

# 1995



Department of the Treasury  
Internal Revenue Service

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

## Partner's Share of Income, Credits, Deductions, etc.

### (For Partner's Use Only)

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

## General Instructions

### Purpose of Schedule K-1

The partnership uses Schedule K-1 to report your share of the partnership's income, credits, deductions, 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 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.

Where "attach schedule" appears beside a line item on Schedule K-1, see either the schedule that the partnership has attached for that line or line 25 of Schedule K-1.

### 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 Amended Return (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 substantially appreciated 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.

**Note:** 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).

### U.S. Persons With Interests in Foreign Partnerships

If you are a U.S. person in a foreign partnership that does not file a partnership return, you may be required to furnish information necessary to determine your correct income (loss) from the partnership.

### 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 the 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 lines 18a and 18b of Schedule K-1 on page 9.
- Section 108(b)(5) (income from the discharge of indebtedness).
- Section 617 (deduction and recapture of certain mining exploration expenditures).
- Section 901 (foreign tax credit).

## Additional Information

For more information on the treatment of partnership income, credits, deductions, etc., get **Pub. 541**, Tax Information on Partnerships; **Pub. 535**, Business Expenses; and **Pub. 556**, Examination of Returns, Appeal Rights, and Claims for Refund.

You can get the above publications and other publications referenced throughout

these instructions at most IRS offices. To order publications and forms, call 1-800-TAX-FORM (1-800-829-3676).

## 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.

**Note:** *Other limitations may apply to specific deductions (e.g., the section 179 expense deduction). These limitations on specific deductions generally 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.

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 J 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 compute the adjusted basis of your partnership interest by adding items that increase your basis and then subtracting items that decrease your basis.

Items that **increase** your basis are:

- Money and your adjusted basis in property contributed to the partnership.
- Your share of the partnership's income.
- Your share of the increase in the partnership's liabilities (or your individual liabilities caused by your assumption of partnership liabilities).

Items that **decrease** your basis are:

- Money and the adjusted basis of property distributed to you.
- Your share of the partnership's losses.
- Your share of the decrease in the partnership's liabilities (or your individual liabilities assumed by the partnership).

The above is not a complete list of items and factors that determine basis. See Pub. 541 for more information.

### 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 (including loss on the disposition of assets) and other deductions

(such as the section 179 expense deduction) that you can claim to the amount you could actually lose in the activity. 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) 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.

To help you complete Form 6198, the partnership should specify on an attachment to Schedule K-1 your share of the total pre-1976 losses from a section 465(c)(1) activity for which there existed a corresponding amount of nonrecourse liability at the end of the year in which the losses occurred. Also, 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.

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, get **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, get **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 regarding 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 sort 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; and **(c)** monitoring the finances or operations of the activity in a nonmanagerial capacity.

**Effect of determination.**—If you determine that you materially participated in **(a)** a trade or business activity of the partnership, or **(b)** if you were a real estate professional (defined above), in a rental real estate activity of the partnership, report the income (loss), deductions, and credits from that activity as indicated in either column (c) of Schedule K-1 or the instructions for each line.

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, if you were 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 on Schedule K-1 or 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 following 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 figuring your net income or loss from a non-PTP passive activity. Get **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, Part II, report the \$4,500 net gain as nonpassive income in column (k). In column (h), 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, Part II, report \$7,200 of the

losses as a passive loss in column (g). Carry forward to 1996 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 4, 5, and 6 of Form 8582. List each activity of the PTP in Worksheet 4. Enter the overall loss from each activity in column (a). Complete column (b) of Worksheet 4 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 4. Then complete Worksheet 5 if all the loss from the same activity is to be reported on one form or schedule. Use Worksheet 6 instead of Worksheet 5 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 5 (or Worksheet 6 if applicable). The losses in column (c) of Worksheet 5 (column (e) of Worksheet 6) 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*.

**Active participation in 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.

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 deduction allowed under section 164(f) for one-half of self-employment taxes, or the exclusion from income of interest from Series EE U.S. Savings Bonds used to pay higher education expenses.

**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 column (c) of Schedule K-1 or 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.

## Specific Instructions

### General Information and Questions

#### Item F

Item F should show your share of the partnership's nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other liabilities as of the end of the partnership's tax year. If you terminated your interest in the partnership during the tax year, Item F should show the share that existed immediately before the total disposition. A partner's "other 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 "Other" 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 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.

#### Item G

If the partnership is a registration-required tax shelter or has invested in a registration-required tax shelter, it should have completed Item G. If you claim or report any income, loss, deduction, or credit from a tax shelter, you must attach Form 8271 to your tax return. If the partnership has invested in a tax shelter, it must give you a copy of its Form 8271 with your Schedule K-1. Use the information on this Form 8271 to complete your Form 8271.

If the partnership itself is a registration-required tax shelter, use the information on Schedule K-1 (name of the partnership, partnership identifying number, and tax shelter registration number) to complete your Form 8271.

#### Item H

If the box in Item H is checked, you are a partner in a publicly traded partnership and must follow the rules discussed on pages 3 and 4 under **Publicly traded partnerships**.

### Lines 1 through 25

The amounts shown on lines 1 through 25 reflect your share of income, loss, credits, deductions, 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 in column (b) and enter them on the lines on your tax return as indicated in column (c). If the passive activity rules do apply, report the amounts shown in column (b) as indicated in the line instructions below.

If you are not an individual, report the amounts in column (b) as instructed on your tax return.

The line numbers in column (c) are references to forms in use for calendar year 1995. If you file your tax return on a calendar year basis, but your partnership files a return for a fiscal year, enter the amounts shown in column (b) 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 1996, report the amounts in column (b) on your 1996 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.

If you have amounts other than those shown on Schedule K-1 to report on Schedule E (Form 1040), enter each item on a separate line of Part II of Schedule E.

### Income

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

The amount reported for line 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 1995 Form 1040, find your situation below and report your line 1 income (loss) as instructed, after applying the basis and at-risk limitations on losses:

1. Report line 1 income (loss) from partnership trade or business activities in which you materially participated on Schedule E (Form 1040), Part II, column (i) or (k).
2. Report line 1 income (loss) from partnership trade or business activities in which you did not materially participate, as follows:

**a.** If income is reported on line 1, report the income on Schedule E, Part II, column (h). However, if the box in Item H is checked, report the income following the rules for **Publicly traded partnerships** on pages 3 and 4.

**b.** If a loss is reported on line 1, follow the Instructions for Form 8582, to determine how much of the loss can be reported on Schedule E, Part II, column (g). However, if the box in Item H is checked, report the loss following the rules for **Publicly traded partnerships** on pages 3 and 4.

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

Generally, the income (loss) reported on line 2 is a passive activity amount for all partners. However, the income (loss) on line 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 you are filing a 1995 Form 1040, use the following instructions to determine where to enter a line 2 amount:

1. If you have a loss from a passive activity on line 2 and you meet **all** of the following conditions, enter the loss on Schedule E (Form 1040), Part II, column (g):

a. You actively participated in the partnership rental real estate activities. (See **Active participation in 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 is **not** held as a limited partner.

2. If you have a loss from a passive activity on line 2 and you **do not** meet all the conditions in **1** above, report the loss following the Instructions for Form 8582 to determine how much of the loss you can report on Schedule E (Form 1040), Part II, column (g). However, if the box in Item H is checked, report the loss following the rules for **Publicly traded partnerships** on pages 3 and 4.

3. If you were a real estate professional and you materially participated in the activity, report line 2 income (loss) on Schedule E (Form 1040), Part II, column (i) or (k).

4. If you have income from a passive activity on line 2, enter the income on Schedule E, Part II, column (h). However, if the box in Item H is checked, report the income following the rules for **Publicly traded partnerships** on pages 3 and 4.

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

The amount on line 3 is a passive activity amount for all partners. Report the income or loss as follows:

1. If line 3 is a loss, report the loss following the Instructions for Form 8582. However, if the box in Item H is checked, report the loss following the rules for **Publicly traded partnerships** on pages 3 and 4.

2. If income is reported on line 3, report the income on Schedule E (Form 1040), Part II, column (h). However, if the box in Item H is checked, report the income following the rules for **Publicly traded partnerships** on pages 3 and 4.

## Line 4—Portfolio Income (Loss)

Portfolio income or loss 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, dividends, annuities, or royalties and gain or loss on the sale of property that produces these types of income or is held for investment. Column (c) of Schedule K-1 tells individual partners where to report this income on Form 1040.

The partnership uses line 4f to report portfolio income other than interest, dividend, royalty, and capital gain (loss) income. It will attach a statement to tell you what kind of portfolio income is reported on line 4f.

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), Part IV, column (d). The statement will also report your share of any "excess inclusion" that you report on Schedule E, Part IV, column (c), and your share of section 212 expenses that you report on Schedule E, Part IV, 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% adjusted gross income floor on Schedule A, line 22.

## Line 5—Guaranteed Payments to Partners

Generally, amounts on this line are not passive income, and you should report them on Schedule E (Form 1040), Part II, column (k) (e.g., guaranteed payments for personal services).

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

If the amount on line 6 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 on line 6 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 not from a passive activity, report it on line 2, column (g) or (h), whichever is applicable, of **Form 4797**,

Sales of Business Property. You do not have to complete the information called for in columns (b) through (f). Write "From Schedule K-1 (Form 1065)" across these columns.

• If gain from a passive activity is reported on line 6, report the gain on line 2, column (h), of Form 4797.

• If a loss from a passive activity is reported on line 6, see **Passive loss limitations** in the Instructions for Form 4797. You will need to report the loss following the Instructions for Form 8582 to determine how much of the loss is allowed on Form 4797. However, if the box in Item H is checked, report the loss following the rules for **Publicly traded partnerships** on pages 3 and 4.

## Line 7—Other Income (Loss)

Amounts on this line are other items of income, gain, or loss not included on lines 1 through 6. 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 H is checked, report the loss following the rules for **Publicly traded partnerships** on pages 3 and 4.

Report income or gain items that are passive activity amounts to you as instructed below.

The instructions given below tell you where to report line 7 items if such items are not passive activity amounts.

Line 7 items may include the following:

• Partnership gains from the disposition of farm recapture property (see 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, line 27.

2. If the partnership was engaged in the trade or business of gambling, (a) report gambling winnings in Part II of Schedule E, and (b) deduct gambling losses to the extent of winnings in Part II of Schedule E.

• Any income, gain, or loss to the partnership under section 751(b). Report this amount on Form 4797, line 11.

• Specially allocated ordinary gain (loss). Report this amount on Form 4797, line 11.

• 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).

- Net short-term capital gain or loss and net long-term capital gain or loss from Schedule D (Form 1065) that is **not** portfolio income (e.g., gain or loss from the disposition of nondepreciable personal property used in a trade or business activity of the partnership). Report a net short-term capital gain or loss on Schedule D (Form 1040), line 5, column (f) or (g), and a net long-term capital gain or loss on Schedule D (Form 1040), line 13, column (f) or (g).
- 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.

## Deductions

### Line 8—Charitable Contributions

The partnership will give you a schedule that shows the amount of contributions subject to the 50%, 30%, and 20% limitations. For more details, see the Form 1040 instructions.

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 shown on line 8 of your Schedule K-1 (Form 1065).

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.

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

### Line 9—Section 179 Expense 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 following the Instructions for Form 8582. However, if the box in Item H is checked, report this amount following the rules for **Publicly traded partnerships** on pages 3 and 4. If the amount is not a passive activity deduction, report it on Schedule E (Form 1040), Part II, column (j).

### Line 10—Deductions Related to Portfolio Income

Amounts entered on this line 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 line 10 amounts on Schedule A (Form 1040), line 22. See the Instructions for Schedule A, lines 22 and 27, for more information. However, enter deductions allocable to royalties on Schedule E (Form 1040), line 18. For the 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.

### Line 11—Other Deductions

Amounts on this line are deductions not included on lines 8, 9, 10, 17e, and 18b, such as:

- Itemized deductions (Form 1040 filers enter on Schedule A (Form 1040)).

**Note:** *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 notify you. You will have to complete your own Form 4684.*

- Any penalty on early withdrawal of savings.
- 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.
- Any amounts paid during the tax year for insurance that constitutes medical care for you, your spouse, and your dependents. On line 26 of Form 1040, you may be allowed to deduct up to 30% of 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 26 of Form 1040.
- Payments made on your behalf to an IRA, Keogh, or a simplified employee pension (SEP) plan. See Form 1040 instructions for lines 23a and 23b to figure your IRA deduction. Enter payments made to a Keogh or SEP plan on Form 1040, line 27. If the payments to a Keogh plan were to a defined benefit plan, the partnership should give you a statement showing the amount of the benefit accrued for the tax year.
- 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. See Notice 89-35, 1989-1 C.B. 675, for details.
- 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 below; otherwise, it is trade or business interest.

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

## Investment Interest

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, get **Form 4952**, Investment Interest Expense Deduction, and **Pub. 550**, Investment Income and Expenses.

### Line 12a—Interest Expense on Investment Debts

Enter this amount on Form 4952, line 1, along with your investment interest expense from Schedule K-1, line 11, if any, and from other sources to determine how much of your total investment interest is deductible.

### Lines 12b(1) and (2)—Investment Income and Investment Expenses

Use the amounts on these lines to determine the amounts to enter in Part II of Form 4952.

**Caution:** *The amounts shown on lines 12b(1) and (2) include only investment income and expenses included on lines 4a, 4b, 4c, 4f, and 10 of this Schedule K-1. The partnership should attach a schedule that shows the amount of any investment income and expenses included on any other lines of this Schedule K-1. Be sure to take these amounts into account, along with the amounts on lines 12b(1) and 12b(2) and your investment income and expenses from other sources, when figuring the amounts to enter in Part II of Form 4952.*

## Credits

**Caution:** *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 referenced below. See the Instructions for Form 8582-CR (or Form 8810) for more information.*

*Also, if you are entitled to claim more than one general business credit (e.g., investment credit, jobs credit, credit for alcohol used as fuel, research credit, low-income housing credit, enhanced oil recovery credit, disabled access credit, renewable electricity production credit, Indian employment credit, credit for employer social security and Medicare taxes paid on certain employee tips, and credit for contributions to selected community development corporations), you must complete Form 3800, General Business Credit, in addition to the credit forms referenced below. If you have more than one credit, see the instructions for Form 3800 for more information.*

### Line 13a—Low-Income Housing Credit

Your share of the partnership's low-income housing credit is shown on line 13a. Any allowable credit is entered on **Form 8586**, Low-Income Housing Credit.

The partnership will report separately on line 13a(1) that portion of the low-income housing credit for property placed in service before 1990 to which section 42(j)(5) applies. All other low-income housing credits for property placed in service before 1990 will be reported on line 13a(2). Line 13a(3) will report the low-income housing credit for property placed in service after 1989 to which section 42(j)(5) applies. All other low-income housing credits for property placed in service after 1989 will be reported on line 13a(4).

Keep a separate record of the amount of low-income housing credit 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 the Instructions for Form 8586.

### Line 13b—Qualified Rehabilitation Expenditures Related to Rental Real Estate Activities

The partnership should identify your share of the partnership's rehabilitation expenditures from each rental real estate activity. Enter the expenditures on the appropriate line of **Form 3468**, Investment Credit, to figure your allowable credit.

### Line 13c—Credits (Other Than Credits Shown on Lines 13a and 13b) Related to Rental Real Estate Activities

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).

### Line 13d—Credits Related to Other Rental Activities

The partnership will identify the type of credit and any other information you need to compute credits from rental activities other than rental real estate activities.

### Line 14—Other Credits

The partnership will identify the type of credit and any other information you need to compute credits other than on lines 13a through 13d. Expenditures qualifying for the (a) rehabilitation credit from other than rental real estate activities, (b) energy credit, or (c) reforestation credit will be reported to you on line 25.

Credits that may be reported on line 13c, 13d, or 14 (depending on the type of activity they relate to) include the following:

- Nonconventional source fuel credit.
- Unused credits from cooperatives.

- 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 55. Be sure to check the box on line 55 and write "From Schedule K-1."

- Credit for increasing research activities (Form 6765).
- Jobs credit (Form 5884). See Form 5884 for definitions, special rules, and limitations.
- Credit for alcohol used as fuel (Form 6478).
- Disabled access credit (Form 8826).
- Enhanced oil recovery credit (Form 8830).
- Qualified electric vehicle credit (Form 8834).
- Renewable electricity production credit (Form 8835).
- Empowerment zone employment credit (Form 8844).
- Indian employment credit (Form 8845).
- Credit for employer social security and Medicare taxes paid on certain employee tips (Form 8846).
- Credit for contributions to selected community development corporations (Form 8847).

The passive activity limitations may limit the amount of credits on lines 13a, 13b, 13c, 13d, and 14 (other than the credit for backup withholding) that you may take. Lines 13a, 13b, 13c, and 13d credits are related to the rental activities of the partnership and are generally passive activity credits to all partners. However, amounts on lines 13a, 13b, and 13c are not passive activity credits if you were a real estate professional (defined on page 3) and you materially participated in the activity. Line 14 credits (other than the credit for backup withholding) are related to the trade or business activities of the partnership and are passive activity credits to all partners who did not materially participate in the trade or business activity. In general, credits from passive activities are limited to the tax attributable to passive activities.

But if you actively participated in a rental real estate activity, you may be able to use passive activity credits on line 13c against tax on other income. The amount of these credits you can use is limited to their deduction equivalent up to \$25,000 (net of losses from rental real estate activities deductible against up to \$25,000 of other income).

You may also claim passive activity credits on lines 13a and 13b against tax on other income, subject to the same \$25,000 limitation, even if you did not actively participate in a rental real estate activity. Line 13d credits are limited to tax attributable to passive activities. The \$25,000 deduction equivalent does not apply to line 13d and line 14 credits.

### Self-Employment

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.

### Line 15a—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.

### Line 15b—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), Part V, line 41. 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.

### Line 15c—Gross Nonfarm 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.

### Adjustments and Tax Preference Items

Use the information reported on lines 16a through 16e (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.

### Lines 16d(1) and 16d(2)—Gross Income From, and Deductions Allocable to, Oil, Gas, and Geothermal Properties

The amounts reported on these lines include only the gross income from, and deductions allocable to, oil, gas, and geothermal properties that are included on line 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 on lines 2 through 11 and line 25 of Schedule K-1. Use the amounts reported on lines 16d(1) and 16d(2) and the amounts on the attached schedule to help you determine the net amount to enter on line 14f of Form 6251.

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

Enter the information on the schedule attached by the partnership for line 16e on the applicable lines of Form 6251.

### Foreign Taxes

Use the information on lines 17a through 17g and attached schedules to figure your foreign tax credit. For more information, get **Form 1116**, Foreign Tax Credit (Individual, Estate, Trust, or Nonresident Alien Individual), and the related instructions; **Form 1118**, Foreign Tax Credit—Corporations, and the related instructions; and **Pub. 514**, Foreign Tax Credit for Individuals.

### Other

#### Lines 18a and 18b—Section 59(e)(2) Expenditures

The partnership will show on line 18a the type of qualified expenditures to which an election under section 59(e) may apply. It will identify the amount of the expenditure on line 18b. If there is more than one type of expenditure, the amount of each type will be listed on an attachment. 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 listed on line 18b. You must decide both how to claim the expenses on your return and compute the resulting adjustment or tax preference item.

#### Line 19—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 should report this amount on Form 1040, line 8b. Increase the adjusted

basis of your interest in the partnership by this amount.

#### Line 20—Other Tax-Exempt Income

Increase the adjusted basis of your interest in the partnership by the amount shown on line 20, but do not include it in income on your tax return.

#### Line 21—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.

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

Line 22 shows the distributions the partnership made to you of cash and certain marketable securities. The marketable securities are included at their fair market value on the date of distribution (minus your share of the partnership's gain on the securities distributed to you). If the amount shown on line 22 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, the gain may be ordinary income. For details, see Pub. 541.

The partnership will separately identify **(a)** the fair market value of the marketable securities when distributed (minus your share of the gain on the securities distributed to you) and **(b)** 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 **(a)** the partnership's adjusted basis in the securities immediately before the distribution increased by any gain recognized on the distribution of the securities, or **(b)** 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 fair market value 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. See section 737 for details.

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

Line 23 shows the partnership's adjusted basis of property other than money immediately before the property was distributed to you. Decrease the adjusted basis of your interest in the partnership by the amount of your basis in the distributed property. Your basis in the distributed property (other than in liquidation of your interest) is the smaller of **(a)** the partnership's adjusted basis immediately before the distribution, or **(b)** 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 fair market value 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. See section 737 for details.

#### Lines 24a and 24b—Recapture of Low-Income Housing Credit

A section 42(j)(5) partnership will report recapture of a low-income housing credit on line 24a. All other partnerships will report recapture of a low-income housing credit on line 24b. 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, get **Form 8611**, Recapture of Low-Income Housing Credit.

### Supplemental Information

#### Line 25

Amounts shown on line 25 include:

1. Taxes paid on undistributed capital gains by a regulated investment company. Form 1040 filers enter your share of these taxes on line 60, check the box for Form 2439, and add the words "Form 1065."

2. Number of gallons of each fuel used during the tax year in a use qualifying for the credit for taxes paid on fuels and the applicable credit per gallon. Also your share of the credit allowed for the purchase of qualified diesel-powered highway vehicles. Use this information to

complete **Form 4136**, Credit for Federal Tax Paid on Fuels.

**3.** 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.

**4.** Recapture of the section 179 expense deduction. If the recapture was caused by a disposition of the property, include the amount on Form 4797, line 18. The recapture amount will be limited to the amount you deducted in earlier years.

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

**6.** Any information or statements you need to comply with requirements under section 6111 (regarding tax shelters) or section 6662(d)(2)(B)(ii) (regarding adequate disclosure of items that may cause an understatement of income tax on your return).

**7.** Preproductive period farm expenses. You may be eligible to elect to deduct these expenses currently or capitalize them under section 263A. Get **Pub. 225**, Farmer's Tax Guide, and Temporary Regulations section 1.263A-4T(c).

**8.** Any information you need to compute 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 54. Write "453(l)(3)" and the amount of the interest on the dotted line to the left of line 54.

**9.** Any information you need to compute 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 54. Write "453A(c)" and the amount of the interest on the dotted line to the left of line 54.

**10.** Any information you need to compute 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.

**11.** 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.

**12.** Any information you need to compute 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.*

**13.** Your share of expenditures qualifying for the (a) rehabilitation credit from other than rental real estate activities, (b) energy credit, or (c) reforestation credit. Enter the expenditures on the appropriate line of Form 3468 to figure your allowable credit.

**14.** Investment credit properties subject to recapture. 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.

**15.** Any information you need to figure your recapture of the qualified electric vehicle credit. See Pub. 535 for details, including how to figure the recapture.

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

**17.** 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.

