form 8582 the "special allowance" for active participation in a non-PTP rental real estate activity. In addition, the nonpassive income is included in investment income when figuring your investment interest expense deduction on Form 4952.

**Example.** If you have Schedule E income of \$8,000, and a Form 4797 prior year unallowed loss of \$3,500 from the passive activities of a particular PTP, you have a \$4,500 overall gain (\$8,000 – \$3,500). On Schedule E, line 28, report the \$4,500 net gain as nonpassive income in column (j). In column (g), report the remaining Schedule E gain of \$3,500 (\$8,000 – \$4,500). On the appropriate line of Form 4797, report the prior year unallowed loss of \$3,500. Be sure to write "From PTP" to the left of each entry space.

3. If you have an overall loss (but did not dispose of your entire interest in the PTP to an unrelated person in a fully taxable transaction during the year), the losses are allowed to the extent of the income, and the excess loss is carried forward to use in a future year when you have income to offset it. Report as a passive loss on the schedule or form you normally use the portion of the loss equal to the income. Report the income as passive income on the form or schedule you normally use.

**Example.** You have a Schedule E loss of \$12,000 (current year losses plus prior year unallowed losses) and a Form 4797 gain of \$7,200. Report the \$7,200 gain on the appropriate line of Form 4797. On Schedule E, line 28, report \$7,200 of the losses as a passive loss in column (f). Carry forward to 2005 the unallowed loss of \$4,800 (\$12,000 – \$7,200).

If you have unallowed losses from more than one activity of the PTP or from the same activity of the PTP that must be reported on different forms, you must allocate the unallowed losses on a pro rata basis to figure the amount allowed from each activity or on each form.

**Tax tip.** To allocate and keep a record of the unallowed losses, use Worksheets 5, 6, and 7 of Form 8582. List each activity of the PTP in Worksheet 5. Enter the overall loss from each activity in column (a). Complete column (b) of Worksheet 5 according to its instructions. Multiply the total unallowed loss from the PTP by each ratio in column (b) and enter the result in column (c) of Worksheet 5. Then, complete Worksheet 6 if all the loss from the same activity is to be reported on one form or schedule. Use Worksheet 7 instead of Worksheet 6 if you have more than one loss to be reported on different forms or schedules for the same activity. Enter the net loss plus any prior year unallowed losses in column (a) of Worksheet 6 (or Worksheet 7 if applicable). The losses in column (c) of Worksheet 6 (column (e) of Worksheet 7) are the allowed losses to report on the forms or schedules. Report both these losses and any income from the PTP on the forms and schedules you normally use.

4. If you have an overall loss and you disposed of your entire interest in the PTP to an unrelated person in a fully taxable transaction during the year, your losses (including prior year unallowed losses) allocable to the activity for the year are not

limited by the passive loss rules. A fully taxable transaction is one in which you recognize all your realized gain or loss. Report the income and losses on the forms and schedules you normally use.

**Note.** For rules on the disposition of an entire interest reported using the installment method, see the Instructions for Form 8582.

**Special allowance for a rental real estate activity.**

If you actively participated in a rental real estate activity, you may be able to deduct up to \$25,000 of the loss from the activity from nonpassive income. This "special allowance" is an exception to the general rule disallowing losses in excess of income from passive activities. The special allowance is not available if you were married, file a separate return for the year, and did not live apart from your spouse at all times during the year.

Only individuals and qualifying estates can actively participate in a rental real estate activity. Estates (other than qualifying estates), trusts, and corporations cannot actively participate. Limited partners cannot actively participate unless future regulations provide an exception.

You are not considered to actively participate in a rental real estate activity if at any time during the tax year your interest (including your spouse's interest) in the activity was less than 10% (by value) of all interests in the activity.

Active participation is a less stringent requirement than material participation. You may be treated as actively participating if you participated, for example, in making management decisions or arranging for others to provide services (such as repairs) in a significant and bona fide sense. Management decisions that can count as active participation include approving new tenants, deciding rental terms, approving capital or repair expenditures, and other similar decisions.

An estate is a qualifying estate if the decedent would have satisfied the active participation requirement for the activity for the tax year the decedent died. A qualifying estate is treated as actively participating for tax years ending less than 2 years after the date of the decedent's death.

**Modified adjusted gross income limitation.** The maximum special allowance that single individuals and married individuals filing a joint return can qualify for is \$25,000. The maximum is \$12,500 for married individuals who file separate returns and who lived apart all times during the year. The maximum special allowance for which an estate can qualify is \$25,000 reduced by the special allowance for which the surviving spouse qualifies.

If your modified adjusted gross income (defined below) is \$100,000 or less (\$50,000 or less if married filing separately), your loss is deductible up to the amount of the maximum special allowance referred to in the preceding paragraph. If your modified adjusted gross income is more than \$100,000 (more than \$50,000 if married filing separately), the special allowance is limited to 50% of the difference between \$150,000 (\$75,000 if married filing separately) and your modified adjusted gross income. When modified adjusted gross income is \$150,000 or more (\$75,000

or more if married filing separately), there is no special allowance.

Modified adjusted gross income is your adjusted gross income figured without taking into account:

- Any passive activity loss.
- Any rental real estate loss allowed under section 469(c)(7) to real estate professionals (as defined on page 3).
- Any taxable social security or equivalent railroad retirement benefits.
- Any deductible contributions to an IRA or certain other qualified retirement plans under section 219.
- The student loan interest deduction.
- The tuition and fees deduction.
- The deduction for one-half of self-employment taxes.
- The exclusion from income of interest from Series EE or I U.S. Savings Bonds used to pay higher education expenses.
- The exclusion of amounts received under an employer's adoption assistance program.

#### **Commercial revitalization deduction.**

The special \$25,000 allowance for the commercial revitalization deduction from rental real estate activities is not subject to the active participation rules or modified adjusted gross income limits discussed above. See code P for box 13 on page 8.

#### **Special rules for certain other activities.**

If you have net income (loss), deductions, or credits from any activity to which special rules apply, the partnership will identify the activity and all amounts relating to it on Schedule K-1 or on an attachment.

If you have net income subject to recharacterization under Temporary Regulations section 1.469-2T(f) and Regulations section 1.469-2(f), report such amounts according to the Instructions for Form 8582 (or Form 8810).

If you have net income (loss), deductions, or credits from any of the following activities, treat such amounts as nonpassive and report them as instructed in these instructions:

1. Working interests in oil and gas wells if you are a general partner.
2. The rental of a dwelling unit any partner used for personal purposes during the year for more than the greater of 14 days or 10% of the number of days that the residence was rented at fair rental value.
3. Trading personal property for the account of owners of interests in the activity.

**Self-charged interest.** The partnership will report any "self-charged" interest income or expense that resulted from loans between you and the partnership (or between the partnership and another partnership or S corporation if both entities have the same owners with the same proportional ownership interest in each entity). If there was more than one activity, the partnership will provide a statement allocating the interest income or expense with respect to each activity. The self-charged interest rules do not apply to your partnership interest if the partnership made an election under Regulations section 1.469-7(g) to avoid the application of these rules. See the Instructions for Form 8582 for more information.

## **Specific Instructions**

### **Part I. Information About the Partnership**

#### **Item D**

If the box in item D is checked, you are a partner in a publicly traded partnership and must follow the rules discussed on page 4 under *Publicly traded partnerships*.

#### **Item E**

If the partnership is a registration-required tax shelter, it should have completed item E. Use the information on Schedule K-1 (name of the partnership, partnership identifying number, and tax shelter registration number) to complete your Form 8271, *Investor Reporting of Tax Shelter Registration Number*.

#### **Item F**

If you claim or report any income, loss, deduction, or credit from a registration-required tax shelter, you must attach Form 8271 to your tax return. If the partnership has invested in a registration-required tax shelter, it will check item F and it must give you a copy of its Form 8271 with Schedule K-1. Use this information to complete your Form 8271.

### **Part II. Information About the Partner**

#### **Item M**

Item M should show your share of the partnership's nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other recourse liabilities as of the end of the partnership's tax year. If you terminated your interest in the partnership during the tax year, item M should show the share that existed immediately before the total disposition. A partner's "recourse liability" is any partnership liability for which a partner is personally liable.

Use the total of the three amounts for computing the adjusted basis of your partnership interest.

Generally, you may use only the amounts shown next to "Qualified nonrecourse financing" and "Recourse" to compute your amount at risk. Do not include any amounts that are not at risk if such amounts are included in either of these categories.

If your partnership is engaged in two or more different types of activities subject to the at-risk provisions, or a combination of at-risk activities and any other activity, the partnership should give you a statement showing your share of nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other recourse liabilities for each activity.

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 borrowed from a "qualified" person.

Qualified persons include any persons 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 Pub. 925 for more information on qualified nonrecourse financing.

Both the partnership and you must meet the qualified nonrecourse rules on this debt before you can include the amount shown next to "Qualified nonrecourse financing" in your at-risk computation.

See *Limitations on Losses, Deductions, and Credits* beginning on page 2 for more information on the at-risk limitations.

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

The amounts shown in boxes 1 through 20 reflect your share of income, loss, deductions, credits, etc., from partnership business or rental activities without reference to limitations on losses or adjustments that may be required of you because of:

1. The adjusted basis of your partnership interest,
  2. The amount for which you are at risk,
- or
3. The passive activity limitations.

For information on these provisions, see *Limitations on Losses, Deductions, and Credits* beginning on page 2.

If you are an individual and the passive activity rules do not apply to the amounts shown on your Schedule K-1, take the amounts shown and enter them on the lines on your tax return as indicated in the summarized reporting information shown on the back of the Schedule K-1. If the passive activity rules do apply, report the amounts shown as indicated in these instructions.

If you are not an individual, report the amounts in each box as instructed on your tax return.

The line numbers in the summarized reporting information on page 2 of Schedule K-1 are references to forms in use for calendar year 2004. If you file your tax return on a calendar year basis, but your partnership files a return for a fiscal year, enter the amounts on your tax return for the year in which the partnership's fiscal year ends. For example, if the partnership's tax year ends in February 2005, report the amounts on your 2005 tax return.

If you have losses, deductions, or credits from a prior year that were not deductible or usable because of certain limitations, such as the basis rules or the at-risk limitations, take them into account in determining your



net income, loss, or credits for this year. However, except for passive activity losses and credits, do not combine the prior-year amounts with any amounts shown on this Schedule K-1 to get a net figure to report on any supporting schedules, statements, or forms attached to your return. Instead, report the amounts on the attached schedule, statement, or form on a year-by-year basis.



**CAUTION** If you have amounts other than those shown on Schedule K-1 to report on Schedule E (Form 1040), enter each item separately on line 28 of Schedule E.

**Codes.** In box 11 and boxes 13 through 20, the partnership will identify each item by entering a code in the column to the left of the dollar amount entry space. These codes are identified on the back of Schedule K-1 and in these instructions.

**Attached Statements.** The partnership will enter an asterisk (\*) after the code, if any, in the column to the left of the dollar amount entry space for each item for which it has attached a statement providing additional information. For those informational items that cannot be reported as a single dollar amount, the partnership will enter an asterisk in the left column and write "STMT" in the dollar amount entry space to indicate the information is provided on an attached statement.

## Income (Loss)

### Box 1. Ordinary Business Income (Loss)

The amount reported for box 1 is your share of the ordinary income (loss) from the trade or business activities of the partnership. Generally, where you report this amount on Form 1040 depends on whether the amount is from an activity that is a passive activity to you. If you are an individual partner filing your 2004 Form 1040, find your situation below and report your box 1 income (loss) as instructed, after applying the basis and at-risk limitations on losses. If the partnership had more than one trade or business activity, it will attach a statement that will identify the amount of income or loss from each activity.

1. Report box 1 income (loss) from partnership trade or business activities in which you materially participated on Schedule E (Form 1040), line 28, column (h) or (j).

2. Report box 1 income (loss) from partnership trade or business activities in which you did not materially participate, as follows:

a. If income is reported in box 1, report the income on Schedule E, line 28, column (g). However, if the box in item D is checked, report the income following the rules for *Publicly traded partnerships* on page 4.

b. If a loss is reported in box 1, follow the Instructions for Form 8582 to figure how much of the loss can be reported on Schedule E, line 28, column (f). However, if the box in item D is checked, report the loss following the rules for *Publicly traded partnerships* on page 4.

### Box 2. Net Rental Real Estate Income (Loss)

Generally, the income (loss) reported in box 2 is a passive activity amount for all partners. However, the income (loss) in box 2 is not from a passive activity if you were a real estate professional (defined on page 3) and you materially participated in the activity. If the partnership had more than one real estate rental activity, it will attach a statement that will identify the amount of income or loss from each activity.

If you are filing a 2004 Form 1040, use the following instructions to determine where to enter a box 2 amount:

1. If you have a loss from a passive activity in box 2 and you meet all of the following conditions, enter the loss on Schedule E (Form 1040), line 28, column (f).

a. You actively participated in the partnership rental real estate activities. See *Special allowance for a rental real estate activity* on page 4.

b. Rental real estate activities with active participation were your only passive activities.

c. You have no prior year unallowed losses from these activities.

d. Your total loss from the rental real estate activities was not more than \$25,000 (not more than \$12,500 if married filing separately and you lived apart from your spouse all year).

e. If you are a married person filing separately, you lived apart from your spouse all year.

f. You have no current or prior year unallowed credits from a passive activity.

g. Your modified adjusted gross income was not more than \$100,000 (not more than \$50,000 if married filing separately and you lived apart from your spouse all year).

h. Your interest in the rental real estate activity was not held as a limited partner.

2. If you have a loss from a passive activity in box 2 and you do not meet all the conditions in 1 above, report the loss following the Instructions for Form 8582 to figure how much of the loss you can report on Schedule E (Form 1040), line 28, column (f). However, if the box in item D is checked, report the loss following the rules for *Publicly traded partnerships* on page 4.

3. If you were a real estate professional and you materially participated in the activity, report box 2 income (loss) on Schedule E (Form 1040), line 28, column (h) or (j).

4. If you have income from a passive activity in box 2, enter the income on Schedule E, line 28, column (g). However, if the box in item D is checked, report the income following the rules for *Publicly traded partnerships* on page 4.

### Box 3. Other Net Rental Income (Loss)

The amount in box 3 is a passive activity amount for all partners. If the partnership had more than one rental activity, it will attach a statement that will identify the amount of income or loss from each activity. Report the income or loss as follows.

1. If box 3 is a loss, follow the instructions for Form 8582 to figure how much of the loss can be reported on Schedule E, line 28, column (f). However, if the box in item D is checked, report the loss

following the rules for *Publicly traded partnerships* on page 4.

2. If income is reported on box 3, report the income on Schedule E (Form 1040), line 28, column (g). However, if the box in item D is checked, report the income following the rules for *Publicly traded partnerships* on page 4.

### Box 4. Guaranteed Payments

Generally, amounts on this line are not passive income, and you should report them on Schedule E (Form 1040), line 28, column (j) (for example, guaranteed payments for personal services).

## Portfolio Income

Portfolio income or loss (shown in boxes 5 through 9b and in box 11, code A) is not subject to the passive activity limitations. Portfolio income includes income not derived in the ordinary course of a trade or business from interest, ordinary dividends, annuities, or royalties and gain or loss on the sale of property that produces such income or is held for investment.

### Box 5. Interest Income

Report interest income on line 8a of Form 1040.

### Box 6a. Ordinary Dividends

Report ordinary dividends on line 9a of Form 1040.

### Box 6b. Qualified Dividends

Report any qualified dividends on line 9b of Form 1040.

**Note:** Qualified dividends are excluded from investment income, but you may elect to include part or all of these amounts in investment income. See the instructions for line 4g of Form 4952, Investment Interest Expense Deduction, for important information on making this election.

### Box 7. Royalties

Report royalties on Schedule E, Part I, line 4.

### Box 8. Net Short-Term Capital Gain (Loss)

Report the net short-term capital gain (loss) on Schedule D, line 5, column (f).

### Box 9a. Net Long-Term Capital Gain (Loss)

Report the net long-term capital gain (loss) on Schedule D, line 12, column (f).

### Box 9b. Collectibles (28%) Gain (Loss)

Your share of any collectibles gain or loss. Include this amount on line 4 of the *28% Rate Gain Worksheet* in the instructions for Schedule D (Form 1040), line 18.

### Box 9c. Unrecaptured Section 1250 Gain

There are three types of unrecaptured section 1250 gain. Report your share of this unrecaptured gain on the *Unrecaptured Section 1250 Gain Worksheet* in the instructions for Schedule D (Form 1040) as follows.

- Report unrecaptured section 1250 gain from the sale or exchange of the partnership's business assets on line 5.

- Report unrecaptured section 1250 gain from the sale or exchange of an interest in a partnership on line 10.
- Report unrecaptured section 1250 gain from an estate, trust, regulated investment company (RIC), or real estate investment trust (REIT) on line 11.

If the partnership reports only unrecaptured section 1250 gain from the sale or exchange of its business assets, it will enter a dollar amount in box 9c. If it reports the other two types of unrecaptured gain, it will provide an attached statement that shows the amount for each type of unrecaptured section 1250 gain.

## Box 10. Net Section 1231 Gain (Loss)

If this amount is from a rental activity, the section 1231 gain (loss) is generally a passive activity amount. Likewise, if the amount is from a trade or business activity and you did not materially participate in the activity, the section 1231 gain (loss) is a passive activity amount.

However, an amount from a rental real estate activity is not from a passive activity if you were a real estate professional (defined on page 3) and you materially participated in the activity.

If the amount is either (a) a loss that is not from a passive activity or (b) a gain, report it on line 2, column (g), of Form 4797, Sales of Business Property. Do not complete columns (b) through (f) on line 2. Instead, write "From Schedule K-1 (Form 1065)" across these columns.

If the amount is a loss from a passive activity, see *Passive loss limitations* in the Instructions for Form 4797. You will need to report the loss following the Instructions for Form 8582 to figure how much of the loss is allowed on Form 4797. However, if the box in item D is checked, report the loss following the rules for *Publicly traded partnerships* on page 4. If the partnership had net section 1231 gain (loss) from more than one activity, it will attach a statement that will identify the amount of section 1231 gain (loss) from each activity.

## Box 11. Other Income (Loss)

### Code A. Other portfolio income (loss).

The partnership will report portfolio income other than interest, ordinary dividend, royalty, and capital gain (loss) income. It will attach a statement to tell you what kind of portfolio income is reported.

If the partnership has a residual interest in a real estate mortgage investment conduit (REMIC), it will report on the statement your share of REMIC taxable income (net loss) that you report on Schedule E (Form 1040), line 38, column (d). The statement will also report your share of any "excess inclusion" that you report on Schedule E, line 38, column (c), and your share of section 212 expenses that you report on Schedule E, line 38, column (e). If you itemize your deductions on Schedule A (Form 1040), you may also deduct these section 212 expenses as a miscellaneous deduction subject to the 2% limit on Schedule A, line 22.

**Code B. Involuntary conversions.** This is your net gain (loss) from involuntary conversions due to casualty or theft. The partnership will give you a schedule that shows the amounts to be entered on Form

4684, Casualties and Thefts, line 34, columns (b)(i), (b)(ii), and (c).

If there was a gain (loss) from a casualty or theft to property not used in a trade or business or for income-producing purposes, the partnership will provide you with the information you need to complete Form 4684.

### Code C. Section 1256 contracts & straddles.

The partnership will report any net gain or loss from section 1256 contracts. Report this amount on line 1 of Form 6781, Gains and Losses From Section 1256 Contracts and Straddles.

### Code D. Mining exploration costs

**recapture.** The partnership will give you a schedule that shows the information needed to recapture certain mining exploration costs (section 617). See Pub. 535 for more information.

**Code E. Cancellation of debt.** Generally, this amount is included in your gross income (Form 1040, line 21). Under section 108(b)(5), you may elect to apply any portion of this cancellation of debt to the reduction of the basis of depreciable property. See Form 982 for more details.

**Code F. Other income (loss).** Amounts with code F are other items of income, gain, or loss not included in boxes 1 through 10 or reported in box 11 using codes A through E. The partnership should give you a description and the amount of your share for each of these items.

Report loss items that are passive activity amounts to you following the Instructions for Form 8582. However, if the box in item D is checked, report the loss following the rules for *Publicly traded partnerships* on page 4.

Code F items may include the following:

- Partnership gains from the disposition of farm recapture property (see the instructions for line 27 of Form 4797) and other items to which section 1252 applies.
- Income from recoveries of tax benefit items. A tax benefit item is an amount you deducted in a prior tax year that reduced your income tax. Report this amount on line 21 of Form 1040 to the extent it reduced your tax.
- Gambling gains and losses.

1. If the partnership was not engaged in the trade or business of gambling, (a) report gambling winnings on Form 1040, line 21 and (b) deduct gambling losses to the extent of winnings on Schedule A (Form 1040), line 27.

2. If the partnership was engaged in the trade or business of gambling, (a) report gambling winnings on line 28 of Schedule E and (b) deduct gambling losses (to the extent of winnings) on line 28 of Schedule E, column (h).

• Gain (loss) from the disposition of an interest in oil, gas, geothermal, or other mineral properties. The partnership will give you an attached statement that provides a description of the property, your share of the amount realized from the disposition, your share of the partnership's adjusted basis in the property (for other than oil or gas properties), and your share of the total intangible drilling costs, development costs, and mining exploration costs (section 59(e) expenditures) passed through for the property. You must determine the amount of gain or loss from the disposition by increasing your share of the adjusted basis

by the amount of intangible drilling costs, development costs, or mine exploration costs for the property that you capitalized (that is, costs that you did not elect to deduct under section 59(e)). Report a loss in Part I of Form 4797. Report a gain in Part III of Form 4797 in accordance with the instructions for line 28. See Regulations section 1.1254-5 for more information.

- Any income, gain, or loss to the partnership under section 751(b). Report this amount on Form 4797, line 10.
- Specially allocated ordinary gain (loss). Report this amount on Form 4797, line 10.
- Gain from the sale or exchange of qualified small business stock (as defined in the Instructions for Schedule D) that is eligible for the partial section 1202 exclusion. The partnership should also give you the name of the corporation that issued the stock, your share of the partnership's adjusted basis and sales price of the stock, and the dates the stock was bought and sold. Corporate partners are not eligible for the section 1202 exclusion. The following additional limitations apply at the partner level:

1. You must have held an interest in the partnership when the partnership acquired the qualified small business stock and at all times thereafter until the partnership disposed of the qualified small business stock.

2. Your distributive share of the eligible section 1202 gain cannot exceed the amount that would have been allocated to you based on your interest in the partnership at the time the stock was acquired.

See the Instructions for Schedule D (Form 1040) for details on how to report the gain and the amount of the allowable exclusion.

• Gain eligible for section 1045 rollover (replacement stock purchased by the partnership). The partnership should also give you the name of the corporation that issued the stock, your share of the partnership's adjusted basis and sales price of the stock, and the dates the stock was bought and sold. Corporate partners are not eligible for the section 1045 rollover. To qualify for the section 1045 rollover:

1. You must have held an interest in the partnership during the entire period in which the partnership held the qualified small business stock (more than 6 months prior to the sale) and

2. Your distributive share of the gain eligible for the section 1045 rollover cannot exceed the amount that would have been allocated to you based on your interest in the partnership at the time the stock was acquired.

See the Instructions for Schedule D (Form 1040) for details on how to report the gain and the amount of the allowable postponed gain.

• Gain eligible for section 1045 rollover (replacement stock not purchased by the partnership). The partnership should also give you the name of the corporation that issued the stock, your share of the partnership's adjusted basis and sales price of the stock, and the dates the stock was bought and sold. Corporate partners are not eligible for the section 1045 rollover. To qualify for the section 1045 rollover:

1. You must have held an interest in the partnership during the entire period in which



the partnership held the qualified small business stock (more than 6 months prior to the sale),

2. Your distributive share of the gain eligible for the section 1045 rollover cannot exceed the amount that would have been allocated to you based on your interest in the partnership at the time the stock was acquired, and

3. You must purchase other qualified small business stock (as defined in the Instructions for Schedule D (Form 1040)) during the 60-day period that began on the date the stock was sold by the partnership.

See the Instructions for Schedule D (Form 1040) for details on how to report the gain and the amount of the allowable postponed gain.

- Net short-term capital gain (loss) and net long-term capital gain (loss) from Schedule D (Form 1065) that is not portfolio income. An example is gain or loss from the disposition of nondepreciable personal property used in a trade or business activity of the partnership. Report total net short-term gain (loss) on Schedule D (Form 1040), line 5, column (f). Report the total net long-term gain (loss) on Schedule D (Form 1040), line 12, column (f).

## Deductions

### Box 12. Section 179 Deduction

Use this amount, along with the total cost of section 179 property placed in service during the year from other sources, to complete Part I of Form 4562, Depreciation and Amortization. Use Part I of Form 4562 to figure your allowable section 179 expense deduction from all sources. Report the amount on line 12 of Form 4562 allocable to a passive activity from the partnership using the Instructions for Form 8582. If the amount is not a passive activity deduction, report it on Schedule E (Form 1040), line 28, column (i). However, if the box in item D is checked, report this amount following the rules for *Publicly traded partnerships* on page 4.

### Box 13. Other Deductions

**Contributions. Codes A through F.** The partnership will give you a schedule that shows the amount of contributions subject to the 50%, 30%, and 20% adjusted gross income limitations. For more details, see Pub. 526, Charitable Contributions, and the Instructions for Schedule A (Form 1040). If your contributions are subject to more than one of the AGI limitations, see the *Filled-in Worksheet for Limit on Deductions* in Pub. 526.

Charitable contribution deductions are not taken into account in figuring your passive activity loss for the year. Do not enter them on Form 8582.

**Code A. Cash contributions (50%).** Enter this amount subject to the 50% AGI limitation on line 15 of Schedule A (Form 1040).

**Code B. Cash contributions (30%).** Report this amount, subject to the 30% AGI limitation, on line 15 of Schedule A (Form 1040).

**Code C. Noncash contributions (50%).** If property other than cash is contributed and if the claimed deduction for one item or group of similar items of property exceeds \$5,000, the partnership must give you a

copy of Form 8283, Noncash Charitable Contributions, to attach to your tax return. Do not deduct the amount shown on this form. It is the partnership's contribution. Instead, deduct the amount identified by code C, box 13, subject to the 50% AGI limitation, on line 16 of Schedule A (Form 1040).

If the partnership provides you with information that the contribution was property other than cash and does not give you a Form 8283, see the Instructions for Form 8283 for filing requirements. Do not file Form 8283 unless the total claimed deduction for all contributed items of property exceeds \$500.

**Code D. Noncash contributions (30%).** Report this amount, subject to the 30% AGI limitation, on line 16 of Schedule A (Form 1040).

**Code E. Capital gain property to a 50% organization (30%).** Report this amount, subject to the 30% AGI limitation, on line 16 of Schedule A (Form 1040). See *Special 30% Limit for Capital Gain Property* in Pub. 526.

**Code F. Capital gain property (20%).** Report this amount, subject to the 20% AGI limitation, on line 16 of Schedule A (Form 1040).

**Code G. Deductions—portfolio (2% floor).** Amounts entered with this code are deductions that are clearly and directly allocable to portfolio income (other than investment interest expense and section 212 expenses from a REMIC). Generally, you should enter these amounts on Schedule A (Form 1040), line 22. See the Instructions for Schedule A, lines 22 and 27, for more information.

These deductions are not taken into account in figuring your passive activity loss for the year. Do not enter them on Form 8582.

**Code H. Deductions—portfolio (other).** Generally, you should enter these amounts on Schedule A (Form 1040), line 27. See the Instructions for Schedule A, lines 22 and 27, for more information. These deductions are not taken into account in figuring your passive activity loss for the year. Do not enter them on Form 8582.

**Code I. Investment interest expense.** Enter this amount on Form 4952, line 1. If the partnership has investment income or other investment expense, it will report your share of these items in box 20 using codes A and B. Include investment income and expenses from other sources to figure how much of your total investment interest is deductible. You will also need this information to figure your investment interest expense deduction.

If the partnership paid or accrued interest on debts properly allocable to investment property, the amount of interest you are allowed to deduct may be limited.

For more information and the special provisions that apply to investment interest expense, see Form 4952 and Pub. 550.

**Code J. Deductions—royalty income.** Enter deductions allocable to royalties on Schedule E (Form 1040), line 18. For this type of expense, write "From Schedule K-1 (Form 1065)."

These deductions are not taken into account in figuring your passive activity loss

for the year. Do not enter them on Form 8582.

**Code K. Section 59(e)(2) expenditures.** On an attached statement, the partnership will show the type and the amount of qualified expenditures to which an election under section 59(e) may apply. The statement will also identify the property for which the expenditures were paid or incurred. If there is more than one type of expenditure, the amount of each type will also be listed.

Generally, section 59(e) allows each partner to elect to deduct certain expenses ratably over the number of years in the applicable period rather than deduct the full amount in the current year. Under the election, you may deduct circulation expenditures ratably over a 3-year period. Research and experimental expenditures and mining exploration and development costs qualify for a writeoff period of 10 years. Intangible drilling and development costs may be deducted over a 60-month period, beginning with the month in which such costs were paid or incurred.

If you make this election, these items are not treated as adjustments or tax preference items for purposes of the alternative minimum tax. Make the election on Form 4562.

Because each partner decides whether to make the election under section 59(e), the partnership cannot provide you with the amount of the adjustment or tax preference item related to the expenses. You must decide both how to claim the expenses on your return and compute the resulting adjustment or tax preference item.

**Code L. Amounts paid for medical insurance.** Any amounts paid during the tax year for insurance that constitutes medical care for you, your spouse, and your dependents. On line 31 of Form 1040, you may be allowed to deduct such amounts, even if you do not itemize deductions. If you do itemize deductions, enter on line 1 of Schedule A (Form 1040) any amounts not deducted on line 31 of Form 1040.

**Code M. Educational assistance benefits.** Deduct your educational assistance benefits on a separate line of Schedule E, line 28, up to the \$5,250 limitation. If your benefits exceed \$5,250, you may be able to use the excess amount on Form 8863 to figure the education credits.

**Code N. Dependent care benefits.** The partnership will report the dependent care benefits you received. You must use Form 2441, line 12, to figure the amount, if any, of the benefits you may exclude from your income.

**Code O. Preproductive period expenses.** You may be eligible to elect to deduct these expenses currently or capitalize them under section 263A. See Pub. 225, Farmer's Tax Guide, and Regulations section 1.263A-4.

**Code P. Commercial revitalization deductions from rental real estate activities.** Follow the instructions for Form 8582 to figure how much of the deduction can be reported on Schedule E, line 28, column (f).

**Code Q. Penalty on early withdrawal of savings.** Report this amount on Form 1040, line 33.

**Code R. Pensions and IRAs.** Payments made on your behalf to an IRA, qualified



plan, simplified employee pension (SEP), or a SIMPLE IRA plan. See Form 1040 instructions for line 25 to figure your IRA deduction. Enter payments made to a qualified plan, SEP, or SIMPLE IRA plan on Form 1040, line 32. If the payments to a qualified plan were to a defined benefit plan, the partnership should give you a statement showing the amount of the benefit accrued for the current tax year.

#### **Code S. Reforestation expense**

**deduction.** The partnership will provide a statement that describes the qualified timber property for these reforestation expenses. The expense deduction is limited to \$10,000 (\$5,000 if married filing separately) for each qualified timber property, including your distributive share of the partnership's expense and any reforestation expenses you separately paid or incurred after October 22, 2004, for the property. Follow the instructions for Form 8582 to report a deduction allocable to a passive activity. If you materially participated in the reforestation activity, report the deduction on line 28, column (h), of Schedule E (Form 1040).

**Code T. Other deductions.** Amounts with this code may include:

- Itemized deductions (Form 1040 filers enter on Schedule A (Form 1040)).
- Soil and water conservation expenditures. See section 175 for limitations on the amount you are allowed to deduct.
- Expenditures for the removal of architectural and transportation barriers to the elderly and disabled that the partnership elected to treat as a current expense. The deductions are limited by section 190(c) to \$15,000 per year from all sources.
- Interest expense allocated to debt-financed distributions. The manner in which you report such interest expense depends on your use of the distributed debt proceeds. If the proceeds were used in a trade or business activity, report the interest on line 28 of Schedule E (Form 1040). In column (a) enter the name of the partnership and "interest expense." If you materially participated in the trade or business activity, enter the amount of interest expense in column (h). If you did not materially participate in the activity, follow the instructions for Form 8582 to determine the amount of interest expense you can report in column (f). See page 3 for a definition of material participation. If the proceeds were used in an investment activity, enter the interest on Form 4952. If the proceeds are used for personal purposes, the interest is generally not deductible.
- Interest paid or accrued on debt properly allocable to your share of a working interest in any oil or gas property (if your liability is not limited). If you did not materially participate in the oil or gas activity, this interest is investment interest reportable as described on page 8; otherwise, it is trade or business interest. If you did not materially participate in the oil or gas activity, this interest is investment interest expense and should be reported on Form 4952. If you materially participated in the activity, report the interest on line 28 of Schedule E (Form 1040). On a separate line, enter "interest expense" and the name of the partnership in column (a) and the amount in column (h).
- Contributions to a capital construction fund (CCF). The deduction for a CCF

investment is not taken on Schedule E (Form 1040). Instead, you subtract the deduction from the amount that would normally be entered as taxable income on line 42 (Form 1040). In the margin to the left of line 42, write "CCF" and the amount of the deduction.

The partnership will give you a description and the amount of your share for each of these items.

## **Box 14. Self-Employment Earnings (Loss)**

If you and your spouse are both partners, each of you must complete and file your own Schedule SE (Form 1040), Self-Employment Tax, to report your partnership net earnings (loss) from self-employment.

**Code A. Net earnings (loss) from self-employment.** If you are a general partner, reduce this amount before entering it on Schedule SE (Form 1040) by any section 179 expense deduction claimed, unreimbursed partnership expenses claimed, and depletion claimed on oil and gas properties. Do not reduce net earnings from self-employment by any separately stated deduction for health insurance expenses.

If the amount on this line is a loss, enter only the deductible amount on Schedule SE (Form 1040). See *Limitations on Losses, Deductions, and Credits* beginning on page 2.

If your partnership is an options dealer or a commodities dealer, see section 1402(i).

If your partnership is an investment club, see Rev. Rul. 75-525, 1975-2 C.B. 350.

**Code B. Gross farming or fishing income.** If you are an individual partner, enter the amount from this line, as an item of information, on Schedule E (Form 1040), line 42. Also use this amount to figure net earnings from self-employment under the farm optional method on Schedule SE (Form 1040), Section B, Part II.

**Code C. Gross non-farm income.** If you are an individual partner, use this amount to figure net earnings from self-employment under the nonfarm optional method on Schedule SE (Form 1040), Section B, Part II.

## **Box 15. Credits & Credit Recapture**

If you have credits that are passive activity credits to you, you must complete Form 8582-CR (or Form 8810 for corporations) in addition to the credit forms identified below. See *Passive Activity Limitations* on page 3 and the Instructions for Form 8582-CR (or Form 8810) for more information.

Also, if you are entitled to claim more than one listed general business credit (investment credit, work opportunity credit, welfare-to-work credit, credit for alcohol used as fuel, research credit, low-income housing credit, enhanced oil recovery credit, disabled access credit, renewable electricity and refined coal production credit, Indian employment credit, credit for employer social security and Medicare taxes paid on certain employee tips, orphan drug credit, new markets credit, credit for small

employer pension plan startup costs, credit for employer-provided childcare facilities, biodiesel fuels credit, low sulfur diesel fuel production credit, and credit for contributions to selected community development corporations), you must complete Form 3800, General Business Credit, in addition to the credit forms identified below. If you have more than one credit, see the Instructions for Form 3800.

**Codes A and B. Low-income housing credit.** The partnership will report your share of the low-income housing credit using code A if section 42(j)(5) applies. If section 42(j)(5) does not apply, your share of the credit will be reported using code B. Any allowable low-income housing credit (reported as code A or code B) is entered on line 5 of Form 8586, Low-Income Housing Credit.

Keep a separate record of the amount of low-income housing credit from each of these sources so that you can correctly compute any recapture of low-income housing credit that may result from the disposition of all or part of your partnership interest. For more information, see the instructions for Form 8611, Recapture of Low-Income Housing Credit.

If part or all of the low-income housing credit reported using code A or B is attributable to additions to qualified basis property placed in service before 1990, the partnership will provide an attached statement that will separately identify these amounts. Amounts placed in service before 1990 are subject to different passive activity limitation rules. See *Passive Activity Limitations* and Form 8582-CR for more information.

**Codes C and D. Qualified rehabilitation expenditures.** The partnership will report your share of the qualified rehabilitation expenditures related to rental real estate activities using code C. Your share of qualified rehabilitation expenditures from property not related to rental real estate activities will be reported using code D. On an attached statement, the partnership will indicate the line number on Form 3468, Investment Credit, to report these expenditures (line 1b for pre-1936 buildings or line 1c for certified historic structures). If the partnership is reporting expenditures from more than one activity, the attached statement will separately identify the amount of expenditures from each activity for lines 1b and 1c.

Combine the code C and code D expenditures on lines 1b and 1c of Form 3468. The expenditures related to rental real estate activities (code C) are reported on Schedule K-1 separately from other qualified rehabilitation expenditures (code D) because they are subject to different passive activity limitation rules. See the instructions for Form 8582-CR, Passive Activity Credit Limitations, for details.

**Code E. Basis of energy property.** Report this amount on Form 3468, line 2.

**Code F. Qualified timber property.** Report this amount on Form 3468, line 3.

**Code G. Other rental real estate credit.** The partnership will identify the type of credit and any other information you need to compute credits from rental real estate activities (other than the low-income housing credit and qualified rehabilitation expenditures). These credits may be limited

by the passive activity limitations. If the credits are from more than one activity, the partnership will identify the amount of credits from each activity on an attached statement. See *Passive Activity Limitations* on page 3 and Form 8582-CR for details.

**Code H. Other rental credits.** The partnership will identify the type of credit and any other information you need to compute these rental credits. These credits may be limited by the passive activity limitations. If the credits are from more than one activity, the partnership will identify the amount of credits from each activity on an attached statement. See *Passive Activity Limitations* on page 3 and Form 8582-CR for details.

**Code I. Undistributed capital gains credit.** Code I represents taxes paid on undistributed capital gains by a regulated investment company or real estate investment trust. Form 1040 filers enter your share of these taxes on line 69 of Form 1040, check box "a" for Form 2439, and add the words "Form 1065."

**Code J. Work opportunity credit.** Report this amount on line 3 of Form 5884, Work Opportunity Credit.

**Code K. Welfare-to-work credit.** Report this amount on line 3 of Form 8861, Welfare-to-Work Credit.

**Code L. Disabled access credit.** Report this amount on line 7 of Form 8826, Disabled Access Credit.

**Code M. Empowerment zone and renewal community employment credit.** Report this amount on line 3 of Form 8844, Empowerment Zone and Renewal Community Employment Credit.

**Code N. New York Liberty Zone business employee credit.** Report this amount on line 3 of Form 8884, New York Liberty Zone Business Employee Credit.

**Code O. New markets credit.** Report this amount on line 2 of Form 8874, New Markets Credit.

**Code P. Credit for employer social security and Medicare taxes.** Report this amount on line 5 of Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips.

**Code Q. Backup withholding.** Credit for backup withholding on dividends, interest income, and other types of income. Include the amount the partnership reports to you in the total that you enter on Form 1040, line 63.

**Codes R and S. Recapture of low-income housing credit.** A section 42(j)(5) partnership will report recapture of a low-income housing credit with code R. All other partnerships will report recapture of a low-income housing credit with code S. Keep a separate record of recapture from each of these sources so that you will be able to correctly compute any recapture of low-income housing credit that may result from the disposition of all or part of your partnership interest. For more information, see Form 8611, Recapture of Low-Income Housing Credit.

**Code T. Recapture of investment credit.** Any information you need to figure your recapture tax on Form 4255, Recapture of Investment Credit. See the Form 3468 on which you took the original credit for other information you need to complete Form 4255.

You may also need Form 4255 if you disposed of more than one-third of your interest in a partnership.

**Code U. Other credits.** On an attachment to Schedule K-1, the partnership will identify the type of credit and any other information you need to compute credits other than those reported with codes A through T.

Credits that may be reported with code U (depending on the type of activity they relate to) include the following:

- Nonconventional source fuel credit. Attach a schedule to your return showing how you calculated the amount of credit you are allowed to take on your tax return. See section 29 for rules on how to figure the credit to report on line 54, box c, of Form 1040.
- Qualified electric vehicle credit (Form 8834).
- Unused investment credit from cooperatives (Form 3468, line 4).
- Credit for alcohol used as fuel (Form 6478).
- Credit for increasing research activities (Form 6765).
- Enhanced oil recovery credit (Form 8830).
- Renewable electricity and refined coal production credit. The partnership will provide a statement showing separately the amount of credit from section A and section B of Form 8835.
- Indian employment credit (Form 8845).
- Orphan drug credit (Form 8820).
- Credit for contributions to selected community development corporations (Form 8847).
- Credit for small employer pension plan startup costs (Form 8881).
- Credit for employer-provided childcare facilities and services (Form 8882).
- Biodiesel fuels credit (Form 8864).
- Low sulfur diesel fuel production credit (Form 8896).
- General credits from an electing large partnership. Report these credits on Form 3800, line 1t.

**Code V. Recapture of other credits.** On an attachment to Schedule K-1, the partnership will report any information you need to figure the recapture of the new markets credit; qualified electric vehicle credit (see Pub. 535); Indian employment credit (see section 45A(d)); or any credit for employer-provided childcare facilities and services.

## Box 16. Foreign Transactions

**Codes A through N.** Use the information reported as codes A through N and attached schedules to figure your foreign tax credit. For more information, see Form 1116, Foreign Tax Credit, and its instructions; Form 1118, Foreign Tax Credit—Corporations, and its instructions; and Pub. 514, Foreign Tax Credit for Individuals.

**Codes O and P. Extraterritorial income exclusion.**

1. *Partnership did not claim the exclusion.* If the partnership reports your distributive share of foreign trading gross receipts (code O) and the extraterritorial income exclusion (code P), the partnership was not entitled to claim the exclusion because it did not meet the foreign economic process requirements. You may

still qualify for your distributive share of this exclusion if the partnership's foreign trading gross receipts for the tax year were \$5 million or less. To qualify for this exclusion, your foreign trading gross receipts from all sources for the tax year also must have been \$5 million or less. If you qualify for the exclusion, report the exclusion amount in accordance with the instructions for *Income (Loss)* on page 6 for box 1, 2, or 3, whichever applies. See Form 8873, Extraterritorial Income Exclusion, for more information.

2. *Partnership claimed the exclusion.* If the partnership reports your distributive share of foreign trading gross receipts but not the amount of the extraterritorial income exclusion, the partnership met the foreign economic process requirements and claimed the exclusion when figuring your distributive share of partnership income. You also may need to know the amount of your distributive share of foreign trading gross receipts from this partnership to determine if you met the \$5 million or less exception discussed above for purposes of qualifying for an extraterritorial income exclusion from other sources.

**Note.** Upon request, the partnership should furnish you a copy of the partnership's Form 8873 if there is a reduction for international boycott operations, illegal bribes, kickbacks, etc.

**Code Q. Other foreign transactions.** On an attachment to Schedule K-1, the partnership will report any other information on foreign transactions that you may need using code Q.

## Box 17. Alternative Minimum Tax (AMT) Items

Use the information reported in box 17 (as well as your adjustments and tax preference items from other sources) to prepare your Form 6251, Alternative Minimum Tax—Individuals; Form 4626, Alternative Minimum Tax—Corporations; or Schedule I of Form 1041, U.S. Income Tax Return for Estates and Trusts.

**Note.** A partner that is a corporation subject to alternative minimum tax must notify the partnership of its status.

**Code A.** This amount is your share of the partnership's post-1986 depreciation adjustment. If you are an individual partner, report this amount on line 17 of Form 6251.

**Code B.** This amount is your share of the partnership's adjusted gain or loss. If you are an individual partner, report this amount on line 16 of Form 6251.

**Code C.** This amount is your share of the partnership's depletion adjustment. If you are an individual partner, report this amount on line 9 of Form 6251.

**Codes D and E. Oil, gas, & geothermal properties—gross income and deductions.** The amounts reported on these lines include only the gross income (code D) from, and deductions (code E) allocable to, oil, gas, and geothermal properties that are included in box 1 of Schedule K-1. The partnership should have attached a schedule that shows any income from or deductions allocable to such properties that are included in boxes 2 through 13 and in box 20 of Schedule K-1.



Use the amounts reported and the amounts on the attached schedule to help you figure the net amount to enter on line 25 of Form 6251.

**Code F. Other AMT items.** Enter the information on the statement attached by the partnership on the applicable lines of Form 6251, Form 4626, or Schedule I of Form 1041.

## Box 18. Tax-Exempt Income and Nondeductible Expenses

**Code A. Tax-exempt interest income.** You must report on your return, as an item of information, your share of the tax-exempt interest received or accrued by the partnership during the year. Individual partners must include this amount on Form 1040, line 8b. Increase the adjusted basis of your interest in the partnership by this amount.

**Code B. Other tax-exempt income.** Increase the adjusted basis of your interest in the partnership by the amount shown, but do not include it in income on your tax return.

**Code C. Nondeductible expenses.** The nondeductible expenses paid or incurred by the partnership are not deductible on your tax return. Decrease the adjusted basis of your interest in the partnership by this amount.

## Box 19. Distributions

**Code A. Cash and marketable securities.** Code A shows the distributions the partnership made to you of cash and certain marketable securities. The marketable securities are included at their fair market value (FMV) on the date of distribution (minus your share of the partnership's gain on the securities distributed to you). If the amount shown as code A exceeds the adjusted basis of your partnership interest immediately before the distribution, the excess is treated as gain from the sale or exchange of your partnership interest. Generally, this gain is treated as gain from the sale of a capital asset and should be reported on the Schedule D for your return. However, if you receive cash or property in exchange for any part of a partnership interest, the amount of the distribution attributable to your share of the partnership's unrealized receivable or inventory items result in ordinary income (see Regulations section 1.751-1(a) and *Sale or Exchange of Partnership Interest* on page 1). For details, see Pub. 541.

The partnership will separately identify both of the following.

- The FMV of the marketable securities when distributed (minus your share of the gain on the securities distributed to you).
- The partnership's adjusted basis of those securities immediately before the distribution.

Decrease the adjusted basis of your interest in the partnership (but not below zero) by the amount of cash distributed to you and the partnership's adjusted basis of the distributed securities. Advances or drawings of money or property against your distributive share are treated as current

distributions made on the last day of the partnership's tax year.

Your basis in the distributed marketable securities (other than in liquidation of your interest) is the smaller of:

- The partnership's adjusted basis in the securities immediately before the distribution increased by any gain recognized on the distribution of the securities or
- The adjusted basis of your partnership interest reduced by any cash distributed in the same transaction and increased by any gain recognized on the distribution of the securities.

If you received the securities in liquidation of your partnership interest, your basis in the marketable securities is equal to the adjusted basis of your partnership interest reduced by any cash distributed in the same transaction and increased by any gain recognized on the distribution of the securities.

If, within 5 years of a distribution to you of marketable securities, you contributed appreciated property (other than those securities) to the partnership and the FMV of those securities exceeded the adjusted basis of your partnership interest immediately before the distribution (reduced by any cash received in the distribution), you may have to recognize gain on the appreciated property. For property contributed after June 8, 1997, the 5-year period is generally extended to 7 years. See section 737 for details.

**Code B. Other property.** Code B shows the partnership's adjusted basis of property other than money immediately before the property was distributed to you. In addition, the partnership should report the adjusted basis and FMV of each property distributed. Decrease the adjusted basis of your interest in the partnership by the amount of your basis in the distributed property (other than in liquidation of your interest) is the smaller of:

- The partnership's adjusted basis immediately before the distribution or
- The adjusted basis of your partnership interest reduced by any cash distributed in the same transaction.

If you received the property in liquidation of your interest, your basis in the distributed property is equal to the adjusted basis of your partnership interest reduced by any cash distributed in the same transaction.

If you contributed appreciated property to the partnership within 5 years of a distribution of other property to you, and the FMV of the other property exceeded the adjusted basis of your partnership interest immediately before the distribution (reduced by any cash received in the distribution), you may have to recognize gain on the appreciated property. For property contributed after June 8, 1997, the 5-year period is generally extended to 7 years. See section 737 for details.

If you receive cash or property in exchange for any part of a partnership interest, the amount of the distribution attributable to your share of the partnership's unrealized receivable or inventory items result in ordinary income (see Regulations section 1.751-1(a) and *Sale or Exchange of Partnership Interest* on page 1).

## Box 20. Other Information

**Code A. Investment income.** Report this amount on line 4a of Form 4952.

**Code B. Investment expenses.** Report this amount on line 5 of Form 4952.

**Code C. Fuel tax credit information.** The partnership will report the number of gallons of each fuel sold or used during the tax year for a nontaxable use qualifying for the credit for taxes paid on fuels, type of use, and the applicable credit per gallon. Use this information to complete Form 4136, Credit for Federal Tax Paid on Fuels.

**Code D. Look-back interest—completed long-term contracts.** The partnership will report any information you need to figure the interest due or to be refunded under the look-back method of section 460(b)(2) on certain long-term contracts. Use Form 8697, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to report any such interest.

**Code E. Look-back interest—income forecast method.** The partnership will report any information you need to 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, and depreciated under the income forecast method. Use Form 8866, Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method, to report any such interest.

**Code F. Dispositions of property with section 179 deductions.** The partnership will report your distributive share of gain or loss on the sale, exchange, or other disposition of property for which a section 179 expense deduction was passed through to partners with code F. If the partnership passed through a section 179 expense deduction to its partners for the property, you must report the gain or loss and any recapture of the section 179 expense deduction for the property on your income tax return (see the Instructions for Form 4797 for details). The partnership must provide all the following information with respect to a disposition of property for which a section 179 expense deduction was passed through to partners.

1. Description of the property.
2. Date the property was acquired and placed in service.
3. Date of the sale or other disposition of the property.
4. Your distributive share of the gross sales price or amount realized.
5. Your distributive share of the cost or other basis plus the expense of sale (reduced as explained in the Instructions for Form 4797, line 21).
6. Your distributive share of the depreciation allowed or allowable, determined as described in the Instructions for Form 4797, line 22, but excluding the section 179 expense deduction.
7. Your distributive share of the section 179 expense deduction (if any) passed through for the property and the partnership's tax year(s) in which the amount was passed through. To compute the amount of depreciation allowed or allowable for Form 4797, line 22, add to the amount from item 6 above the amount of your distributive share of the section 179

expense deduction, reduced by any unused carryover of the deduction for this property. This amount may be different than the amount of section 179 expense you deducted for the property if your interest in the partnership has changed.

8. If the disposition is due to a casualty or theft, a statement providing the information you need to complete Form 4684, Casualties and Thefts.

9. If the sale was an installment sale made during the partnership's tax year, any information you need to complete Form 6252, Installment Sale Income. The partnership also must separately report your share of all payments received for the property in the following tax years. See the instructions for Form 6252 for details.

**Code G. Recapture of section 179 deduction.** The partnership will report your distributive share of any recapture of section 179 expense deduction if business use of any property for which the section 179 expense deduction was passed through to partners dropped to 50 percent or less. If business use of the property dropped to 50 percent or less, the partnership must provide all the following information.

1. Your distributive share of the depreciation allowed or allowable (not including the section 179 expense deduction).

2. Your distributive share of the section 179 expense deduction (if any) passed through for the property and the partnership's tax year(s) in which the amount was passed through. Reduce this amount by the portion, if any, of your unused (carryover) section 179 expense deduction for this property.

**Code H. Special basis adjustment.** If you acquired an interest in an oil and gas partnership, you are required to attach a statement to your return for the year of the transfer that shows your computation of any section 743(b) basis adjustment and your allocation of the basis adjustment to specific properties. The partnership will provide the information you need to prepare this statement. See Regulations sections 1.743(b)-1(k)(1)(ii) and (iii) for more information.

**Code I. Section 453(l)(3) information.** The partnership will report any information you need to figure the interest due under section 453(l)(3) with respect to the disposition of certain timeshares and residential lots on the installment method. If you are an individual, report the interest on Form 1040, line 62. Write "453(l)(3)" and the amount of the interest on the dotted line to the left of line 62.

**Code J. Section 453A(c) information.** The partnership will report any information you need to figure the interest due under section 453A(c) with respect to certain installment sales. If you are an individual, report the interest on Form 1040, line 62. Write "453A(c)" and the amount of the interest on the dotted line to the left of line 62. See the

instructions for Form 6252 for more information. Also see section 453A(c) for details on making the computation.

**Code K. Section 1260(b) information.** The partnership will report any information you need to figure the interest due under section 1260(b). If the partnership had gain from certain constructive ownership transactions, your tax liability must be increased by the interest charge on any deferral of gain recognition under section 1260(b). Report the interest on Form 1040, line 62. Write "1260(b)" and the amount of the interest on the dotted line to the left of line 62. See section 1260(b) for details, including how to figure the interest.

**Code L. Interest allocable to production expenditures.** The partnership will report any information you need relating to interest expense that you are required to capitalize under section 263A for production expenditures. See Regulations sections 1.263A-8 through 1.263A-15 for more information.

**Code M. CCF nonqualified withdrawals.** The partnership will report your nonqualified withdrawals by the partnership from a capital construction fund (CCF). These withdrawals are taxed separately from your other gross income at the highest marginal ordinary income or capital gains tax rate. Attach a statement to your federal income tax return to show your computation of both the tax and interest for a nonqualified withdrawal. Include the tax and interest on Form 1040, line 62. To the left of line 62, write the amount of tax and interest and "CCF."

**Code N. Information needed to figure depletion—oil and gas.** This is your share of gross income from the property, share of production for the tax year, etc., needed to figure your depletion deduction for oil and gas wells. The partnership should also allocate to you a share of the adjusted basis of each partnership oil or gas property. See Pub. 535 for how to figure your depletion deduction.

**Code O. Amortization of reforestation costs.** The partnership will provide a statement identifying your share of the amortizable basis of reforestation expenditures paid or incurred before October 23, 2004. The partnership will separately report your share of the amortizable basis for reforestation expenditures for the current tax year and the 7 preceding tax years. Your amortizable basis of reforestation expenditures for each tax year from all properties is limited to \$10,000 (\$5,000 if married filing separately), including your distributive share of the partnership's expenditures and any qualified reforestation expenditures you separately paid or incurred. To figure your allowable amortization, see section 194 and Pub. 535.

Follow the instructions for Form 8582 to report a deduction allocable to a passive activity. If you materially participated in the reforestation activity, report the deduction on

line 28, column (h), of Schedule E (Form 1040).

**Code P. Unrelated business taxable income.** The partnership will report any information you need to figure unrelated business taxable income under section 512(a)(1) (but excluding any modifications required by paragraphs (8) through (15) of section 512(b)) for a partner that is a tax-exempt organization.

**Note.** A partner is required to notify the partnership of its tax-exempt status.

**Code Q. Other information.** The partnership will report:

1. Any information a publicly traded partnership needs to determine whether it meets the 90% qualifying income test of section 7704(c)(2).

**Note.** A partner is required to notify the partnership of its status as a publicly traded partnership.

2. Any information or statements you need to comply with the registration and disclosure requirements under sections 6111 and 6662(d)(2)(B)(ii) and the list keeping requirements of Regulations section 301.6112-1. See Form 8264 and Notice 2004-80, 2004-50 I.R.B. 963 for more information.

3. Any information you need to complete a disclosure statement for reportable transactions in which the partnership participates. If the partnership participates in a transaction that must be disclosed on Form 8886, Reportable Transaction Disclosure Statement, both you and the partnership may be required to file Form 8886 for the transaction. The determination of whether you are required to disclose a transaction of the partnership is based on the category(s) under which the transaction qualifies for disclosure and is determined by the partnership. See the instructions for Form 8886 for details.

4. Inversion gain. The partnership will provide a statement showing the amounts of each type of income or gain that is included in inversion gain. The partnership has included inversion gain in income elsewhere on Schedule K-1. Inversion gain is also reported under code Q because your taxable income and alternative minimum taxable income cannot be less than the inversion gain. Also, your inversion gain (a) is not taken into account in figuring the amount of net operating loss (NOL) for the tax year or the amount of NOL that can be carried over to each tax year, (b) may limit the amount of your credits, and (c) is treated as income from sources within the U.S. for the foreign tax credit. See section 7874 for details.

5. Any other information you may need to file your return not shown elsewhere on Schedule K-1.

The partnership should give you a description and the amount of your share for each of these items.