



Instructions for Completing Form IT-565 Partnership Return of Income

Louisiana Department of Revenue
P. O. Box 3440
Baton Rouge, LA 70821-3440

Partnerships not required to file a return

A partnership return is not required if all partners are natural persons who are residents of the State of Louisiana (Revised Statute 47:201).

Partnerships that must file a return

Partnerships (including syndicates, groups, pools, joint ventures, or other unincorporated organizations, through or by means of which any business, financial operation, or venture is carried on, and that are not trusts, estates, or corporations within the meaning of the Louisiana Income Tax Law) doing business in Louisiana or deriving any income from sources therein, regardless of the amount and regardless of the residence of the partners, shall make a return of income on Form IT-565 if any partner is a nonresident of Louisiana or if any partner is not a natural person. If the partnership has income that is derived from sources partly within and partly outside the State of Louisiana, Form IT-565B must be filed with Form IT-565.

Income tax returns of partners

Each partner that is a natural person must include on his individual return, his distributive share, whether or not such share is distributed to or withdrawn by the partner, the net income of the partnership during the partnership's accounting period (whether fiscal or calendar year), that ended during his taxable year (whether fiscal or calendar year). Form IT-540 is for resident individuals. A nonresident member of a partnership must include on Form IT-540B his distributive share of that portion of the partnership income that was derived from sources within the State of Louisiana.

Individuals should use the information reported on the federal partnership return instead of the amounts shown in the partners' allocation schedule. Corporations should refer to R.S. 47:287.93.A(5).

When and where the return must be filed

The return for the calendar year must be filed with the Department of Revenue, Box 3440, Baton Rouge, LA 70821-3440, on or before May 15 of the year following the close of the calendar year. Returns for fiscal years must be filed on or before the 15th day of the fifth month after the close of the fiscal period.

Period to be covered by return

The return must be filed for a calendar year, or for a fiscal year of 12 months, ending on the last day of any month other than December, or for an annual period of 52/53 weeks, if records are kept on this basis. The dates for which the period covered by the return begins and ends must be clearly indicated at the top of the return. The accounting period established on the first return must be adhered to for subsequent years under Louisiana Income Tax Law, unless permission to make a change is received from the Secretary of Revenue.

A change by any partnership from one taxable year to another, or the adoption by a new partnership for an initial taxable year, must meet the provisions of R.S. 47:206B (1). A change by a principal partner from one taxable year to another must meet the provisions of R.S. 47:206B (2). A principal partner is one who has an interest of five percent or more in the partnership profits or capital.

Accrued or received income

If records are kept on an accrual basis, report all income accrued, even though it has not been actually received or entered in the records, and report all expenses incurred, not just expenses paid.

If records do not show income accrued and expenses incurred, report all income received or constructively received, such as bank interest credited to your account and expenses paid.

Penalties

The penalty for willfully making a false or fraudulent return or for willful failure to make and file the return on time shall not be more than \$1,000, or imprisonment for not more than one year, or both, and shall include the costs of prosecution.

Income items exempt from tax

The following are some types of income that are exempt from Louisiana income tax and should not be included in gross income:

- (a) *Amounts received under a life insurance contract paid by reason of the death of the insured and paid at the death of the insured. For treatment of amounts paid at a date later than death, see R.S. 47:43D.*
- (b) *That portion of an annuity that represents a return of the taxpayer's investment. (See R.S. 47:44.)*
- (c) *Gifts (not received as a consideration for services rendered) and money and property acquired by bequest, devise, or inheritance. However, the income derived from such property is taxable.*
- (d) *Interest on obligations of the United States Government and/or its instrumentalities.*
- (e) *Interest on obligations of the State of Louisiana and/or on obligations of any political or municipal subdivision of the State of Louisiana to the extent as is now exempt by law.*

List in Schedule K all items of income reported on your Federal return, but not on your Louisiana return.

Information at the source

Any person, firm, partnership, trust, corporation, or organization making payments aggregated \$1,000 or more during any calendar year for lease bonuses, delay rentals, and/or royalties respecting mineral leases affecting lands located in Louisiana and rentals paid with respect to real property located in Louisiana to a nonresident individual or a firm, partnership, trust, corporation, or organization not located in Louisiana shall file an information return with the Secretary of Revenue on or before June 1 of the following year for each such payee. The return shall include the name, address, Federal Employer Identification Number, and/or Social Security Number of both the payor and payee. There shall also be included the amount and description of payments to each such payee. The Federal Information Return Form (Form 1099) for reporting such payments may be used for reporting the required information. Federal Form 1099 shall be accompanied by Federal Form 1096 furnishing the payor's name, address, Federal Employer Identification Number, and/or Social Security Number and the number of Forms 1099 enclosed. Informational returns reporting other items of income that would

normally appear on Federal Form 1099 are required only upon the specific request of the Secretary of Revenue.

Gross income and deductions

Line 1 Gross Sales — Print the gross sales, less goods returned, and any allowance or discounts from the sale price if engaged in business where inventories are an income-determining factor.

Line 2 Cost of Goods Sold — Print the cost of goods sold as determined on Schedule A on Page 2 of the return.

If the production, purchase, or sale of merchandise is an income-producing factor in the trade or business, inventories of the merchandise on hand should be taken at the beginning and end of the taxable year. The inventories may be valued using either the cost method, or the lower of cost or market method. If the inventories reported do not agree with the inventories in the records, attach a statement explaining how the difference occurred.

Line 3 Gross Profit from Sales — Print on Line 3 the gross profit, that is obtained by deducting Line 2, the cost of goods sold as extended, from Line 1, the gross sales.

If the installment method is used, attach a schedule to the return showing the following information separately for the current year and each of the three preceding years: (a) Gross sales; (b) Cost of goods sold; (c) Gross profits; (d) Percentage of profits to gross sales; (e) Amount collected; and, (f) Gross profit on amount collected. Print on Line 3 the gross profit on collections made during the current year. (See R.S. 47:94A.)

Line 4 Income (or loss) from Other Partnerships, Syndicates, etc. — Print the partnership's share of the profits (whether redistributive share of another partnership's capital gains or losses, that should be reported on Schedule D (Form IT-565). If the distributive share is a loss, such loss must be limited to the amount of the adjusted basis of the interest in the other partnership as of the end of the other partnership year in which the loss occurred. If the taxable year of the partnership return filed does not coincide with the annual accounting period of the other partnership, include in the return the distributive share of the net profits (or losses) for the accounting period of such other partnership ending within the period for which the return is filed.

Line 5 Dividends — Print on Line 5 all dividends (except certain stock dividends) received from any corporation, regardless of whether or not the corporation has paid any income tax to the State of Louisiana.

Line 6 Interest — Print on Line 6 all interest received or credited to the partnership during the taxable period on bank deposits, notes, mortgages, corporation bonds, and bonds of states, cities, and other political subdivisions, except bonds issued under authority granted by Acts of the Legislature of the State of Louisiana, if such Acts provide that the interest on such bonds shall be exempt from taxation.

Line 7 Rents and Royalties — Print on Line 7 the net income (or loss) as reported on Schedule B.

Line 8 Net Farm Profit (or Loss) — Print the net profit (or loss) from farming. Attach schedule explaining determination of profit or loss.

Line 9 Profit or Loss from the Sale of Capital Assets such as Stocks, Bonds, Real Estate, etc. — Print the profit from

the sale of property, including property situated outside of Louisiana, as reported on Schedule D of the return.

Describe the property briefly using Schedule D; give location, and state the actual consideration of price received, or the fair market value of the property received in exchange. Expenses connected with the sale, such as commissions paid agents, may be deducted in computing the amount received.

If a gain or a loss is computed on the sale of property acquired before January 1, 1934, both the cost and the acquired value must be shown with information as to how the January 1, 1934, value was determined, as provided by R.S. 47:155. If the amount shown as cost is other than actual cash cost of the property sold, full details must be furnished regarding the acquisition of the property.

Enter as depreciation, the amount of exhaustion, wear and tear, obsolescence, or depletion that has been allowed (but not less than the amount allowable) in respect to such property since date of acquisition, or since January 1, 1934, if the property was acquired before that date. In addition, if the property was acquired before January 1, 1934, and if the cost of such property is greater than its fair market value as of that date, the cost shall be reduced by the depreciation actually sustained before that date. (See R.S. 47:156A.)

Subsequent improvements include expenditures for additions, improvements, and repairs made to restore the property or prolong its useful life. Do not include ordinary repairs, interest, or taxes in computing gain or loss.

No loss shall be recognized in any sale or other disposition of shares of stock or securities where the partnership has acquired, or contracted to acquire, substantially identical stock or securities within 30 days before or after the date of such sale, unless the partnership is a dealer in stock or securities in the ordinary course of business.

Deduction for losses from sales or exchanges of capital assets are allowed only to the extent of the gains from such sales or exchanges. (See R.S. 47:72.)

Line 10 Profit or Loss from Sale of Property Other Than Capital Assets — Print the profit or loss from the sales or exchanges of property other than capital assets reported on Schedule E of the return, and furnish the information required by the Line 9 instructions.

Line 11 Other Income — Print any other taxable income and explain its nature on an attached schedule, except items requiring separate computation that are required to be reported on Schedule J. Include taxable income from annuities and insurance proceeds.

Line 12 Total Income — Add the amounts on Lines 3 through 11 and print that amount on Line 12.

Deductions

Line 13 Salaries and Wages — Print all salaries and wages not included as a deduction on Line 3 of Schedule A, except salaries to partners.

Line 14 Payments to Partners — Salaries and Interest (Guaranteed Payments) — Print the deduction taken for payments to a partner for services or the use of capital where such payments are determined without regard to the income of the partnership. Do not include distributive share of partnership profits. Allocate these profits to the appropriate partners in Column 4, Partners' Allocations, Page 1.

Line 15 Rent — Print the amount of rental income received from business property, but do not deduct rent for a dwelling occupied by any partner for residential purposes.

Line 16 Interest — Print the amount of interest paid for business indebtedness. Amounts paid by a partnership to a partner for the use of capital should be printed on Line 14. Amounts paid as interest by a partnership to a partner as a result of a transaction wherein the partner acts in a capacity other than as a partner should be printed on this line. Do not include interest on indebtedness incurred or continued to purchase or carry obligations upon which the interest is wholly exempt from taxation. The limitations on deductions for unpaid interest are set forth in R.S. 47:75. Show details on Schedule C.

Line 17 Taxes — Print the amount of taxes paid or accrued during the taxable year. Do not include Louisiana income taxes, taxes assessed against local benefits of a kind tending to increase the value of the property assessed, or taxes not imposed upon the taxpayer (R.S. 47:55). Show details on Schedule C.

Line 18 Losses by Fire, Storm, Shipwreck, or Other Casualty, or Theft — Print the amount of losses sustained during the year, if arising by fire, storm, shipwreck, or other casualty, or from theft, and not compensated for by insurance or otherwise, nor reflected in cost of goods sold. [See R.S. 47:60(3).] Theft losses can be deducted only in the year in which the partnership discovers the loss. Attach a statement setting forth a description of the property, date acquired, cost, subsequent improvements, depreciation allowed or allowable since acquisition, insurance, salvage value, and deductible loss claimed.

Line 19 Bad Debts — Print the amount of debts that became bad during the year. Bad debts may be deducted either (1) when they become wholly or partially worthless; or, (2) by a reasonable addition to a reserve for bad debts. No change of method is allowed without permission of the Secretary of Revenue.

Line 20 Repairs — Print the cost of incidental repairs, including labor, supplies, and other items, that do not add to the value or appreciably prolong the life of the property repaired. Expenditures for new buildings, machinery, equipment, or for permanent improvements or betterments that increase the value of the property are chargeable to capital accounts. Expenditures for restoring or replacing property are not deductible, since such expenditures are chargeable to capital accounts or to depreciation reserves.

Line 21 Depreciation Deduction — Print the amount of depreciation computed on Schedule G. A reasonable allowance for the exhaustion, wear and tear, and obsolescence of property used in the trade or business or of property held by the taxpayer for the production of income shall be allowed as a depreciation deduction. The allowance does not apply to inventories or stock-in-trade, or to land apart from the improvements or physical development added to it.

The useful life of an asset can be measured in units of production, but the ordinary practice is to measure useful life in years. Business experience, engineering information, and other relevant factors provide a reasonable basis for estimating the useful life of property. The cost (or other basis) to be recovered should be charged off over the expected useful life of the property.

The Department of Revenue will permit the use of estimated lives allowable for federal income tax purposes. The deduction of "bonus" or "first-year" depreciation is allowable.

There are special rules for new assets acquired after December 31, 1953. The cost or other basis of an asset acquired after December 31, 1953, may be depreciated under methods proper in the past; or it may be depreciated under any of the following methods, provided (1) that the asset is tangible; (2) that it has an estimated useful life of three years or more; and, (3) that the original use of the asset commenced with the taxpayer and commenced after December 31, 1953.

If an asset is constructed, reconstructed, or erected by the taxpayer so that much of the basis of the asset is computed in accordance with R.S. 47:65F (2), and is attributable to construction, reconstruction, or erection after December 31, 1953, the asset may be depreciated under any of the following methods, provided that the asset is tangible and has an estimated useful life of three years or more:

- (1) **Declining balance method** — This method may be used with a rate not in excess of twice the applicable straight-line rate.
- (2) **Sum of the years-digit method** — Under this method, annual allowances for depreciation are computed by applying changing fractions to the taxpayer's cost or other basis of property (reduced by estimated salvage value). The deduction for each year is computed by multiplying the cost or other basis of the asset (reduced by estimated salvage value) by the number of years of useful life remaining (including the year for which the deduction is computed) and dividing the product by the sum of all the digits corresponding to the years of the estimated useful life of the assets.
- (3) **Other methods** — A taxpayer may use any consistent method that does not result in accumulated allowances at the end of the year greater than the total of the accumulated allowances that would have resulted from the use of the declining method. This limitation applies only during the first two-thirds of the useful life of the property.

If a deduction is claimed for depreciation, Schedule G must be completed. When obsolescence is included, state separately the amount claimed and the basis upon which it is computed. Land values or costs must not be included in this schedule, and where land and buildings were purchased for a lump sum, the cost of the building subject to depreciation must be established. The total amount of depreciation allowed on each property in prior years must be shown, and if the cost of any asset has been fully recovered through previous depreciation allowances, the cost of such assets must not be included in the cost shown in the schedule of depreciable assets. (See R.S. 47:65 and R.S. 47:157.)

Line 22 Amortization — Print the amount of deduction with respect to the amortization of the adjusted basis of any emergency facility constructed or erected in taxable years beginning after December 31, 1955 (R.S. 47:65 (I)), with respect to which the Government has issued a certificate of necessity. A statement of the pertinent facts should be filed with the return. No amortization is permitted with respect to the adjusted basis of a grain storage facility or certain expenditures relating to research and experiment and trademark and trade name expenditures.

Line 23 Depletion of Mines, Oil and Gas Wells, Timber, etc. — Print the amount of depletion of mines, oil or gas wells, timber, etc. If complete valuation data has been filed in previous years, file with the return the information necessary to bring the depletion schedule up-to-date, setting forth in full a statement of all the transactions bearing on the deductions from or additions to the value of physical assets during the taxable year, with an explanation of how the depletion deduction for the taxable year has been determined.

Line 24 Other Deductions Authorized by Law — Print the amount of other authorized deductions for which no space is provided elsewhere on Page 1 of the return, exclusive of items requiring separate computation and required to be reported on Schedule J. Do not deduct losses incurred in transactions that were neither connected with the trade or business nor entered into for profit. No deduction is allowed for any expense incurred to produce income not subject to Louisiana Income Tax. If an expense is incurred in part for the production of taxable income and in part for the production of tax exempt income, then only the portion of the expense that can reasonably be attributed to the production of taxable income is deductible.

A partnership receiving any exempt income, other than interest, or holding any property or engaging in any activity the income from which is exempt shall submit with its return as a part thereof an itemized statement showing (1) the amount of each class of exempt income; and, (2) the amount of expense items allocated to each such class (the amount allocated by apportionment being shown separately).

Line 25 Total Deductions — Add the amounts on Lines 13 through 24 and print that amount on Line 25.

Line 26 Net Income (or Loss) — Subtract Line 25 from Line 12 and print that amount on Line 26.

Line 27 Net Gain from Sale of Capital Assets — Print on Line 27 the amount of gain from the sale or exchange of capital assets found on Line 9.

Line 28 Ordinary Income (or Loss) — Subtract Line 27 from Line 26 and print the amount on Line 28.

Partners' Allocations — This schedule should show complete information with respect to all the persons who were members of the partnership, syndicate, group, etc., during any portion of the taxable year. Although the partnership is not subject to income tax, the members thereof are liable for income tax in their separate capacities and are taxable upon their distributive shares of the income of the partnership, whether distributed or not, and each is required to include his share in his return. However, a partner may not claim on his separate return a distributive share of loss from a partnership to the extent any such loss exceeds the basis of his interest in the partnership. The excess of such loss may be claimed for later years to the extent that the basis for the partner's interest is increased above zero. Each partner should be advised by the partnership of his share of the income, deductions, and credits as shown on Schedule J. Individuals should use the information reported on the federal partnership return instead of the amounts shown in the partners' allocation schedule. Corporations should refer to R. S. 47:287.93 A(5).

Federal Employer Identification Number — Please supply the employer identification number assigned to the partnership by the Internal Revenue Service. Print this number in the space provided on Form IT-565, page 1.

Federal Net Income — Print the amount of the partnership's Federal net income reported to the Internal Revenue Service on Form IT-565, page 1. This information is required by R.S. 47:103B.

R.S. 47:103C also requires that every taxpayer whose Federal Income Tax Return is adjusted must furnish a statement disclosing the nature and amounts of such adjustments within 60 days after the Federal adjustments have been made and are accepted by the taxpayer.

Signatures

The return must be signed by any one of the partners or members. If receivers, trustees in bankruptcy, or assignees are in control of the property or business of the organization, such receivers, trustees, or assignees shall execute the return.

Any person(s), firm, or corporation who prepares a taxpayer's return must also sign. If a return is prepared by a firm or corporation, the return must be signed in the name of the firm or corporation. This verification is not required where the return is prepared by a regular, full-time employee of the taxpayer.