



Instructions for Form 1065

U.S. Return of Partnership Income

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

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What's New

1. Many of the questions on Schedule B have been modified and additional questions have been added. Partnerships that file Schedule M-3 must also complete the questions on the new Schedule C, Additional Information for Schedule M-3 Filers. See the instructions for Schedule B and the separate instructions for Schedule C for details.

2. On Form 1065, page 1, Item G, checkbox (6) has been added. This checkbox is used to indicate a technical termination, and is checked in conjunction with checkbox (1) or checkbox (2). See *Item G* for more information.

3. The automatic extension period for Form 1065 returns that are due to be filed on or after January 1, 2009, has been changed to 5 months. See Form 7004, Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns, for information about filing an extension.

4. The *Where To File* instructions have been revised for certain partnerships whose principal business, office, or agency is located in Tennessee or Georgia. See the chart on page 4 for details.

5. For business start-up and organizational costs paid or incurred after September 8, 2008, a partnership is deemed to have made an election to deduct a certain amount of its start-up and organizational costs under sections 195(b) and 709(b) and is no longer required to attach a statement to the return to make this election. A partnership can elect to forgo this deemed election and amortize all of such costs. See *Business start-up and organizational costs* on page 16 for details.

6. The following credits are new for 2008. For details, see the various credit forms and instructions.

- The cellulosic biofuel credit is reported on Form 6478, Alcohol and Cellulosic Biofuel Fuels Credit.

- The credit for holders of new clean renewable energy bonds, Midwestern tax credit bonds, qualified energy conservation bonds, qualified forestry conservation bonds, and qualified zone academy bonds (for bonds issued after October 3, 2008) will be reported on Form 8912, Credits to Holders of Tax Credit Bonds.

- The agricultural chemicals security credit will be reported on Form 8931, Agricultural Chemicals Security Credit.

- The credit for employer differential wage payments will be reported on Form 8932, Credit for Employer Differential Wage Payments.

- The credit for carbon dioxide sequestration will be reported on Form 8933, Carbon Dioxide Sequestration Credit.

- The retention credit and housing credit for affected employers will be reported on Form 5884-A, Credits for Affected Midwestern Disaster Area Employers.

7. A new code G has been added for box 13 of Schedule K-1 (Form 1065) to report certain charitable contributions for which the adjusted gross income limitation has been suspended. Use code G to report (a) qualified cash contributions for relief efforts in Midwestern disaster areas and (b) qualified conservation contributions of property used in agriculture or livestock production. See *Contributions (100%) (code G)* on page 29 for details.

8. The alternative minimum tax limitations on the low-income housing credit have been repealed for credits attributable to buildings placed in service after December 31, 2007. Two new codes have been added to separately report the post-2007 low-income housing credits on Schedule K-1 that are not subject to the alternative minimum tax limitations. See the instructions for lines 15a and 15b on page 32 for details.

9. The codes used to report the welfare-to-work credit and the new markets credit on Schedule K-1 have changed. These credits are now reported using code P in box 15. See *Other credits (code P)* on page 33 for more information.

10. One new code has been added for box 19 of Schedule K-1 (Form 1065). Code C is used to report distributions of section 737 property. See *Distributions* on page 36 for more information.

11. Recapture of low-income housing credit. For the disposal of a building or an interest therein occurring after July 30, 2008, a partnership is not required to establish a bond or pledge eligible U.S. Treasury Securities to avoid recapture of the low-income housing credit if it is reasonably expected that the building will continue to be operated as a qualified low-income building for the remainder of the building's compliance period. For additional information on building disposals and the recapture of the low-income housing credit, see *Recapture of low-income housing credit (codes F and G)* on page 37.

12. One new code has been added to box 20 of Schedule K-1 (Form 1065). Code W is used to report precontribution gain or loss. See *Precontribution gain (loss) (code W)* on page 38 for more information. Former code W (other information) is now code X.

Photographs of Missing Children

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

Contacting Your Taxpayer Advocate

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

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

For more information, go to www.irs.gov/advocate.

How To Get Forms and Publications

Internet. You can access the IRS website 24 hours a day, 7 days a week, at www.irs.gov to:

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

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

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

- Toll-free and email technical support.

The DVD is released twice during the year. The first release will ship the beginning of January 2009. The second release will ship the beginning of March 2009.

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

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

General Instructions

Purpose of Form

Form 1065 is an information return used to report the income, gains, losses, deductions, credits, etc., from the operation of a partnership. A partnership does not pay tax on its income but “passes through” any profits or losses to its partners. Partners must include partnership items on their tax returns.

Definitions

Partnership

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

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

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

Husband-wife business. Generally, if you and your spouse jointly own and operate an unincorporated business and share in the profits and losses, you are partners in a partnership and you must file Form 1065.

Exception—Qualified joint venture. If you and your spouse materially participate as the only members of a jointly owned and operated business, and you file a joint return for the tax year, you can make an election to be treated as a qualified joint venture instead of a partnership. By making the election, you will not be required to file Form 1065 for any year the election is in effect and will instead report the income and deductions directly on your joint return.

To make this election, you must divide all items of income, gain, loss, deduction, and

credit between you and your spouse in accordance with your respective interests in the venture. Each of you must file a separate Schedule C, C-EZ, or F. On each line of your separate Schedule C, C-EZ, or F, you must enter your share of the applicable income, deduction, or loss. Each of you also must file a separate Schedule SE to pay self-employment tax.

If you and your spouse make the election for your rental real estate business, you each must report your share of income and deductions on Schedule C or C-EZ instead of Schedule E. Although rental real estate income generally is not included in net earnings from self-employment, you and your spouse each must take into account your share of the income and deductions from the rental real estate business in figuring your net earnings from self-employment on Schedule SE.

Once made, the election cannot be revoked without IRS consent. If you and your spouse filed a Form 1065 for the year prior to the election, you do not need to amend that return or file a final Form 1065 for the year the election takes effect. However, the partnership terminates at the end of the tax year immediately preceding the year the election takes effect.

Foreign Partnership

A foreign partnership is a partnership that is not created or organized in the United States or under the law of the United States or of any state.

General Partner

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

General Partnership

A general partnership is composed only of general partners.

Limited Partner

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

Limited Partnership

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

Limited Liability Partnership

A limited liability partnership (LLP) is formed under a state limited liability partnership law. Generally, a partner in an LLP is not personally liable for the debts of the LLP or any other partner, nor is a partner liable for the acts or omissions of any other partner, solely by reason of being a partner.

Limited Liability Company

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

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

Nonrecourse Loans

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

Who Must File

Domestic Partnerships

Except as provided below, every domestic partnership must file Form 1065, unless it neither receives income nor incurs any expenditures treated as deductions or credits for federal income tax purposes.

Entities formed as LLCs that are classified as partnerships for federal income tax purposes must file Form 1065.

A religious or apostolic organization exempt from income tax under section 501(d) must file Form 1065 to report its taxable income, which must be allocated to its members as a dividend, whether distributed or not. Such an organization must figure its taxable income on an attachment to Form 1065 in the same manner as a corporation. The organization may use Form 1120, U.S. Corporation Income Tax Return, for this purpose. Enter the organization's taxable income, if any, on line 6a of Schedule K and each member's pro rata share in box 6a of Schedule K-1. Net operating losses are not deductible by the members but may be carried back or forward by the organization under the rules of section 172. The religious or apostolic organization also must make its annual information return available for public inspection. For this purpose, "annual information return" includes an exact copy of Form 1065 and all accompanying schedules and attachments, except Schedules K-1. For more details, see Regulations section 301.6104(d)-1.

A qualifying syndicate, pool, joint venture, or similar organization may elect under section 761(a) not to be treated as a partnership for federal income tax purposes and will not be required to file Form 1065 except for the year of election. For details, see section 761(a) and Regulations section 1.761-2.

An electing large partnership (as defined in section 775) must file Form 1065-B, U.S. Return of Income for Electing Large Partnerships.

Real estate mortgage investment conduits (REMICs) must file Form 1066,

U.S. Real Estate Mortgage Investment Conduit (REMIC) Income Tax Return.

Certain publicly traded partnerships treated as corporations under section 7704 must file Form 1120.

Foreign Partnerships

Generally, a foreign partnership that has gross income effectively connected with the conduct of a trade or business within the United States or has gross income derived from sources in the United States must file Form 1065, even if its principal place of business is outside the United States or all its members are foreign persons. A foreign partnership required to file a return generally must report all of its foreign and U.S. source income.

A foreign partnership with U.S. source income is not required to file Form 1065 if it qualifies for either of the following two exceptions.

Exception for foreign partnerships with U.S. partners. A return is not required if:

- The partnership had no effectively connected income (ECI) during its tax year,
- The partnership had U.S. source income of \$20,000 or less during its tax year,
- Less than 1% of any partnership item of income, gain, loss, deduction, or credit was allocable in the aggregate to direct U.S. partners at any time during its tax year, and
- The partnership is not a withholding foreign partnership as defined in Regulations section 1.1441-5(c)(2)(i).

Exception for foreign partnerships with no U.S. partners. A return is not required if:

- The partnership had no ECI during its tax year,
- The partnership had no U.S. partners at any time during its tax year,
- All required Forms 1042 and 1042-S were filed by the partnership or another withholding agent as required by Regulations section 1.1461-1(b) and (c),
- The tax liability of each partner for amounts reportable under Regulations sections 1.1461-1(b) and (c) has been fully satisfied by the withholding of tax at the source, and
- The partnership is not a withholding foreign partnership as defined in Regulations section 1.1441-5(c)(2)(i).

A foreign partnership filing Form 1065 solely to make an election (such as an election to amortize organization expenses) need only provide its name, address, and employer identification number (EIN) on page one of the form and attach a statement citing "Regulations section 1.6031(a)-1(b)(5)" and identifying the election being made. A foreign partnership filing Form 1065 solely to make an election must obtain an EIN if it does not already have one.

Termination of the Partnership

A partnership terminates when:

1. All its operations are discontinued and no part of any business, financial operation, or venture is continued by any of its partners in a partnership or
2. At least 50% of the total interest in partnership capital and profits is sold or

exchanged within a 12-month period, including a sale or exchange to another partner. See Regulations section 1.708-1(b)(1) and (2) for more details.

The partnership's tax year ends on the date of termination. For purposes of 1 above, the date of termination is the date the partnership winds up its affairs. For purposes of 2 above, the date of termination is the date the partnership interest is sold or exchanged that, of itself or together with other sales or exchanges in the preceding 12 months, transfers an interest of 50% or more in both partnership capital and profits.

Special rules apply in the case of a merger, consolidation, or division of a partnership. See Regulations sections 1.708-1(c) and (d) for details.

Electronic Filing

Certain partnerships with more than 100 partners are required to file Form 1065, Schedules K-1, and related forms and schedules electronically. Other partnerships generally have the option to file electronically.

The option to file electronically does not apply to certain returns, including:

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

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

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

For More Information on Filing Electronically

- Call the Electronic Filing Section at the Ogden Service Center at 1-866-255-0654,
- Write to Internal Revenue Service, Ogden Submission Processing Center, 1065 e-file Team, Stop 1056, Ogden, UT 84201, or
- Visit www.irs.gov/efile.

Electronic Filing Waiver

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

All written requests for waivers should be mailed to: Internal Revenue Service, Ogden Submission Processing Center, e-file Team, Mail Stop 1057, Ogden, UT 84201, Attn: Form 1065 e-file Waiver Request.

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

When To File

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

For partnerships that keep their records and books of account outside the United States and Puerto Rico, an extension of time to file and pay is granted to the 15th day of the 6th month following the close of the tax year. Do not file Form 7004, Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns, if the partnership is taking this 2-month extension of time to file and pay. Attach a statement to the partnership's tax return stating that the partnership qualifies for the extension of time to file and pay. If the partnership is unable to file its return within the 2-month period, use Form 7004 to request an additional 3-month extension.

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

Private Delivery Services

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

- DHL Express (DHL): DHL Same Day Service, DHL Next Day 10:30 am, DHL Next Day 12:00 pm, DHL Next Day 3:00 pm, and DHL 2nd Day Service.

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

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



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

Extension of Time To File

If you need more time to file a partnership return, file Form 7004 to request a 5-month extension of time to file. File Form 7004 by the regular due date of the partnership return.

Period Covered

Form 1065 is an information return for calendar year 2008 and fiscal years that begin in 2008 and end in 2009. For a fiscal year or a short tax year, fill in the tax year space at the top of Form 1065 and each Schedule K-1.

The 2008 Form 1065 may also be used if:

1. The partnership has a tax year of less than 12 months that begins and ends in 2009 and
2. The 2009 Form 1065 is not available by the time the partnership is required to file its return.

However, the partnership must show its 2009 tax year on the 2008 Form 1065 and incorporate any tax law changes that are effective for tax years beginning after 2008.

Who Must Sign

General Partner or LLC Member Manager

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

Paid Preparer's Information

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

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

- Sign the return in the space provided for the preparer's signature.
- Fill in the other blanks in the "Paid Preparer's Use Only" area of the return.
- Give the partnership a copy of the return in addition to the copy to be filed with the IRS.

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

Paid Preparer Authorization

If the partnership wants to allow the paid preparer to discuss its 2008 Form 1065 with the IRS, check the "Yes" box in the signature area of the return. The authorization applies only to the individual whose signature appears in the "Paid Preparer's Use Only" section of its return. It does not apply to the firm, if any, shown in the section.

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

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

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

The authorization cannot be revoked. However, the authorization will automatically

Where To File

File Form 1065 at the applicable IRS address listed below. If Schedule M-3 is filed, Form 1065 must be filed at the Ogden Internal Revenue Service Center as shown below.

If the partnership's principal business, office, or agency is located in:	And the total assets at the end of the tax year (Form 1065, page 1, item F) are:	Use the following address:
Connecticut, Delaware, District of Columbia, Georgia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, West Virginia, Wisconsin	Less than \$10 million and Schedule M-3 is not filed	Department of the Treasury Internal Revenue Service Center Cincinnati, OH 45999-0011
	\$10 million or more or less than \$10 million and Schedule M-3 is filed	Department of the Treasury Internal Revenue Service Center Ogden, UT 84201-0011
Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, Wyoming	Any amount	Department of the Treasury Internal Revenue Service Center Ogden, UT 84201-0011
A foreign country or U.S. possession	Any amount	Internal Revenue Service Center P.O. Box 409101 Ogden, UT 84409

end no later than the due date (excluding extensions) for filing the 2009 return.

Penalties

Late Filing of Return

A penalty is assessed against the partnership if it is required to file a partnership return and it (a) fails to file the return by the due date, including extensions or (b) files a return that fails to show all the information required, unless such failure is due to reasonable cause. If the failure is due to reasonable cause, attach an explanation to the partnership return. The penalty is \$90 for each month or part of a month (for a maximum of 12 months) the failure continues, multiplied by the total number of persons who were partners in the partnership during any part of the partnership's tax year for which the return is due.

Failure To Furnish Information Timely

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

Trust Fund Recovery Penalty

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

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

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

Accounting Methods

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

Generally, permissible methods include:

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

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

Accrual method. If inventories are required, an accrual method of accounting must be used for sales and purchases of merchandise. However, qualifying taxpayers and eligible businesses of qualifying small business taxpayers are excepted from using an accrual method and may account for inventoriable items as materials and supplies that are not incidental. For more details, see *Schedule A. Cost of Goods Sold*, on page 19.

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

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

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

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

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

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

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

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

This provision does not apply to any amount if interest is required to be paid on the amount or if there is any penalty for failure to timely pay the amount. For information, see section 448(d)(5) and Regulations section 1.448-2. For reporting requirements, see the instructions for line 1a on page 15.

Percentage of completion method.

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

Mark-to-market accounting method.

Dealers in securities must use the mark-to-market accounting method described in section 475. Under this method, any security that is inventory to the dealer must be included in inventory at its fair market value (FMV). Any security that is not inventory and that is held at the close of the tax year is treated as sold at its FMV on the last business day of the tax year, and any gain or loss must be taken into account in determining gross income. The gain or loss taken into account is generally treated as ordinary gain or loss. For details, including exceptions, see section 475, the related regulations, and Rev. Rul. 97-39, 1997-39 I.R.B. 4.

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

Change in accounting method.

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

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

Include any net positive section 481(a) adjustment on page 1 of Form 1065, line 7. If the net section 481(a) adjustment is negative, report it on page 1, line 20.

Accounting Periods

A partnership is generally required to have one of the following tax years.

1. The tax year of a majority of its partners (majority tax year).

2. If there is no majority tax year, then the tax year common to all of the partnership's principal partners (partners with an interest of 5% or more in the partnership profits or capital).

3. If there is neither a majority tax year nor a tax year common to all principal partners, then the tax year that results in the least aggregate deferral of income.

Note. In determining the tax year of a partnership under 1, 2, or 3 above, the tax years of certain tax-exempt and foreign partners are disregarded. See Regulations section 1.706-1(b) for more details.

4. Some other tax year, if:

- The partnership can establish that there is a business purpose for the tax year;
- The partnership elects under section 444 to have a tax year other than a required tax year by filing Form 8716, Election to Have a Tax Year Other Than a Required Tax Year. For a partnership to have this election in effect, it must make the payments required by section 7519 and file Form 8752, Required Payment or Refund Under Section 7519.

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

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

Change of tax year. To change its tax year or to adopt or retain a tax year other

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

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

Rounding Off to Whole Dollars

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

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

Recordkeeping

The partnership must keep its records as long as they may be needed for the administration of any provision of the Internal Revenue Code. If the consolidated audit procedures of sections 6221 through 6234 apply, the partnership usually must keep records that support an item of income, deduction, or credit on the partnership return for 3 years from the date the return is due or is filed, whichever is later. If the consolidated audit procedures do not apply, these records usually must be kept for 3 years from the date each partner's return is due or is filed, whichever is later. It must also keep records that verify the

partnership's basis in property for as long as they are needed to figure the basis of the original or replacement property.

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

Amended Return

To correct an error on a Form 1065 already filed, file an amended Form 1065 and check box G(5) on page 1. Attach a statement that identifies the line number of each amended item, the corrected amount or treatment of the item, and an explanation of the reasons for each change. If the income, deductions, credits, or other information provided to any partner on Schedule K-1 is incorrect, file an amended Schedule K-1 (Form 1065) for that partner with the amended Form 1065. Also give a copy of the amended Schedule K-1 to that partner. Check the "Amended K-1" box at the top of the Schedule K-1 to indicate that it is an amended Schedule K-1.

Exception. If the partnership is filing an amended partnership return and the partnership is subject to the consolidated audit proceedings of sections 6221 through 6234, the tax matters partner must file Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR).

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

Other Forms, Returns, And Statements That May Be Required

Form, Return or Statement	Use this to—
W-2 and W-3 —Wage and Tax Statement; and Transmittal of Wage and Tax Statements	Report wages, tips, other compensation, and withheld income, social security and Medicare taxes for employees.
720 —Quarterly Federal Excise Tax Return	Report and pay environmental excise taxes, communications and air transportation taxes, fuel taxes, manufacturers taxes, ship passenger tax, and certain other excise taxes. Also see <i>Trust Fund Recovery Penalty</i> on page 5.
940 —Employer's Annual Federal Unemployment (FUTA) Tax Return	Report and pay FUTA tax.
941 —Employer's QUARTERLY Federal Tax Return	Report quarterly income tax withheld on wages and employer and employee social security and Medicare taxes. Also see <i>Trust Fund Recovery Penalty</i> on page 5.
943 —Employer's Annual Federal Tax Return for Agricultural Employees	Report income tax withheld and employer and employee social security and Medicare taxes on farmworkers. Also see <i>Trust Fund Recovery Penalty</i> on page 5.
945 —Annual Return of Withheld Federal Income Tax	Report income tax withheld from nonpayroll payments, including pensions, annuities, individual retirement accounts (IRAs), gambling winnings, and backup withholding. Also see <i>Trust Fund Recovery Penalty</i> on page 5.

Form, Return or Statement	Use this to—
1042 and 1042-S — Annual Withholding Tax Return for U.S. Source Income of Foreign Persons; and Foreign Person's U.S. Source Income Subject to Withholding	Report and send withheld tax on payments or distributions made to nonresident alien individuals, foreign partnerships, or foreign corporations to the extent these payments or distributions constitute gross income from sources within the United States that is not effectively connected with a U.S. trade or business. A domestic partnership must also withhold tax on a foreign partner's distributive share of such income, including amounts that are not actually distributed. Withholding on amounts not previously distributed to a foreign partner must be made and paid over by the earlier of: <ul style="list-style-type: none"> • The date on which Schedule K-1 is sent to that partner or • The 15th day of the 3rd month after the end of the partnership's tax year. For more details, see sections 1441 and 1442 and Pub. 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.
1042-T — Annual Summary and Transmittal of Forms 1042-S	Transmit paper Forms 1042-S to the IRS.
1096 — Annual Summary and Transmittal of U.S. Information Returns	Transmit paper Forms 1099, 1098, 5498, and W-2G to the IRS.
1098 — Mortgage Interest Statement	Report the receipt from any individual of \$600 or more of mortgage interest (including certain points) in the course of the partnership's trade or business.
1099-A, B, C, INT, LTC, MISC, OID, R, S, and SA Important. <i>Every partnership must file Forms 1099-MISC if, in the course of its trade or business, it makes payments of rents, commissions, or other fixed or determinable income (see section 6041) totaling \$600 or more to any one person during the calendar year.</i>	Report the following: <ul style="list-style-type: none"> • Acquisitions or abandonments of secured property; • Proceeds from broker and barter exchange transactions; • Cancellation of debts; • Interest payments; • Payments of long-term care and accelerated death benefits; • Miscellaneous income payments; • Original issue discount; • Distributions from pensions, annuities, retirement or profit-sharing plans, IRAs, insurance contracts, etc.; • Proceeds from real estate transactions; and • Distributions from an HSA, Archer MSA, or Medicare Advantage MSA. Also use these returns to report amounts received as a nominee for another person. For more details, see the General Instructions for Forms 1099, 1098, 5498, and W-2G.
5471 — Information Return of U.S. Persons With Respect To Certain Foreign Corporations	A partnership may have to file Form 5471 if it: <ul style="list-style-type: none"> • Controls a foreign corporation; or • Acquires, disposes of, or owns 10% or more in value of the outstanding stock of a foreign corporation; or • Owns stock in a corporation that is a controlled foreign corporation for an uninterrupted period of 30 days or more during any tax year of the foreign corporation, and it owned that stock on the last day of that year.
5713 — International Boycott Report	Report operations in, or related to, a “boycotting” country, company, or national of a country and to figure the loss of certain tax benefits. The partnership must give each partner a copy of the Form 5713 filed by the partnership if there has been participation in, or cooperation with, an international boycott.
8275 — Disclosure Statement	Disclose items or positions, except those contrary to a regulation, that are not otherwise adequately disclosed on a tax return. The disclosure is made to avoid the parts of the accuracy-related penalty imposed for disregard of rules or substantial understatement of tax. Also use Form 8275 for disclosures relating to preparer penalties for understatements due to unrealistic positions or disregard of rules.
8275-R — Regulation Disclosure Statement	Disclose any item on a tax return for which a position has been taken that is contrary to Treasury regulations.
8288 and 8288-A — U.S. Withholding Tax Return for Dispositions by Foreign Persons of U.S. Real Property Interests; and Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interests	Report and send withheld tax on the sale of U.S. real property by a foreign person. See section 1445 and the related regulations for additional information.
8300 — Report of Cash Payments Over \$10,000 Received in a Trade or Business	Report the receipt of more than \$10,000 in cash or foreign currency in one transaction or a series of related transactions.
8308 — Report of a Sale or Exchange of Certain Partnership Interests	Report the sale or exchange by a partner of all or part of a partnership interest where any money or other property received in exchange for the interest is attributable to unrealized receivables or inventory items.
8594 — Asset Acquisition Statement Under Section 1060	Report a sale of assets if goodwill or going concern value attaches, or could attach, to such assets. Both the seller and buyer of a group of assets that makes up a trade or business must use this form.
8697 — Interest Computation Under the Look-Back Method for Completed Long-Term Contracts	Figure the interest due or to be refunded under the look-back method of section 460(b)(2) on certain long-term contracts that are accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method. Partnerships that are not closely held use this form. Closely held partnerships should see the instructions beginning on page 36 for line 20c, <i>Look-back interest— completed long-term contracts (code J)</i> , for details on the Form 8697 information they must provide to their partners.

Form, Return or Statement	Use this to—
8804, 8805, and 8813 —Annual Return for Partnership Withholding Tax (Section 1446); Foreign Partner's Information Statement of Section 1446 Withholding Tax; and Partnership Withholding Tax Payment Voucher (Section 1446)	Figure and report the withholding tax on the distributive shares of any effectively connected gross income for foreign partners. This is done on Forms 8804 and 8805. Use Form 8813 to send installment payments of withheld tax based on effectively connected taxable income allocable to foreign partners. Exception. <i>Publicly traded partnerships that do not elect to pay tax based on effectively connected taxable income do not file these forms. They must instead withhold tax on distributions to foreign partners and report and send payments using Forms 1042 and 1042-S. See Regulations sections 1.1446-4, for more information.</i>
8832 —Entity Classification Election	File an election to make a change in classification. Except for a business entity automatically classified as a corporation, a business entity with at least two members may choose to be classified either as a partnership or an association taxable as a corporation. A domestic eligible entity with at least two members that does not file Form 8832 is classified under the default rules as a partnership. However, a foreign eligible entity with at least two members is classified under the default rules as a partnership only if at least one member does not have limited liability. File Form 8832 only if the entity does not want to be classified under these default rules or if it wants to change its classification.
8865 —Return of U.S. Person With Respect to Certain Foreign Partnerships	Report an interest in a foreign partnership. A domestic partnership may have to file Form 8865 if it: <ol style="list-style-type: none"> 1. Controlled a foreign partnership (that is, it owned more than 50% direct or indirect interest in the partnership). 2. Owned at least a 10% direct or indirect interest in a foreign partnership while U.S. persons controlled that partnership. 3. Had an acquisition, disposition, or change in proportional interest of a foreign partnership that: <ol style="list-style-type: none"> a. Increased its direct interest to at least 10% or reduced its direct interest of at least 10% to less than 10% or b. Changed its direct interest by at least a 10% interest. 4. Contributed property to a foreign partnership in exchange for a partnership interest if: <ol style="list-style-type: none"> a. Immediately after the contribution, the partnership directly or indirectly owned at least a 10% interest in the foreign partnership or b. The FMV of the property the partnership contributed to the foreign partnership in exchange for a partnership interest exceeds \$100,000, when added to other contributions of property made to the foreign partnership (by the partnership or a related person) during the preceding 12-month period. Also, the domestic partnership may have to file Form 8865 to report certain dispositions by a foreign partnership of property it previously contributed to that partnership if it was a partner at the time of the disposition. For more details, including penalties for failing to file Form 8865, see Form 8865 and its separate instructions.
8866 —Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method	Figure the interest due or to be refunded under the look-back method of section 167(g)(2) for certain property placed in service after September 13, 1995, depreciated under the income forecast method. Partnerships that are not closely held use this form. Closely held partnerships should see the instructions on page 36 for line 20c, <i>Look-back interest—income forecast method (code K)</i> , for details on the Form 8866 information they must provide to their partners.
8876 —Excise Tax on Structured Settlement Factoring Transactions	Report and pay the 40% excise tax imposed under section 5891.
8886 —Reportable Transaction Disclosure Statement	Disclose information for each reportable transaction in which the partnership participated. Form 8886 must be filed for each tax year the partnership participated in the reportable transaction. The partnership may have to pay a penalty if it's required to file Form 8886 and does not do so. The following are reportable transactions. <ol style="list-style-type: none"> 1. Any listed transaction, which is a transaction that is the same as or substantially similar to tax avoidance transactions identified by the IRS. 2. Any transaction offered under conditions of confidentiality for which the partnership paid an adviser a fee of at least \$50,000 (\$250,000 for partnerships if all partners are corporations). 3. Certain transactions for which the partnership has contractual protection against disallowance of the tax benefits. 4. Certain transactions resulting in a loss of at least \$2 million in any single year or \$4 million in any combination of years. 5. Any transaction identified by the IRS in published guidance as a "transaction of interest" (a transaction that the IRS believes has a potential for tax avoidance or evasion, but has not yet been identified as a listed transaction.) See Regulations section 1.6011-4 and the instructions on page 38 for line 20c, <i>Other information (code X)</i> , for more information.
8925 —Report of Employer-Owned Life Insurance Contracts	Report the number of employees covered by employer-owned life insurance contracts and the total amount of employer-owned life insurance.
8918 —Material Advisor Disclosure Statement	Material advisors who provide material aid, assistance, or advice with respect to any reportable transaction must file Form 8918 to disclose reportable transactions in accordance with Regulations section 301.6111-3. Form 8918 replaces Form 8264, which was previously used to disclose this information.

Assembling the Return

When submitting Form 1065, organize the pages of the return in the following order:

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

Complete every applicable entry space on Form 1065 and Schedule K-1. Do not enter "See attached" instead of completing the entry spaces. Penalties may be assessed if the partnership files an incomplete return. If you need more space on the forms or schedules, attach separate sheets and place them at the end of the return using the same size and format as on the printed forms. Show the totals on the printed forms. Also be sure to put the partnership's name and EIN on each supporting statement or attachment.

Elections Made by the Partnership

Generally, the partnership decides how to figure taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use. The partnership also makes elections under the following sections:

1. Section 179 (election to expense certain property).
2. Section 614 (definition of property—mines, wells, and other natural deposits). This election must be made before the partners figure their individual depletion allowances under section 613A(c)(7)(D).
3. Section 1033 (involuntary conversions).
4. Section 754 (manner of electing optional adjustment to basis of partnership property).

Under section 754, a partnership may elect to adjust the basis of partnership property when property is distributed or when a partnership interest is transferred. If the election is made with respect to a transfer of a partnership interest (section 743(b)) and the assets of the partnership constitute a trade or business for purposes of section 1060(c), then the value of any goodwill transferred must be determined in the manner provided in Regulations section 1.1060-1. Once an election is made under section 754, it applies both to all distributions and to all transfers made during the tax year and in all subsequent tax years unless the election is revoked. See Regulations section 1.754-1(c).

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

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

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

See section 754 and the related regulations for more information.

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

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

5. Section 743(e) (electing investment partnership).

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

If the basis of partnership property has been adjusted for a transferee partner under section 743(b), the partnership must adjust the transferee's distributive share of the items of partnership income, deduction, gain, or loss in accordance with Regulations section 1.743-1(j)(3) and (4). These adjustments (other than adjustments to depletable oil and gas property allocable to the partner under section 613A(c)(7)(D)) must be reported on Schedule K and the transferee partner's Schedule K-1. Report the adjustments on an attached statement to Schedule K-1 using the codes for *Other Income* or *Other Deductions*. Identify the partnership item being adjusted and the amount of the adjustment. If the adjustments are to partnership items from more than one trade or business, report the adjustments separately for each activity. Section 743(b) adjustments do not affect the transferee's capital account.

Elections Made by Each Partner

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

1. Section 59(e) (election to deduct ratably certain qualified expenditures such as intangible drilling costs, mining exploration expenses, or research and experimental expenditures).
2. Section 108 (income from discharge of indebtedness).
3. Section 617 (deduction and recapture of certain mining exploration expenditures paid or incurred).
4. Section 901 (foreign tax credit).

Partner's Dealings With Partnership

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

Contributions to the Partnership

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

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

Dispositions of Contributed Property

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

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

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

Recognition of Precontribution Gain on Certain Partnership Distributions

A partner who contributes appreciated property to the partnership must include in income any precontribution gain to the extent the FMV of other property (other than money) distributed to the partner by the partnership exceeds the adjusted basis of his or her partnership interest just before the distribution. Precontribution gain is the net

gain, if any, that would have been recognized under section 704(c)(1)(B) if the partnership had distributed to another partner all the property that had been contributed to the partnership by the distributee partner within 7 years of the distribution and that was held by the partnership just before the distribution.

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

For more details and exceptions, see Pub. 541.

Unrealized Receivables and Inventory Items

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

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

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

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

Passive Activity Limitations

In general, section 469 limits the amount of losses, deductions, and credits that partners can claim from "passive activities." The passive activity limitations do not apply to the partnership. Instead, they apply to each partner's share of any income or loss and credit attributable to a passive activity. Because the treatment of each partner's share of partnership income or loss and credit depends on the nature of the activity that generated it, the partnership must report income or loss and credits separately for each activity.

The following instructions and the instructions for Schedules K and K-1 (pages 23–38) explain the applicable passive activity limitation rules and specify the type of information the partnership must provide to its partners for each activity. If the

partnership had more than one activity, it must report information for each activity on an attachment to Schedules K and K-1.

Generally, passive activities include (a) activities that involve the conduct of a trade or business if the partner does not materially participate in the activity and (b) all rental activities (defined beginning on page 10) regardless of the partner's participation. For exceptions, see *Activities That Are Not Passive Activities* below. The level of each partner's participation in an activity must be determined by the partner.

The passive activity rules provide that losses and credits from passive activities can generally be applied only against income and tax from passive activities. Thus, passive losses and credits cannot be applied against income from salaries, wages, professional fees, or a business in which the taxpayer materially participates; against "portfolio income" (defined on page 11); or against the tax related to any of these types of income.

Special provisions apply to certain activities. First, the passive activity limitations must be applied separately with respect to a net loss from passive activities held through a publicly traded partnership. Second, special rules require that net income from certain activities that would otherwise be treated as passive income must be recharacterized as nonpassive income for purposes of the passive activity limitations.

To allow each partner to correctly apply the passive activity limitations, the partnership must report income or loss and credits separately for each of the following: trade or business activities, rental real estate activities, rental activities other than rental real estate, and portfolio income.

Activities That Are Not Passive Activities

The following are not passive activities.

1. Trade or business activities in which the partner materially participated for the tax year.
2. Any rental real estate activity in which the partner materially participated if the partner met both of the following conditions for the tax year.

- a. More than half of the personal services the partner performed in trades or businesses were performed in real property trades or businesses in which he or she materially participated.

- b. The partner performed more than 750 hours of services in real property trades or businesses in which he or she materially participated.

Note. For a partner that is 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 are 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 the partner elects to treat all interests in rental real estate as one activity.

If the partner is married filing jointly, either the partner or his or her 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 the partner performed as an employee are not treated as performed in a real property trade or business unless he or she owned more than 5% of the stock (or more than 5% of the capital or profits interest) in the employer.

3. An interest in an oil or gas well drilled or operated under a working interest if at any time during the tax year the partner held the working interest directly or through an entity that did not limit the partner's liability (for example, an interest as a general partner). This exception applies regardless of whether the partner materially participated for the tax year.

4. The rental of a dwelling unit used by a partner 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. An activity of trading personal property for the account of owners of interests in the activity. For purposes of this rule, personal property means property that is actively traded, such as stocks, bonds, and other securities. See Temporary Regulations section 1.469-1T(e)(6).

Trade or Business Activities

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

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

If the partner does not materially participate in the activity, a trade or business activity held through a partnership is generally a passive activity of the partner.

Each partner must determine if the partner materially participated in an activity. As a result, while the partnership's ordinary business income (loss) is reported on page 1 of Form 1065, the specific income and deductions from each separate trade or business activity must be reported on attachments to Form 1065. Similarly, while each partner's allocable share of the partnership's ordinary business income (loss) is reported in box 1 of Schedule K-1, each partner's allocable share of the income and deductions from each trade or business activity must be reported on attachments to each Schedule K-1. See *Passive Activity Reporting Requirements* on page 13 for more information.

Rental Activities

Generally, except as noted below, if the gross income from an activity consists of amounts paid principally for the use of real

or personal tangible property held by the partnership, the activity is a rental activity.

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

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

In addition, a guaranteed payment described in section 707(c) is not income from a rental activity under any circumstances.

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

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

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

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

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

property substantially beyond the average rental period.

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

Extraordinary personal services.

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

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

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

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

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

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

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

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

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

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

Partners who actively participate in a rental real estate activity may be able to deduct part or all of their rental real estate losses (and the deduction equivalent of rental real estate credits) against income (or tax) from nonpassive activities. The combined amount of rental real estate losses and the deduction equivalent of rental real estate credits from all sources (including rental real estate activities not held through the partnership) that may be claimed is limited to \$25,000. This \$25,000 amount is generally reduced for high-income partners.

Report rental real estate activity income (loss) on Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation, and line 2 of Schedule K and box 2 of Schedule K-1, rather than on page 1 of Form 1065. Report credits related to rental real estate activities on lines 15c and 15d of Schedule K (box 15, codes E and F, of Schedule K-1) and low-income housing credits on lines 15a and 15b of Schedule K (box 15, codes A–D of Schedule K-1).

See the instructions on page 25 for *Line 3. Other Net Rental Income (Loss)* for reporting other net rental income (loss) other than rental real estate.

Portfolio Income

Generally, portfolio income includes all gross income, other than income derived in the ordinary course of a trade or business, that is attributable to interest; dividends; royalties; income from a real estate investment trust, a regulated investment company, a real estate mortgage investment conduit, a common trust fund, a controlled foreign corporation, a qualified electing fund, or a cooperative; income from the disposition of property that produces income of a type defined as portfolio income; and income from the disposition of property held for investment. See *Self-Charged Interest* on page 12 for an exception.

Solely for purposes of the preceding paragraph, gross income derived in the ordinary course of a trade or business includes (and portfolio income, therefore, does not include) the following types of income.

- Interest income on loans and investments made in the ordinary course of a trade or business of lending money.
- Interest on accounts receivable arising from the performance of services or the sale of property in the ordinary course of a trade or business of performing such services or selling such property, but only if credit is customarily offered to customers of the business.
- Income from investments made in the ordinary course of a trade or business of furnishing insurance or annuity contracts or reinsuring risks underwritten by insurance companies.
- Income or gain derived in the ordinary course of an activity of trading or dealing in any property if such activity constitutes a trade or business (unless the dealer held the property for investment at any time before such income or gain is recognized).
- Royalties derived by the taxpayer in the ordinary course of a trade or business of licensing intangible property.

- Amounts included in the gross income of a patron of a cooperative by reason of any payment or allocation to the patron based on patronage occurring with respect to a trade or business of the patron.
- Other income identified by the IRS as income derived by the taxpayer in the ordinary course of a trade or business.

See Temporary Regulations section 1.469-2T(c)(3) for more information on portfolio income.

Report portfolio income and related deductions on Schedule K rather than on page 1 of Form 1065.

Self-Charged Interest

Certain self-charged interest income and deductions may be treated as passive activity gross income and passive activity deductions if the loan proceeds are used in a passive activity. Generally, self-charged interest income and deductions result from loans between the partnership and its partners. It also includes loans between the partnership and another partnership if each owner in the borrowing entity has the same proportional ownership interest in the lending entity.

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

For more details on the self-charged interest rules, see Regulations section 1.469-7.

Grouping Activities

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

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

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

- A single activity.

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

Once the partnership chooses a grouping under these rules, it must continue using that grouping in later tax years unless a material change in the facts and circumstances makes it clearly inappropriate.

The IRS may regroup the partnership's activities if the partnership's grouping fails to reflect one or more appropriate economic units and one of the primary purposes of the grouping is to avoid the passive activity limitations.

Limitation on grouping certain activities. The following activities may not be grouped together.

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

- a. The rental activity is insubstantial relative to the trade or business activity or vice versa or
- b. Each owner of the trade or business activity has the same proportionate ownership interest in the rental activity. If so, the portion of the rental activity involving the rental of property to be used in the trade or business activity may be grouped with the trade or business activity.

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

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

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

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

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

Recharacterization of Passive Income

Under Temporary Regulations section 1.469-2T(f) and Regulations section 1.469-2(f), net passive income from certain passive activities must be treated as nonpassive income. Net passive income is the excess of an activity's passive activity gross income over its passive activity deductions (current year deductions and prior year unallowed losses).

Income from the following six sources is subject to recharacterization.

Note. Any net passive income recharacterized as nonpassive income is treated as investment income for purposes of figuring investment interest expense limitations if it is from (a) an activity of renting substantially nondepreciable property from an equity-financed lending activity or (b) an activity related to an interest in a pass-through entity that licenses intangible property.

Significant participation passive activities. A significant participation passive activity is any trade or business activity in which the partner participated for more than 100 hours during the tax year but did not materially participate. Because each partner must determine the partner's level of participation, the partnership will not be able to identify significant participation passive activities.

Certain nondepreciable rental property activities. Net passive income from a rental activity is nonpassive income if less than 30% of the unadjusted basis of the property used or held for use by customers in the activity is subject to depreciation under section 167.

Passive equity-financed lending activities.

If the partnership has net income from a passive equity-financed lending activity, the smaller of the net passive income or the equity-financed interest income from the activity is nonpassive income.

Note. The amount of income from the activities in the three previous paragraphs that any partner will be required to recharacterize as nonpassive income may be limited under Temporary Regulations section 1.469-2T(f)(8). Because the partnership will not have information regarding all of a partner's activities, it must identify all partnership activities meeting the definitions in the previous two paragraphs as activities that may be subject to recharacterization.

Rental of property incidental to a development activity. Net rental activity income is the excess of passive activity gross income from renting or disposing of property over passive activity deductions (current year deductions and prior year unallowed losses) that are reasonably allocable to the rented property. Net rental activity income is nonpassive income for a partner if all of the following apply.

- The partnership recognizes gain from the sale, exchange, or other disposition of the rental property during the tax year.
- The use of the item of property in the rental activity started less than 12 months before the date of disposition. The use of an item of rental property begins on the first day that (a) the partnership owns an interest in the property, (b) substantially all of the property is either rented or held out for rent and ready to be rented, and (c) no significant value-enhancing services remain to be performed.
- The partner materially or significantly participated for any tax year in an activity that involved performing services to enhance the value of the property (or any other item of property, if the basis of the

property disposed of is determined in whole or in part by reference to the basis of that item of property).

Because the partnership cannot determine a partner's level of participation, the partnership must identify net income from property described on page 11 (without regard to the partner's level of participation) as income that may be subject to recharacterization.

Rental of property to a nonpassive activity. If a taxpayer rents property to a trade or business activity in which the taxpayer materially participates, the taxpayer's net rental activity income from the property is nonpassive income.

Acquisition of an interest in a pass-through entity that licenses intangible property. Generally, net royalty income from intangible property is nonpassive income if the taxpayer acquired an interest in the pass-through entity after the pass-through entity created the intangible property or performed substantial services or incurred substantial costs in developing or marketing the intangible property. Net royalty income is the excess of passive activity gross income from licensing or transferring any right in intangible property over passive activity deductions (current year deductions and prior year unallowed losses) that are reasonably allocable to the intangible property.

See Temporary Regulations section 1.469-2T(f)(7)(iii) for exceptions to this rule.

Passive Activity Reporting Requirements

To allow partners to correctly apply the passive activity loss and credit rules, any partnership that carries on more than one activity must:

1. Provide an attachment for each activity conducted through the partnership that identifies the type of activity conducted (trade or business, rental real estate, rental activity other than rental real estate, or investment). See *Grouping Activities* discussed earlier on page 12.
2. On the attachment for each activity, provide a statement, using the same box numbers as shown on Schedule K-1, detailing the net income (loss), credits, and all items required to be separately stated under section 702(a) from each trade or business activity, from each rental real estate activity, from each rental activity other than a rental real estate activity, and from investments.
3. Identify the net income (loss) and credits from each oil or gas well drilled or operated under a working interest that any partner (other than a partner whose only interest in the partnership during the year is as a limited partner) holds through the partnership. Further, if any partner had an interest as a general partner in the partnership during less than the entire year, the partnership must identify both the disqualified deductions from each well that the partner must treat as passive activity deductions, and the ratable portion of the gross income from each well that the partner must treat as passive activity gross income.
4. Identify the net income (loss) and the partner's share of partnership interest

expense from each activity of renting a dwelling unit that any partner uses for personal purposes during the year for more than the greater of 14 days or 10% of the number of days that the residence is rented at fair rental value.

5. Identify the net income (loss) and the partner's share of partnership interest expense from each activity of trading personal property conducted through the partnership.

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

- a. Identify the activity in which the property was used at the time of disposition,
- b. If the property was used in more than one activity during the 12 months preceding the disposition, identify the activities in which the property was used and the adjusted basis allocated to each activity, and
- c. For gains only, if the property was substantially appreciated at the time of the disposition and the applicable holding period specified in Regulations section 1.469-2(c)(2)(iii)(A) was not satisfied, identify the amount of the nonpassive gain and indicate whether the gain is investment income under the provisions of Regulations section 1.469-2(c)(2)(iii)(F).

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

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

- a. Payments to a partner for services other than in the partner's capacity as a partner under section 707(a).
- b. Guaranteed payments to a partner for services under section 707(c).
- c. Guaranteed payments for use of capital.
- d. If section 736(a)(2) payments are made for unrealized receivables or for goodwill, the amount of the payments and the activities to which the payments are attributable.
- e. If section 736(b) payments are made, the amount of the payments and the activities to which the payments are attributable.

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

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

11. Identify any gross income from sources that are specifically excluded from passive activity gross income, including:

- a. Income from intangible property if the partner is an individual and the partner's personal efforts significantly contributed to the creation of the property;
- b. Income from state, local, or foreign income tax refunds; and
- c. Income from a covenant not to compete (in the case of a partner who is an individual and who contributed the covenant to the partnership).

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

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

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

- a. Net income from an activity of renting substantially nondepreciable property.
- b. The smaller of equity-financed interest income or net passive income from an equity-financed lending activity.
- c. Net rental activity income from property developed (by the partner or the partnership), rented, and sold within 12 months after the rental of the property commenced.
- d. Net rental activity income from the rental of property by the partnership to a trade or business activity in which the partner had an interest (either directly or indirectly).
- e. Net royalty income from intangible property if the partner acquired the partner's interest in the partnership after the partnership created the intangible property or performed substantial services, or incurred substantial costs in developing or marketing the intangible property.

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

16. Identify the partner's distributive share of the partnership's self-charged interest income or expense (see *Self-Charged Interest* on page 12).

17. Identify the partner's distributive share of the partnership's self-charged interest income or expense (see *Self-Charged Interest* on page 12).

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

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

Extraterritorial Income Exclusion

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

The partnership must report the extraterritorial income exclusion on its return as follows.

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

- Form 1065, page 1, line 20;
- Form 8825, line 15; or
- Form 1065, Schedule K, line 3b.

In addition, the partnership must report as an item of information on Schedule K-1, box 16, using code O, the partner's distributive share of foreign trading gross receipts from Form 8873, line 15.

2. If the foreign trading gross receipts of the partnership for the tax year are \$5 million or less and the partnership did not meet the foreign economic process requirements, it cannot report the extraterritorial income exclusion as a nonseparately stated item on its return. Instead, the partnership must report the following separately stated items to the partners on Schedule K-1, box 16.

- Foreign trading gross receipts (code O). Report each partner's distributive share of foreign trading gross receipts from line 15 of Form 8873 in box 16 using code O.
- Extraterritorial income exclusion (code P). Report each partner's distributive share of the extraterritorial income exclusion from Form 8873 in box 16 using code P and identify on an attached statement the activity to which the exclusion relates. If the partnership is required to complete more than one Form 8873, combine the exclusions from line 52 and report a single exclusion amount in box 16.

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

Specific Instructions

These instructions follow the line numbers on the first page of Form 1065. The accompanying schedules are discussed separately. Specific instructions for most of the lines are provided. Lines that are not discussed are self-explanatory.

Fill in all applicable lines and schedules.

Enter any items specially allocated to the partners in the appropriate box of the

applicable partner's Schedule K-1. Enter the total amount on the appropriate line of Schedule K. Do not enter separately stated amounts on the numbered lines on Form 1065, page 1, or on Schedule A or Schedule D.

File all five pages of Form 1065. However, if the answer to question 6 of Schedule B is "Yes," Schedules L, M-1, and M-2 on page 5 are optional. Also attach a Schedule K-1 to Form 1065 for each partner.

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

If a syndicate, pool, joint venture, or similar group files Form 1065, it must attach a copy of the agreement and all amendments to the return, unless a copy has previously been filed.

Note. A foreign partnership required to file a return generally must report all of its foreign and U.S. source income. For rules regarding whether a foreign partnership must file Form 1065, see *Who Must File* on page 3.

Name and Address

If the partnership received a 1065 tax package, use the preprinted label. Cross out any errors and print the correct information on the label.

If the partnership did not receive a label, print or type the legal name of the partnership, address, and EIN on the appropriate lines. If the partnership has changed its name, check box G(3). Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and the partnership has a P.O. box, show the box number instead.

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

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

If the partnership has changed its address since it last filed a return (including a change to an "in care of" address), check box G(4) for "Address change."

Note. If the partnership changes its mailing address after filing its return, it can notify the IRS by filing Form 8822, Change of Address.

Items A and C

Enter the applicable activity name and the code number from the list beginning on page 41.

For example, if, as its principal business activity, the partnership (a) purchases raw materials, (b) subcontracts out for labor to make a finished product from the raw materials, and (c) retains title to the goods, the partnership is considered to be a

manufacturer and must enter "Manufacturer" in item A and enter in item C one of the codes (311110 through 339900) listed under "Manufacturing" on page 41.

Item D. Employer Identification Number (EIN)

Show the correct EIN in item D on page 1 of Form 1065. If the partnership does not have an EIN, it must be applied for:

- Online—Click on the EIN link at www.irs.gov/businesses/small. The EIN is issued immediately once the application information is validated.
- By telephone at 1-800-829-4933.
- By mailing or faxing Form SS-4, Application for Employer Identification Number.

A limited liability company must determine which type of federal tax entity it will be (that is, partnership, corporation, or disregarded entity) before applying for an EIN (see Form 8832, Entity Classification Election, for details). If the partnership has not received its EIN by the time the return is due, enter "Applied for" and the date you applied in the space for the EIN. For more details, see the instructions for Form SS-4.

Note. The online application process is not yet available for partnerships with addresses in foreign countries. If you are located outside the United States, please call 1-215-516-6999.

Do not request a new EIN for a partnership that terminated because of a sale or exchange of at least 50% of the total interests in partnership capital and profits.

Item F. Total Assets

You are not required to complete item F if the answer to question 6 of Schedule B is "Yes."

If you are required to complete this item, enter the partnership's total assets at the end of the tax year, as determined by the accounting method regularly used in keeping the partnership's books and records. If there were no assets at the end of the tax year, enter -0-.

Item G

A technical termination (box G(6)) occurs when there has been a sale or exchange of 50% or more of the interests in partnership capital and profits within a 12-month period.

If this Form 1065 is being filed for the tax period ending on the date a technical termination has occurred, check box G(2) and box G(6). See *Termination of the Partnership* on page 3.

If this Form 1065 is being filed for the tax period beginning immediately after a technical termination has occurred, check box G(1) and box G(6).

For information on amended returns, see page 6.

Item J. Schedule M-3

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

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

total assets is defined in the Instructions for Schedule M-3.

3. The amount of total receipts (as defined on page 21, Schedule B, question 6), for the tax year, is \$35 million or more.

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

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

See the Instructions for Schedule M-3 for more information.

Income



Report only trade or business activity income on lines 1a through 8. Do not report rental activity income or portfolio income on these lines. See Passive Activity Limitations beginning on page 10 for definitions of rental income and portfolio income. Rental activity income and portfolio income are reported on Schedules K and K-1. Rental real estate activities are also reported on Form 8825.

Tax-exempt income. Do not include any tax-exempt income on lines 1a through 8. A partnership that receives any tax-exempt income other than interest, or holds any property or engages in any activity that produces tax-exempt income, reports this income on line 18b of Schedule K and in box 18 of Schedule K-1 using code B.

Report tax-exempt interest income, including exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company, on line 18a of Schedule K and in box 18 of Schedule K-1 using code A.

See *Deductions* on page 16 for information on how to report expenses related to tax-exempt income.

Cancelled debt exclusion. If the partnership has had debt discharged resulting from a title 11 bankruptcy proceeding or while insolvent, see Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment), and Pub. 908, Bankruptcy Tax Guide.

Line 1a. Gross Receipts or Sales

Enter the gross receipts or sales from all trade or business operations except those that must be reported on lines 4 through 7. For example, do not include gross receipts from farming on this line. Instead, show the net profit (loss) from farming on line 5. Also, do not include on line 1a rental activity income or portfolio income.

In general, advance payments are reported in the year of receipt. To report income from long-term contracts, see section 460. For special rules for reporting certain advance payments for goods and long-term contracts, see Regulations section 1.451-5. For permissible methods for reporting advance payments for services and certain goods by an accrual method

partnership, see Rev. Proc. 2004-34, 2004-22 I.R.B. 991.

Installment sales. Generally, the installment method cannot be used for dealer dispositions of property. A "dealer disposition" is any disposition of:

1. Personal property by a person who regularly sells or otherwise disposes of personal property of the same type on the installment plan or

2. Real property held for sale to customers in the ordinary course of the taxpayer's trade or business.

Exception. These restrictions on using the installment method do not apply to dispositions of property used or produced in a farming business or sales of timeshares and residential lots. However, if the partnership elects to report dealer dispositions of timeshares and residential lots on the installment method, each partner's tax liability must be increased by the partner's allocable share of the interest payable under section 453(l)(3).

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

- Dealer dispositions of property before March 1, 1986.
- Dispositions of property used or produced in the trade or business of farming.
- Certain dispositions of timeshares and residential lots reported under the installment method.

Attach a statement showing the following information for the current year and the 3 preceding years.

- Gross sales.
- Cost of goods sold.
- Gross profits.
- Percentage of gross profits to gross sales.
- Amount collected.
- Gross profit on the amount collected.

Nonaccrual experience method.

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

Line 2. Cost of Goods Sold

See the instructions for Schedule A beginning on page 19.

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

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

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

Ordinary income (loss) from another partnership that is a publicly traded partnership is not reported on this line. Instead, report the amount separately on line 11 of Schedule K and in box 11 of Schedule K-1 using code F.

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

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

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

Line 5. Net Farm Profit (Loss)

Enter the partnership's net farm profit (loss) from Schedule F (Form 1040), Profit or Loss From Farming. Attach Schedule F (Form 1040) to Form 1065. Do not include on this line any farm profit (loss) from other partnerships. Report those amounts on line 4. In figuring the partnership's net farm profit (loss), do not include any section 179 expense deduction; this amount must be separately stated.

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

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

Note. Because the election to deduct the expenses of raising any plant with a preproductive period of more than 2 years is made by the partner and not the partnership, farm partnerships that are not required to use an accrual method should not capitalize such expenses. Instead, state them separately on an attachment to Schedule K, line 13d, and in box 13 of Schedule K-1, using code P. See Regulations section 1.263A-4(d) for more information.

Line 6. Net Gain (Loss) From Form 4797



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

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

Partnerships should not use Form 4797 to report the sale or other disposition of property if a section 179 expense deduction was previously passed through to any of its

partners for that property. Instead, report it in box 20 of Schedule K-1 using code L. See the instructions on page 37 for *Dispositions of property with section 179 deductions (code L)* for details.

Line 7. Other Income (Loss)

Enter on line 7 any other trade or business income (loss) not included on lines 1a through 6. List the type and amount of income on an attached statement. Examples of such income include:

1. Interest income derived in the ordinary course of the partnership's trade or business, such as interest charged on receivable balances.
2. Recoveries of bad debts deducted in prior years under the specific charge-off method.
3. Taxable income from insurance proceeds.
4. The amount included in income from line 8 of Form 6478, Alcohol and Cellulosic Biofuel Fuels Credit.
5. The amount included in income from line 10 of Form 8864, Biodiesel and Renewable Diesel Fuels Credit.
6. The recapture amount under section 280F if the business use of listed property drops to 50% or less. To figure the recapture amount, complete Part IV of Form 4797.
7. Any recapture amount under section 179A for certain clean-fuel vehicle property (or clean-fuel vehicle refueling property) that ceases to qualify. See Regulations section 1.179A-1 for details.
8. All section 481 income adjustments resulting from changes in accounting methods. Show the computation of the section 481 adjustments on an attached statement.
9. Part or all of the proceeds received from certain employer-owned life insurance contracts issued after August 17, 2006. Partnerships that own one or more employer-owned life insurance contracts issued after this date must file Form 8925, Report of Employer-Owned Life Insurance Contracts. See section 101(j) for details.

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

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

Deductions



Report only trade or business activity deductions on lines 9 through 20.

Do not report the following expenses on lines 9 through 20.

- Rental activity expenses. Report these expenses on Form 8825 or line 3b of Schedule K.
- Deductions allocable to portfolio income. Report these deductions on line 13d of Schedule K and in box 13 of Schedule K-1 using code I, K, or L.
- Nondeductible expenses (for example, expenses connected with the production of tax-exempt income). Report nondeductible

expenses on line 18c of Schedule K and in box 18 of Schedule K-1 using code C.

- Qualified expenditures to which an election under section 59(e) may apply. The instructions for line 13c of Schedule K and for Schedule K-1, box 13, code J, explain how to report these amounts.
- Items the partnership must state separately that require separate computations by the partners. Examples include expenses incurred for the production of income instead of in a trade or business, charitable contributions, foreign taxes paid or accrued, intangible drilling and development costs, soil and water conservation expenditures, amortizable basis of reforestation expenditures, and exploration expenditures. The distributive shares of these expenses are reported separately to each partner on Schedule K-1.

Limitations on Deductions

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

- The production of real property and tangible personal property held in inventory or held for sale in the ordinary course of business. Tangible personal property produced by a partnership includes a film, sound recording, videotape, book, or similar property.
- Real property or personal property (tangible and intangible) acquired for resale.
- The production of real property and tangible personal property by a partnership for use in its trade or business or in an activity engaged in for profit.

The costs required to be capitalized under section 263A are not deductible until the property to which the costs relate is sold, used, or otherwise disposed of by the partnership.

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

- Inventoriable items accounted for in the same manner as materials and supplies that are not incidental. See *Schedule A, Cost of Goods Sold* on page 19 for details.
- Personal property acquired for resale if the partnership's average annual gross receipts for the 3 prior tax years were \$10 million or less.
- Timber.
- Most property produced under a long-term contract.
- Certain property produced in a farming business. See the note at the end of the instructions for line 5.
- Geological and geophysical costs amortized under section 167(h).

The partnership must report the following costs separately to the partners for purposes of determinations under section 59(e).

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

Indirect costs. Partnerships subject to the uniform capitalization rules are required to capitalize not only direct costs but an

allocable part of most indirect costs (including taxes) that benefit the assets produced or acquired for resale, or are incurred because of the performance of production or resale activities.

For inventory, some of the indirect costs that must be capitalized are the following.

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

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

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

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

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

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

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

For start-up and organizational costs paid or incurred after October 22, 2004, and before September 9, 2008, a partnership generally must attach the statement required by Regulations section 1.195-1(b) and 1.709-1(c) to make the election to deduct a portion of such costs (as explained above). This election is irrevocable. However, a partnership can apply the provisions of these temporary regulations to

costs paid or incurred after October 22, 2004.

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

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

Report the deductible amount of these costs and any amortization on line 20. For amortization that began during the tax year, complete and attach Form 4562.

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

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

1. The work opportunity credit.
2. The welfare-to-work credit.
3. The credit for increasing research activities.
4. The disabled access credit.
5. The empowerment zone and renewal community employment credit.
6. The Indian employment credit.
7. The credit for employer social security and Medicare taxes paid on certain employee tips.
8. The orphan drug credit.
9. Credit for small employer pension plan startup costs.
10. Credit for employer-provided childcare facilities and services.
11. Employee retention credit.
12. Employer housing credit.
13. The mine rescue team training credit.
14. The agricultural chemicals security credit.
15. The credit for employer differential wage payments.

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

Line 9. Salaries and Wages

Enter the salaries and wages paid or incurred for the tax year, reduced by the amount of the following credits:

- Form 5884, Work Opportunity Credit;
- Form 5884-A, Credit for Affected Midwestern Disaster Area Employers;
- Form 8844, Empowerment Zone and Renewal Community Employment Credit;
- Form 8845, Indian Employment Credit;
- Form 8861, Welfare-to-Work Credit;
- Form 8923, Mine Rescue Team Training Credit; and

- Form 8932, Credit for Employer Differential Wage Payments.

Do not reduce the amount of the allowable deduction for any portion of the credit that was passed through to the partnership from another pass-through entity. See the instructions for these forms for more information.

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

Line 10. Guaranteed Payments to Partners

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

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

Do not include any payments and credits that should be capitalized. For example, although payments or credits to a partner for services rendered in syndicating a partnership may be guaranteed payments, they are not deductible on line 10. They are capital expenditures. However, they should be separately reported on Schedule K, line 4, and on Schedule K-1, box 4.

Do not include distributive shares of partnership profits.

Report the guaranteed payments to the appropriate partners on Schedule K-1, box 4.

Line 11. Repairs and Maintenance

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

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

Line 12. Bad Debts

Enter the total debts that became worthless in whole or in part during the year, but only to the extent such debts relate to a trade or business activity. Report deductible nonbusiness bad debts as a short-term capital loss on Schedule D (Form 1065).



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

Line 13. Rent

Enter rent paid on business property used in a trade or business activity. Do not deduct

rent for a dwelling unit occupied by any partner for personal use.

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

The lease term began:	And the vehicle's FMV on the first day of the lease exceeded:
After 12/31/07 but before 1/1/09	\$18,500
After 12/31/06 but before 1/1/08	\$15,500
After 12/31/04 but before 1/1/07	\$15,200
After 12/31/03 but before 1/1/05	\$17,500
After 12/31/02 but before 1/1/04	\$18,000

If the lease term began before January 1, 2003, see Pub. 463, Travel, Entertainment, Gift, and Car Expenses, to find out if the partnership has an inclusion amount. The inclusion amount for lease terms beginning in 2009 will be published in the Internal Revenue Bulletin in early 2009.

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

Line 14. Taxes and Licenses

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

Do not deduct the following taxes on line 14.

- Taxes not imposed on the partnership.
- Federal income taxes or taxes reported elsewhere on the return.
- Section 901 foreign taxes. Report these taxes separately on Schedule K, line 16l and on Schedule K-1, box 16, using codes L and M.
- Taxes allocable to a rental activity. Taxes allocable to a rental real estate activity are reported on Form 8825. Taxes allocable to a rental activity other than a rental real estate activity are reported on line 3b of Schedule K.
- Taxes allocable to portfolio income. These taxes are reported on line 13d of Schedule K and in box 13 of Schedule K-1 using code K.
- Taxes paid or incurred for the production or collection of income, or for the management, conservation, or maintenance of property held to produce income. Report these taxes separately on line 13d of Schedule K and in box 13 of Schedule K-1 using code W.

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

- Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (these taxes must be treated as a part of the

cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition).

- Taxes assessed against local benefits that increase the value of the property assessed (such as for paving, etc.).

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

Line 15. Interest

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

Do not include interest expense:

- On debt used to purchase rental property or debt used in a rental activity. Interest allocable to a rental real estate activity is reported on Form 8825 and is used in arriving at net income (loss) from rental real estate activities on line 2 of Schedule K and in box 2 of Schedule K-1. Interest allocable to a rental activity other than a rental real estate activity is included on line 3b of Schedule K and is used in arriving at net income (loss) from a rental activity (other than a rental real estate activity). This net amount is reported on line 3c of Schedule K and in box 3 of Schedule K-1.
- On debt used to buy property held for investment. Interest that is clearly and directly allocable to interest, dividend, royalty, or annuity income not derived in the ordinary course of a trade or business is reported on line 13b of Schedule K and in box 13 of Schedule K-1 using code H. See the instructions for line 13b of Schedule K; box 13, code H of Schedule K-1; and Form 4952, Investment Interest Expense Deduction, for more information on investment property.
- On debt proceeds allocated to distributions made to partners during the tax year. Instead, report such interest on line 13d of Schedule K and in box 13 of Schedule K-1 using code W. To determine the amount to allocate to distributions to partners, see Notice 89-35, 1989-1 C.B. 675.
- On debt required to be allocated to the production of designated property. Designated property includes real property, personal property that has a class life of 20 years or more, and other tangible property requiring more than 2 years (1 year in the case of property with a cost of more than \$1 million) to produce or construct. Interest allocable to designated property produced by a partnership for its own use or for sale must be capitalized. In addition, a partnership must also capitalize any interest on debt allocable to an asset used to produce designated property. A partner may have to capitalize interest that the partner incurs during the tax year for the partnership's production expenditures. Similarly, interest incurred by a partnership may have to be capitalized by a partner for the partner's own production expenditures. The information required by the partner to properly capitalize interest for this purpose must be provided by the partnership on an attachment for box 20 of Schedule K-1, using code R. See section 263A(f) and Regulations sections 1.263A-8 through 1.263A-15.

Special rules apply to:

- Allocating interest expense among activities so that the limitations on passive activity losses, investment interest, and personal interest can be properly figured. Generally, interest expense is allocated in the same manner as debt is allocated. Debt is allocated by tracing disbursements of the debt proceeds to specific expenditures. Temporary Regulations section 1.163-8T gives rules for tracing debt proceeds to expenditures.
- Interest paid by a partnership to a partner for the use of capital, which should be entered on line 10 as guaranteed payments.
- Prepaid interest, which generally can only be deducted over the period to which the prepayment applies. See section 461(g) for details.
- Interest which is allocable to unborrowed policy cash values of life insurance, endowment, or annuity contracts issued after June 8, 1997, when the partnership is a policyholder or beneficiary. See section 264(f). Attach a statement showing the computation of the deduction.

Line 16. Depreciation

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

Complete and attach Form 4562 only if the partnership placed property in service during the tax year or claims depreciation on any car or other listed property. There is different treatment for property located in a Gulf Opportunity Zone. See the instructions for Form 4562 for details.

Do not include any section 179 expense deduction on this line. This amount is not deducted by the partnership. Instead, it is passed through to the partners in box 12 of Schedule K-1. However, reduce the basis of any asset of the partnership by the amount of section 179 expense elected by the partnership, even if a portion of that amount cannot be passed through to its partners this year and must be carried forward because of limitations at the partnership level.

Line 17. Depletion

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



Do not deduct depletion for oil and gas properties. Each partner figures depletion on oil and gas properties. See the instructions for Schedule K-1, box 20, "Depletion information—oil and gas (code T)," for the information on oil and gas depletion that must be supplied to the partners by the partnership.

Line 18. Retirement Plans, etc.

Do not deduct payments for partners to retirement or deferred compensation plans including IRAs, qualified plans, and simplified employee pension (SEP) and SIMPLE IRA plans on this line. These amounts are reported on Schedule K-1, box

13, using code R, and are deducted by the partners on their own returns.

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

If the partnership contributes to an individual retirement arrangement (IRA) for employees, include the contribution in salaries and wages on page 1, line 9, or Schedule A, line 3, and not on line 18.

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

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

Line 19. Employee Benefit Programs

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

Do not include amounts paid during the tax year for insurance that constitutes medical care for a partner, a partner's spouse, or a partner's dependents. Instead, include these amounts on line 10 as guaranteed payments on Schedule K, line 4, and Schedule K-1, box 4, of each partner on whose behalf the amounts were paid. Also report these amounts on Schedule K, line 13d, and Schedule K-1, box 13, using code M, of each partner on whose behalf the amounts were paid.

Line 20. Other Deductions

Enter the total allowable trade or business deductions that are not deductible elsewhere on page 1 of Form 1065. Attach a statement listing by type and amount each deduction included on this line. Examples of other deductions include:

- Amortization. See the Instructions for Form 4562 for more information. Complete and attach Form 4562 if the partnership is claiming amortization of costs that began during the tax year.
- Insurance premiums.
- Legal and professional fees.
- Supplies used and consumed in the business.
- Utilities.
- Certain business start-up expenditures and organizational expenditures the partnership elects to amortize or deduct. See *Limitations on Deductions* beginning on page 16 for more details.
- Deduction for certain energy efficient commercial building property. See section

179D, Notice 2006-52, 2006-26 I.R.B. 1175, and Notice 2008-40, 2008-14 I.R.B. 725.

- Any negative net section 481(a) adjustment.

Also see *Special Rules*, below.

Do not deduct on line 20:

- Items that must be reported separately on Schedules K and K-1.
- Fines or penalties paid to a government for violating any law. Report these expenses on Schedule K, line 18c.
- Expenses allocable to tax-exempt income. Report these expenses on Schedule K, line 18c.
- Net operating losses. Only individuals and corporations may claim a net operating loss deduction.
- Amounts paid or incurred to participate or intervene in any political campaign on behalf of a candidate for public office, or to influence the general public regarding legislative matters, elections, or referendums. Report these expenses on Schedule K, line 18c.
- Expenses paid or incurred to influence federal or state legislation, or to influence the actions or positions of certain federal executive branch officials. However, certain in-house lobbying expenditures that do not exceed \$2,000 are deductible. See section 162(e) for more details.

Special Rules

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

Rental real estate. Do not report this deduction on line 20 if the building is placed in service as rental real estate. A commercial revitalization deduction for rental real estate is not deducted by the partnership but is passed through to the partners in box 13 of Schedule K-1 using code Q.

Travel, meals, and entertainment. Subject to limitations and restrictions discussed below, a partnership can deduct ordinary and necessary travel, meals, and entertainment expenses paid or incurred in its trade or business. Also, special rules apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses,

and entertainment tickets. See section 274 and Pub. 463 for details.

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

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

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

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

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

Membership dues. The partnership may deduct amounts paid or incurred for membership dues in civic or public service organizations, professional organizations (such as bar and medical associations), business leagues, trade associations, chambers of commerce, boards of trade, and real estate boards. However, no deduction is allowed if a principal purpose of the organization is to entertain, or provide entertainment facilities for, members or their guests. In addition, the partnership may not deduct membership dues in any club organized for business, pleasure, recreation, or other social purpose. This includes country clubs, golf and athletic clubs, airline and hotel clubs, and clubs operated to provide meals under conditions favorable to business discussion.

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

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

Reforestation expenditures. If the partnership made an election to deduct a portion of its reforestation expenditures on line 13d of Schedule K, it must amortize over an 84-month period the portion of these expenditures in excess of the amount deducted on Schedule K (see section 194). Deduct on line 20 only the amortization of these excess reforestation expenditures. See *Reforestation expense deduction (code S)* on page 30.



Do not deduct amortization of reforestation expenditures paid or incurred before October 23, 2004. If the partnership elected to amortize these expenditures, report the amortizable basis on line 20c of Schedule K. See *Amortization of reforestation costs (code U)* on page 38 for details.

Schedule A. Cost of Goods Sold

Cost of Goods Sold

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

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

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

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

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

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

All filers that have not elected to treat inventoriable items as materials and supplies that are not incidental should see *Section 263A uniform capitalization rules* on page 16 before completing Schedule A.

Line 1. Inventory at Beginning of Year

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

partnership's section 481(a) adjustment (explained on page 5).

Line 2. Purchases

Reduce purchases by items withdrawn for personal use. The cost of these items should be shown on line 19b of Schedule K and in box 19 of Schedule K-1, using code B, as distributions to partners.

Line 4. Additional Section 263A Costs

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

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

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

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

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

Enter on line 4 the balance of section 263A costs paid or incurred during the tax year not includible on lines 2, 3, and 5. Attach a statement listing these costs.

Line 5. Other Costs

Enter on line 5 any other inventoriable costs paid or incurred during the tax year not entered on lines 2 through 4. Attach a statement.

Line 7. Inventory at End of Year

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

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

Lines 9a Through 9c. Inventory Valuation Methods

Inventories can be valued at:

- Cost,
- Cost or market value (whichever is lower), or

- Any other method approved by the IRS that conforms to the requirements of the applicable regulations cited below.

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

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

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

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

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

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

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

If the partnership has changed or extended its inventory method to LIFO and has had to write up its opening inventory to cost in the year of election, report the effect of this write-up as income (line 7, page 1, Form 1065) proportionately over a 3-year period that begins in the tax year of the LIFO election.

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

Schedule B. Other Information

Question 1

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

Maximum Percentage Owned for Purposes of Questions 3 and 4

To determine the maximum percentage owned in the partnership's profit, loss, or capital for the purposes of questions 3a, 3b, and 4b, determine separately the partner's percentage of interest in profit, loss, and capital at the end of the partnership's tax year. This determination must be based on the partnership agreement and it must be made using the constructive ownership rules described below. The maximum percentage is the highest of these three percentages (determined at the end of the tax year).

Go to www.irs.gov/businesses/index.html, click on "Partnerships," then click on "Form 1065 Frequently Asked Questions," for supplemental information and examples of reasonable methods for determining the maximum percentage owned.

Questions 3 and 4

Constructive ownership of the partnership. For purposes of question 3, in determining an ownership interest in the profit, loss, or capital of the partnership, the constructive ownership rules of section 267(c) (excluding sections 267(c)(3)) apply to ownership of interests in the partnership as well as corporate stock. An interest in the partnership which is owned directly or indirectly by or for another entity (corporation, partnership, estate, or trust) is considered to be owned proportionately by the owners (shareholders, partners, or beneficiaries) of the owning entity.

Also, under section 267(c), an individual is considered to own an interest owned directly or indirectly by or for his or her family. The family of an individual includes only that individual's spouse, brothers, sisters, ancestors, and lineal descendants. An interest will be attributed from an individual under the family attribution rules only if the person to whom the interest is attributed owns a direct interest in the partnership or an indirect interest under section 267(c)(1) or (5). For purposes of these instructions, an individual will not be considered to own, under section 267(c)(2), an interest in the partnership owned, directly or indirectly, by a family member of the individual unless the individual also owns an interest in the partnership either directly or indirectly through a corporation, partnership, or trust.

Constructive ownership examples for questions 3 and 4 are included below. For the purposes of questions 3 and 4, add an owner's direct percentage ownership and indirect percentage ownership in an entity to determine if the owner owns, directly or indirectly, 50% or more of the entity.

Question 3a. List each corporation, partnership, or trust owning, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership at the end of the tax year. Indicate the name, EIN, type of entity (corporation, partnership, or trust), country of organization, and the maximum of the percentage interests owned, directly or indirectly, in the profit, loss, or capital of the partnership. For an affiliated group filing a consolidated tax return, list the parent corporation rather than the subsidiary members. List the entity owner of a disregarded entity rather than the disregarded entity. If the owner of a disregarded entity is an individual rather than an entity, list the individual under question 3b.

Example 1. Corporation A owns, directly, an interest of 50% in the profit, loss, or capital of Partnership B. Corporation A also owns, directly, an interest of 15% in the profit, loss, or capital of Partnership C. Partnership B owns, directly, an interest of 70% in the profit, loss, or capital of Partnership C. Therefore, Corporation A owns, directly or indirectly, an interest of 50% in the profit, loss, or capital of Partnership C (15% directly and 35% indirectly through Partnership B). On Partnership C's Form 1065, it must answer "Yes" to question 3a of Schedule B, identify Corporation A, and enter "50%" in column (v) (its maximum percentage owned). It also must identify Partnership B and enter "70%" in column (v).

Question 3b. List each individual or estate owning, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership at the end of the tax year. Indicate the name, TIN, country of citizenship (for an estate, the citizenship of the decedent), and the maximum of the percentage interests owned, directly or indirectly, in the profit, loss, or capital of the partnership.

Example 2. A owns, directly, 50% of the profit, loss, or capital of Partnership X. B, the daughter of A, does not own, directly, any interest in X and does not own, indirectly, any interest in X through any entity (corporation, partnership, trust, or estate). Because family attribution rules apply only when an individual (in this example, B) owns a direct interest in the partnership or an indirect interest through another entity, A's interest in Partnership X is not attributable to B. When Partnership X completes its Form 1065, it will identify A in question 3b, which includes entering "50%" in column (iv). Partnership X will not identify B in question 3b.

Constructive ownership of other entities by the partnership. For purposes of determining the partnership's constructive ownership of other entities, the constructive ownership rules of section 267(c) (excluding section 267(c)(3)) apply to ownership of interests in partnerships and trusts as well as corporate stock. Generally, if an entity (a corporation, partnership, or trust) is owned, directly or indirectly, by or for another entity (corporation, partnership, estate, or trust), the owned entity is considered to be owned proportionally by or for the owners (shareholders, partners, or beneficiaries) of the owning entity.

Question 4a. List each corporation in which the partnership, at the end of the tax year, owns, directly, 20% or more, or owns, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote. Indicate the name, EIN, country of incorporation, and the percentage interest owned, directly or indirectly, in the total voting power. List the parent corporation of an affiliated group filing a consolidated tax return rather than the subsidiary members except for subsidiary members in which an interest is owned, directly or indirectly, independent of the interest owned, directly or indirectly, in the parent corporation. If a corporation is owned through a disregarded entity, list the information for the corporation rather than the disregarded entity.

Question 4b. List each partnership in which the partnership, at the end of the tax year, owns, directly, an interest of 20% or more, or owns, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership. List each trust in which the partnership, at the end of the tax year, owns, directly, an interest of 20% or more, or owns, directly or indirectly, an interest of 50% or more in the trust beneficial interest. For each partnership or trust listed, indicate the name, EIN, type of entity (partnership or trust), and country of origin. If the listed entity is a partnership, enter in column (v) the maximum of percentage interests owned, directly or indirectly, in the profit, loss, or capital of the partnership at the end of the partnership's tax year. If the entity is a trust, enter in column (v) the percentage of the partnership's beneficial interest in the trust owned, directly or indirectly, at the end of the tax year. List a partnership or trust owned through a disregarded entity rather than the disregarded entity.

Question 5

Generally, the tax treatment of partnership items is determined at the partnership level in a consolidated audit proceeding under sections 6221 through 6234, rather than in separate proceedings with individual partners. Small partnerships are not subject to the rules for consolidated audit proceedings. "Small partnerships" are defined as any partnership having 10 or fewer partners each of whom is an individual (other than a nonresident alien), a C corporation, or an estate of a deceased partner. The small partnership exception to the consolidated audit procedures does not apply if any partner during the tax year is a partnership, estate, trust, S corporation, nominee, or disregarded entity.

Small partnerships can elect to be subject to the rules for consolidated audit proceedings by attaching Form 8893, Election of Partnership Level Tax Treatment, to the partnership return for the first tax year for which the election is to be effective. This election must be signed by all persons who were partners of the partnership at any time during the partnership's taxable year. Once made, the election may not be revoked without IRS consent (see Form 8894, Request to Revoke Partnership Level Tax Treatment Election). See section 6231(a)(1)(B) and Form 8893 for more information.



The partnership does not make this election when it answers "Yes" to question 5 or when it designates a Tax Matters Partner on Form 1065. The election must be made separately by filing Form 8893, Election of Partnership Level Tax Treatment.

Question 6

Answer "Yes" if the partnership meets all four of the requirements shown on the form. Total receipts is defined as the sum of gross receipts or sales (page 1, line 1a); all other income (page 1, lines 4 through 7); income reported on Schedule K, lines 3a, 5, 6a, and 7; income or net gain reported on Schedule K, lines 8, 9a, 10, and 11; and income or net gain reported on Form 8825, lines 2, 19, and 20a. Total assets is defined as the amount that would be reported in item F on page 1 of Form 1065.

Question 7

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

Question 8

Generally, the partnership will have income if debt is cancelled or forgiven. The determination of the existence and amount of cancellation of debt income is made at the partnership level. Partnership cancellation of indebtedness income is separately stated on Schedule K and Schedule K-1. The extent to which such income is taxable is usually made by each individual partner under rules found in section 108. For more information, see Publication 334, Tax Guide for Small Business.

Question 9

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

Question 10. Foreign Accounts

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

1. At any time during calendar year 2008, the partnership had an interest in or signature or other authority over a bank account, securities account, or other financial account in a foreign country (see Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts); and

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

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

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

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

- Enter the name of the foreign country or countries. Attach a separate sheet if more space is needed.
- File Form TD F 90-22.1 by June 30, 2009, with the Department of the Treasury at the address shown on the form. Because Form TD F 90-22.1 is not a tax form, do not file it with Form 1065. You can order Form TD F 90-22.1 by calling 1-800-TAX-FORM (1-800-829-3676) or you can download it from the IRS website at www.irs.gov.

Question 11

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

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

For more information, see the Instructions for Form 3520.

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

Questions 12a, 12b, and 12c

Note. You must check “Yes” or “No” for each question.

Question 12a. Answer “Yes” if the partnership is making, or has made (and has not revoked) a section 754 election. If the partnership technically terminated under section 708(b)(1)(B), and the new partnership does not make a section 754 election for its first tax year, the section 754 election is considered “revoked” for purposes of completing question 12a. For information about the election, see item 4 under *Elections Made by the Partnership*, on page 9.

Question 12b. Answer “Yes” if the partnership made an optional basis adjustment under section 743(b) or 734(b) for the tax year. If the partnership has made a section 754 election (and it has not been revoked) and either of the following transactions occur, the partnership must make a basis adjustment under section 734(b) or 743(b).

Section 743(b) basis adjustment. A section 743(b) basis adjustment is required if there is a transfer of an interest in the partnership by a sale or exchange, or in the death of a partner. See question 12c if the partnership has a substantial built-in loss immediately after such a transfer. The basis adjustment affects only the transferee’s basis in partnership property. The partnership must attach a statement to the return for the tax year in which the transfer occurred. The statement must include:

- The name of the transferee partner,
- The EIN or SSN of the transferee partner,
- The computation of the adjustment, and
- The identity of the partnership properties to which the adjustment has been allocated.

For details, see section 743 and Regulations section 1.743-1. For details on allocating the basis adjustment to partnership properties, see section 755 and Regulations section 1.755-1.

Section 734(b) basis adjustment. A section 734(b) basis adjustment is required if there is a distribution of property to a partner, whether or not in liquidation of the partner’s entire interest in the partnership. See question 12c if there is a substantial built-in loss with respect to the distribution. The basis adjustment affects each partner’s basis in the partnership property. The partnership must attach a statement to the return for the tax year in which the distribution occurred. The statement must include:

- The computation of the adjustment,
- The class of property distributed (ordinary income property or capital gain property), and
- The partnership properties to which the adjustment has been allocated.

For details, see section 734 and Regulations section 1.734-1. For details on allocating the basis adjustment to partnership properties, see section 755 and Regulations section 1.755-1.

Question 12c. Answer “Yes” if the partnership had to make a basis reduction under section 743(b) because of a substantial built-in loss (as defined in section 743(d)) or under section 734(b) because of a substantial basis reduction (as defined in section 734(d)). Section 743(d)(1) provides that, for purposes of section 743, a partnership has a substantial built-in loss with respect to a transfer of a partnership interest if the partnership’s adjusted basis in the partnership’s property exceeds by more than \$250,000 the fair market value of the property. Under section 734(d), there is a substantial basis reduction with respect to a distribution if the sum of the following amounts exceeds \$250,000:

- The amount of loss recognized by the distributee partner on a distribution in liquidation of the partner’s interest in the partnership (see section 731(a)(2)), and
- The excess of the basis of the distributed property to the distributee partner (determined under section 732) over the adjusted basis of the distributed property to the partnership immediately before the distribution (as adjusted by section 732(d)).

Section 743(b) basis adjustment. For a section 743(b) basis adjustment, attach a statement that includes:

- Name of the transferee partner,
- EIN or SSN of the transferee partner,
- Computation of the adjustment, and
- Identity of the partnership properties to which the adjustment has been allocated.

Section 734(b) basis adjustment. For a section 734(b) basis adjustment, attach a statement that includes:

- The computation of the adjustment,
- The class of property distributed (ordinary income property or capital gain property), and
- The partnership properties to which the adjustment has been allocated.

Question 13

Check the box only if the partnership received replacement property during its

2007 or 2008 tax year, and contributed or distributed that replacement property during its 2007 or 2008 tax year. For information on like-kind exchanges, see Publication 544, Sales and Other Dispositions of Assets.

Question 14

If a partnership distributed property to its partners to be jointly owned, whether such distribution is direct or through the formation of an intermediate entity, the question must be answered “Yes.” For purposes of question 14, an “undivided interest in partnership property” means property that was owned by the partnership either directly or through a disregarded entity and which was distributed to partners as fractional ownership interests. A tenancy in common interest is a type of undivided ownership interest in property which provides each owner the right to transfer property to a third party without destroying the tenancy in common. Partners may agree to partition property held as tenants in common or may seek a court order to partition the property (usually dividing the property into fractional interests in accordance with each partner’s ownership interest in the partnership.)

Example. Partnership P is a partnership which files Form 1065. Partnership P holds title to land held for investment. Partnership P converts its title to the land to fractional interests in the name of the partners and distributes such interests to its partners. Partnership P must answer “Yes” to question 14.

Question 15

Enter the number of Form(s) 8858 that are attached to the return. Form 8858 (and its schedules) are used by certain U.S. persons (including domestic partnerships) that own a foreign disregarded entity (FDE) directly, (or, in certain cases, indirectly or constructively) to satisfy the reporting requirements of sections 6011, 6012, 6031, 6038, and the related regulations. See Form 8858 (and its separate instructions) for information on completing the form.

Question 16. Foreign Partners

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

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

Designation of Tax Matters Partner (TMP)

If the partnership is subject to the rules for consolidated audit proceedings in sections 6221 through 6234, the partnership can designate a partner as the TMP for the tax year for which the return is filed by completing the *Designation of Tax Matters*

Partner section on page 3 of Form 1065. The designated TMP must be a general partner and, in most cases, also must be a U.S. person. For details, see Regulations section 301.6231(a)(7)-1.

For a limited liability company (LLC), only a member manager of the LLC is treated as a general partner. A member manager is any owner of an interest in the LLC who, alone or together with others, has the continuing exclusive authority to make the management decisions necessary to conduct the business for which the LLC was formed. If there are no elected or designated member managers, each owner is treated as a member manager. For details, see Regulations section 301.6231(a)(7)-2.

Schedules K and K-1. Partners' Distributive Share Items

Purpose of Schedules

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

Schedule K. Schedule K is a summary schedule of all the partners' shares of the partnership's income, credits, deductions, etc. All partnerships must complete Schedule K. Rental activity income (loss) and portfolio income are not reported on page 1 of Form 1065. These amounts are not combined with trade or business activity income (loss). Schedule K is used to report the totals of these and other amounts.

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

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

Substitute Forms

The partnership does not need IRS approval to use a substitute Schedule K-1 if it is an exact copy of the IRS schedule. The boxes must use the same numbers and titles and must be in the same order and format as on the comparable IRS Schedule K-1. The substitute schedule must include the OMB number. The partnership must provide each partner with the Partner's Instructions for Schedule K-1 (Form 1065) or other prepared specific instructions for each item reported on the partner's Schedule K-1.

The partnership must request IRS approval to use other substitute Schedules K-1. To request approval, write to Internal Revenue Service, Attention: Substitute

Forms Program, SE:W:CAR:MP:T:T:SP, 1111 Constitution Avenue, NW, IR-6526, Washington, DC 20224.

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

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

How Income Is Shared Among Partners

Allocate shares of income, gain, loss, deduction, or credit among the partners according to the partnership agreement for sharing income or loss generally. Partners may agree to allocate specific items in a ratio different from the ratio for sharing income or loss. For instance, if the net income exclusive of specially allocated items is divided evenly among three partners but some special items are allocated 50% to one, 30% to another, and 20% to the third partner, report the specially allocated items on the appropriate line of the applicable partner's Schedule K-1 and the total on the appropriate line of Schedule K, instead of on the numbered lines on page 1 of Form 1065 or Schedules A or D.

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

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

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

If the partnership agreement does not provide for the partner's share of income,

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

Specific Instructions (Schedule K-1 Only)

General Information

Generally, the partnership is required to prepare and give a Schedule K-1 to each person who was a partner in the partnership at any time during the year. Schedule K-1 must be provided to each partner on or before the day on which the partnership return is required to be filed.

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

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

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

If a husband and wife each had an interest in the partnership, prepare a separate Schedule K-1 for each of them.

How To Complete Schedule K-1

If the return is for a fiscal year or a short tax year, fill in the tax year space at the top of each Schedule K-1. On each Schedule K-1, enter the information about the partnership and the partner in Parts I and II (items A through L). In Part III, enter the partner's distributive share of each item of income, deduction, and credit and any other information the partner needs to file the partner's tax return.

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

Attached statements. Enter an asterisk (*) after the code, if any, in the column to the left of the dollar amount entry space for each item for which you have attached a statement providing additional information. For those informational items that cannot be

reported as a single dollar amount, enter the code and asterisk in the left-hand column and enter "STMT" in the entry space to the right to indicate that the information is provided on an attached statement. More than one attached statement can be placed on the same sheet of paper and should be identified in alphanumeric order by box number followed by the letter code (if any). For example: "Box 20, Code T—Depletion Information—Oil and Gas" (followed by the information the partner needs).



For electronically filed returns, the partnership must follow the instructions for attachments as described in Pub. 4164 when reporting the additional information that may be required for each respective box. See Pub. 4164 for more information.

Too few entry spaces on Schedule K-1?

If the partnership has more coded items than the number of spaces in box 11 or boxes 13 through 20, do not enter a code or dollar amount in the last entry space of the box. In the last entry space, enter an asterisk in the left column and enter "STMT" in the entry space to the right. Report the additional items on an attached statement and provide the box number, the code, description, and dollar amount or information for each additional item. For example: "Box 15, Code J—Work Opportunity Credit—\$1,000."

Part I. Information About the Partnership

On each Schedule K-1, enter the name, address, and identifying number of the partnership.

Part II. Information About the Partner

Complete a Schedule K-1 for each partner. On each Schedule K-1, enter the partner's name, address, identifying number, and distributive share items.

Items E and F

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

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

If a single member limited liability company (LLC) owns an interest in the partnership, and the LLC is treated as a disregarded entity for federal income tax purposes, enter the owner's identifying number in item E and the owner's name and address in item F.

Foreign address. If the partner has a foreign address, enter the information in the following order: City, province or state, and

country. Follow the country's practice for entering the postal code. Do not abbreviate the country name.

Item G

Complete item G on all Schedules K-1. If a partner holds interests as both a general and limited partner, check both boxes and attach a statement for each activity that shows the amounts allocable to the partner's interest as a limited partner.

Item H. Domestic/Foreign Partner

Check the foreign partner box if the partner is a nonresident alien individual, foreign partnership, foreign corporation, or a foreign estate or trust. Otherwise, check the domestic partner box.

Item I. What Type of Entity Is This Partner?

State on this line whether the partner is an individual, a corporation, an estate, a trust, a partnership, a disregarded entity, an exempt organization, or a nominee (custodian). If the entity is a limited liability company (LLC) and it is treated as other than a disregarded entity for federal income tax purposes, the partnership must enter the LLC's classification for federal income tax purposes (that is, a corporation or partnership). If the partner is a nominee, use one of the following codes after the word "nominee" to indicate the type of entity the nominee represents: I—Individual; C—Corporation; F—Estate or Trust; P—Partnership; DE—Disregarded Entity; E—Exempt Organization; or IRA—Individual Retirement Arrangement.

Item J. Partner's Profit, Loss, and Capital

On each line, enter the partner's share of the partnership's profit, loss, and capital as of the beginning and end of the partnership's tax year, as determined under the partnership agreement. However, if a partner's interest terminated during the year, enter in the *Beginning* column the percentages that existed immediately before the termination. When the profit or loss sharing percentage has changed during the year, show the percentage before the change in the *Beginning* column and the end-of-year percentage in the *Ending* column. If there are multiple changes in the profit and loss sharing percentage during the year, attach a statement giving the date and percentage before each change.

On the line for *Capital* enter the portion of the capital that the partner would receive if the partnership was liquidated by the distribution of undivided interests in partnership assets and liabilities.

The partner's share of each category must be expressed as a percentage. The total percentage interest in each category must total 100% for all partners. If the partnership agreement does not express the partner's share of profit, loss, and capital as fixed percentages, the partnership may use a reasonable method in arriving at each percentage for purposes of completing the items required by item J, as long as such method is consistent with the partnership

agreement and is applied consistently from year to year. Maintain records to support the share of profits, share of losses, and share of capital reported for each partner.

Item K. Partner's Share of Liabilities

Enter each partner's share of nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other recourse liabilities at the end of the year.

"Nonrecourse liabilities" are those liabilities of the partnership for which no partner bears the economic risk of loss. The extent to which a partner bears the economic risk of loss is determined under the rules of Regulations section 1.752-2. Do not include partnership-level qualified nonrecourse financing (defined below) on the line for nonrecourse liabilities.

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

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

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

If a partnership is engaged in an activity subject to the limitations of section 465(c)(1) (such as films or videotapes, leasing section 1245 property, farming, or oil and gas property), give each partner his or her share of the total pre-1976 losses from that activity for which there existed a corresponding amount of nonrecourse liability at the end of each year in which the losses occurred. See Form 6198, At-Risk Limitations, and related instructions for more information.

Qualified nonrecourse financing secured by real property used in an activity of holding real property that is subject to the at-risk rules is treated as an amount at risk. "Qualified nonrecourse financing" generally includes financing for which no one is personally liable for repayment that is borrowed for use in an activity of holding real property and that is loaned or guaranteed by a federal, state, or local government or that is borrowed from a "qualified" person. Qualified persons include any person actively and regularly engaged

in the business of lending money, such as a bank or savings and loan association. Qualified persons generally do not include related parties (unless the nonrecourse financing is commercially reasonable and on substantially the same terms as loans involving unrelated persons), the seller of the property, or a person who receives a fee for the partnership's investment in the real property. See section 465(b)(6) for more information on qualified nonrecourse financing.

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

Item L. Partner's Capital Account Analysis

You are not required to complete item L if the answer to question 6 of Schedule B is "Yes." If you are required to complete this item, see the instructions for Schedule M-2 on page 40. Check the appropriate box that describes the method of accounting used to compute the partner's capital account.

- Check the "Tax basis" box if the method of accounting used to compute the partner's capital account is based on the partnership's income and deductions for federal tax purposes.
- Check the "GAAP" box if it is based on generally accepted accounting principles (GAAP).
- Check the "Section 704(b) book" box if it is based on the capital accounting rules under Regulations section 1.704-1(b)(2)(iv).
- Check the "Other" box if any other method is used to compute the partner's capital account and attach a statement describing the method and showing how the partner's capital account was computed.

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

These instructions refer to the lines on Schedule K and the boxes on Schedule K-1.

Special Allocations

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

Report specially allocated ordinary gain (loss) on Schedule K, line 11, and on Schedule K-1, box 11. Report other specially allocated items in the applicable boxes of the partner's Schedule K-1, with the total amount on the applicable line of Schedule K. See *How Income is Shared Among Partners* on page 23.

Example. A partnership has a long-term capital gain that is specially allocated to a partner and a net long-term capital gain reported on line 11 of Schedule D that must be reported on line 9a of Schedule K. Because specially allocated gains or losses are not reported on Schedule D, the partnership must report both the net long-term capital gain from Schedule D and

the specially allocated gain on line 9a of Schedule K. Box 9a of the Schedule K-1 for the partner must include both the specially allocated gain and the partner's distributive share of the net long-term capital gain from Schedule D.

Income (Loss)

Line 1. Ordinary Business Income (Loss)

Enter the amount from page 1, line 22. Enter the income (loss) without reference to (a) the basis of the partners' interests in the partnership, (b) the partners' at-risk limitations, or (c) the passive activity limitations. These limitations, if applicable, are determined at the partner level.

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

Schedule K-1. Enter each partner's distributive share of ordinary business income (loss) in box 1 of Schedule K-1. If the partnership has more than one trade or business activity, identify on an attachment to Schedule K-1 the amount from each separate activity. See *Passive Activity Reporting Requirements* on page 13.

Line 2. Net Rental Real Estate Income (Loss)

Enter the net income (loss) from rental real estate activities of the partnership from Form 8825. Attach this form to Form 1065.

Schedule K-1. Enter each partner's distributive share of net rental real estate income (loss) in box 2 of Schedule K-1. If the partnership has more than one rental real estate activity, identify on an attachment to Schedule K-1 the amount attributable to each activity. See *Passive Activity Reporting Requirements* on page 13.

Line 3. Other Net Rental Income (Loss)

Enter on line 3a gross income from rental activities other than those reported on Form 8825. Include on line 3a the gain (loss) from line 17 of Form 4797 that is attributable to the sale, exchange, or involuntary conversion of an asset used in a rental activity other than a rental real estate activity.

Enter on line 3b the deductible expenses of the activity. Attach a statement of these expenses to Form 1065.

Enter on line 3c the net income (loss).

See *Rental Activities* beginning on page 10 and Pub. 925 for more information on rental activities.

Schedule K-1. Enter each partner's distributive share of net income (loss) from rental activities other than rental real estate activities in box 3 of Schedule K-1. If the partnership has more than one rental activity reported in box 3, identify on an attachment to Schedule K-1 the amount from each activity. See *Passive Activity Reporting Requirements* on page 13.

Line 4. Guaranteed Payments to Partners

Guaranteed payments to partners include:

- Payments for salaries, health insurance, and interest deducted by the partnership

and reported on Form 1065, page 1, line 10; Form 8825; or on Schedule K, line 3b;

- Compensation deferred under a section 409A nonqualified deferred compensation plan that does not meet the requirements of section 409A reported on line 20c of Schedule K; and
- Payments the partnership must capitalize. See the Instructions for Form 1065, line 10.

Generally, amounts reported on line 4 are not considered to be related to a passive activity. For example, guaranteed payments for personal services paid to a partner would not be passive activity income. Likewise, interest paid to any partner is not passive activity income.

TIP *The distribution of property to a partner as part or all of a guaranteed payment is a sale or exchange of property. Complete Schedule D for the distribution. See Rev. Rul. 2007-40, 2007-25 I.R.B. 1426, for more details.*

Schedule K-1. Enter each partner's guaranteed payments in box 4 of Schedule K-1.

Portfolio Income

See page 11 of these instructions for a definition of portfolio income.

Do not reduce portfolio income by deductions allocated to it. Report such deductions (other than interest expense) on line 13d of Schedule K. Report each partner's distributive share of deductions (other than interest) allocable to portfolio income in box 13 of Schedule K-1, using codes I, K, and L.

Interest expense allocable to portfolio income is generally investment interest expense reported on line 13b of Schedule K. Report each partner's distributive share of interest expense allocable to portfolio income in box 13 of Schedule K-1 using code H.

Line 5. Interest Income

Enter only taxable portfolio interest on this line. Taxable interest is interest from all sources except interest exempt from tax and interest on tax-free covenant bonds. Include interest income from the credit to holders of tax credit bonds. See the instructions for *Other credits (code P)* under *Line 15f. Other Credits* and the instructions for Form 8912 for details.

Schedule K-1. Enter each partner's distributive share of interest income in box 5 of Schedule K-1. If the partnership is reporting interest income from clean renewable energy bonds, gulf tax credit bonds, or Midwestern tax credit bonds, attach a statement to Schedule K-1 that shows each partner's distributive share of interest income from these credits. Partners need this information to properly adjust the basis of their interest in the partnership under section 54(l)(3)(B).

Line 6a. Ordinary Dividends

Enter only total taxable ordinary dividends on line 6a, including any qualified dividends reported on line 6b.

Schedule K-1. Enter each partner's distributive share of ordinary dividends in box 6a of Schedule K-1.

Line 6b. Qualified Dividends

Enter qualified dividends on line 6b. Except as provided below, qualified dividends are dividends received from domestic corporations and qualified foreign corporations.

Exceptions. The following dividends are not qualified dividends.

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

See Pub. 550 for more details.

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

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

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

However, qualified dividends do not include dividends paid by an entity which was a passive foreign investment company (defined in section 1297) in either the tax year of the distribution or the preceding tax year.

See Notice 2004-71, 2004-45 I.R.B. 793, for more details.

Schedule K-1. Enter each partner's distributive share of qualified dividends in box 6b of Schedule K-1.

Line 7. Royalties

Enter the royalties received by the partnership.

Schedule K-1. Enter each partner's distributive share of royalties in box 7 of Schedule K-1.

Line 8. Net Short-Term Capital Gain (Loss)

Enter the gain (loss) from line 5 of Schedule D (Form 1065).

Schedule K-1. Enter each partner's distributive share of net short-term capital gain (loss) in box 8 of Schedule K-1.

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

Enter the gain or loss that is portfolio income (loss) from Schedule D (Form 1065), line 11.

Schedule K-1. Enter each partner's distributive share of net long-term capital gain (loss) in box 9a of Schedule K-1.



If any gain or loss from lines 5 or 11 of Schedule D is from the disposition of nondepreciable personal property used in a trade or business, it may not be treated as portfolio income. Instead, report it on line 11 of Schedule K and report each partner's distributive share in box 11 of Schedule K-1 using code F.

Line 9b. Collectibles (28%) Gain (Loss)

Figure the amount attributable to collectibles from the amount reported on Schedule D (Form 1065), line 11. A collectibles gain (loss) is any long-term gain or deductible long-term loss from the sale or exchange of a collectible that is a capital asset.

Collectibles include works of art, rugs, antiques, metal (such as gold, silver, or platinum bullion), gems, stamps, coins, alcoholic beverages, and certain other tangible property.

Also, include gain (but not loss) from the sale or exchange of an interest in a partnership or trust held for more than 1 year and attributable to unrealized appreciation of collectibles. For details, see Regulations section 1.1(h)-1. Also attach the statement required under Regulations section 1.1(h)-1(e).

Schedule K-1. Report each partner's distributive share of the collectibles (28%) gain (loss) in box 9b of Schedule K-1.

Line 9c. Unrecaptured Section 1250 Gain

The three types of unrecaptured section 1250 gain must be reported separately on an attached statement to Form 1065.

From the sale or exchange of the partnership's business assets. Figure this amount for each section 1250 property in Part III of Form 4797 (except property for which gain is reported using the installment method on Form 6252) for which you had an entry in Part I of Form 4797 by subtracting line 26g of Form 4797 from the smaller of line 22 or line 24. Figure the total of these

amounts for all section 1250 properties. Generally, the result is the partnership's unrecaptured section 1250 gain. However, if the partnership is reporting gain on the installment method for a section 1250 property held more than 1 year, see the next paragraph to figure the unrecaptured section 1250 gain on that property for this tax year.

The total unrecaptured section 1250 gain for an installment sale of section 1250 property held more than 1 year is figured in a manner similar to that used in the preceding paragraph. However, the total unrecaptured section 1250 gain must be allocated to the installment payments received from the sale. To do so, the partnership generally must treat the gain allocable to each installment payment as unrecaptured section 1250 gain until all such gain has been used in full. Figure the unrecaptured section 1250 gain for installment payments received during the tax year as the smaller of (a) the amount from line 26 or line 37 of Form 6252 (whichever applies) or (b) the total unrecaptured section 1250 gain for the sale reduced by all gain reported in prior years (excluding section 1250 ordinary income recapture).



If the partnership chose not to treat all of the gain from payments received after May 6, 1997, and before August 24, 1999, as unrecaptured section 1250 gain, use only the amount the partnership chose to treat as unrecaptured section 1250 gain for those payments to reduce the total unrecaptured section 1250 gain remaining to be reported for the sale.

From the sale or exchange of an interest in a partnership. Also report as a separate amount any gain from the sale or exchange of an interest in a partnership attributable to unrecaptured section 1250 gain. See Regulations section 1.1(h)-1 and attach the statement required under Regulations section 1.1(h)-1(e).

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

Schedule K-1. Report each partner's distributive share of unrecaptured section 1250 gain from the sale or exchange of the partnership's business assets in box 9c of Schedule K-1. If the partnership is reporting unrecaptured section 1250 gain from an estate, trust, REIT, or RIC or from the partnership's sale or exchange of an interest in another partnership (as explained above), enter "STMT" in box 9c and an asterisk (*) in the left column of the box and attach a statement that separately identifies the amount of unrecaptured section 1250 gain from:

- The sale or exchange of the partnership's business assets.
- The sale or exchange of an interest in another partnership.

- An estate, trust, REIT, or RIC.

Line 10. Net Section 1231 Gain (Loss)

Enter the net section 1231 gain (loss) from Form 4797, line 7, column (g).

Do not include net gain or loss from involuntary conversions due to casualty or theft. Report net gain or loss from involuntary conversions due to casualty or theft on line 11 of Schedule K (box 11, code B, of Schedule K-1). See the instructions for line 11 on how to report net gain (loss) due to a casualty or theft.

Schedule K-1. Report each partner's distributive share of net section 1231 gain (loss) in box 10 of Schedule K-1. If the partnership has more than one rental, trade, or business activity, identify on an attachment to Schedule K-1 the amount of section 1231 gain (loss) from each separate activity. See *Passive Activity Reporting Requirements* on page 13.

Line 11. Other Income (Loss)

Enter any other item of income or loss not included on lines 1 through 10. Attach a statement to Form 1065 that separately identifies each type and amount of income for each of the following categories. The codes needed for Schedule K-1 reporting are provided for each category.

Other portfolio income (loss) (code A). Portfolio income not reported on lines 5 through 10.

Report and identify other portfolio income or loss on an attachment for line 11.

For example, income reported to the partnership from a real estate mortgage investment conduit (REMIC), in which the partnership is a residual interest holder, would be reported on an attachment for line 11. If the partnership holds a residual interest in a REMIC, report on the attachment for box 11 of Schedule K-1 the partner's share of the following:

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

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

Involuntary conversions (code B). Net gain (loss) from involuntary conversions due to casualty or theft. The amount for this line is shown on Form 4684, Casualties and Thefts, line 44a, 44b, or 45.

Each partner's share must be entered on Schedule K-1. Give each partner a schedule that shows the amounts to be reported on the partner's Form 4684, line 40, columns (b)(i), (b)(ii), and (c).

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

casualty or theft. Instead, each partner will complete his or her own Form 4684.

Section 1256 contracts and straddles (code C). Report any net gain or loss from section 1256 contracts from Form 6781, Gains and Losses From Section 1256 Contracts and Straddles.

Mining exploration costs recapture (code D). Provide the information partners will need to recapture certain mining exploration expenditures. See Regulations section 1.617-3.

Cancellation of debt (code E). If cancellation of debt is reported to the partnership on Form 1099-C, report each partner's distributive share in box 11 using code E.

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

Other income (loss) (code F). Include any other type of income, such as:

- The partner's distributive share of the partnership's gain or loss attributable to the sale or exchange of qualified preferred stock of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). On an attached statement, show (a) the gain or loss attributable to the sale or exchange of the qualified preferred stock, (b) the date the stock was acquired by the partnership, and (c) the date the stock was sold or exchanged by the partnership. See Rev. Proc. 2008-64, 2008-47 I.R.B. 1195 for more information.
- Recoveries of tax benefit items (section 111).
- Gambling gains and losses subject to the limitations in section 165(d). Indicate on an attached statement whether or not the partnership is in the trade or business of gambling.
- Disposition of an interest in oil, gas, geothermal, or other mineral properties. Report the following information on an attached statement to Schedule K-1.
 - (a) Description of the property,
 - (b) The partner's share of the amount realized on the sale, exchange, or involuntary conversion of each property (fair market value of the property for any other disposition, such as a distribution),
 - (c) The partner's share of the partnership's adjusted basis in the property (except for oil or gas properties), and
 - (d) Total intangible drilling costs, development costs, and mining exploration costs (section 59(e) expenditures) passed through to the partner for the property. See Regulation section 1.1254-5 for more information.
- Gains from the disposition of farm recapture property (see Form 4797) and other items to which section 1252 applies.
- Any income, gain, or loss to the partnership under section 751(b).
- Specially allocated ordinary gain (loss).
- Any gain or loss from lines 5 or 11 of Schedule D that is not portfolio income (for example, gain or loss from the disposition of nondepreciable personal property used in a trade or business).

• Gain from the sale or exchange of qualified small business (QSB) stock (as defined in the Instructions for Schedule D) that is eligible for the partial section 1202 exclusion. The section 1202 exclusion applies only to QSB stock held by the partnership for more than 5 years. Corporate partners are not eligible for the section 1202 exclusion. Additional limitations apply at the partner level. Report each partner's share of section 1202 gain on Schedule K-1. Each partner will determine if he or she qualifies for the section 1202 exclusion. Report on an attachment to Schedule K-1 for each sale or exchange (a) the name of the corporation that issued the QSB stock, (b) the partner's share of the partnership's adjusted basis and sales price of the QSB stock, and (c) the dates the QSB stock was bought and sold.

• Gain eligible for section 1045 rollover (replacement stock purchased by the partnership). Include only gain from the sale or exchange of qualified small business (QSB) stock (as defined in the Instructions for Schedule D) that was deferred by the partnership under section 1045 and reported on Schedule D. See the instructions for Schedule D for more details. The partnership makes the election for section 1045 rollover on a timely filed (including extensions) return for the year in which the sale occurred. Corporate partners are not eligible for the section 1045 rollover. Additional limitations apply at the partner level. Each partner will determine if he or she qualifies for the rollover. Report on an attachment to Schedule K-1 for each sale or exchange (a) the name of the corporation that issued the QSB stock, (b) the partner's share of the partnership's adjusted basis and sales price of the QSB stock, (c) the dates the QSB stock was bought and sold, (d) the partner's distributive share of gain from the sale of the QSB stock, and (e) the partner's distributive share of the gain that was deferred by the partnership under section 1045. Do not include these amounts on line 11 of Schedule K.

• Gain eligible for section 1045 rollover (replacement stock not purchased by the partnership). Include only gain from the sale or exchange of qualified small business (QSB) stock (as defined in the Instructions for Schedule D) the partnership held for more than 6 months but that was not deferred by the partnership under section 1045. See the instructions for Schedule D for more details. A partner (other than a corporation) may be eligible to defer his or her distributive share of this gain under section 1045 if he or she purchases other QSB stock during the 60-day period that began on the date the QSB stock was sold by the partnership. Additional limitations apply at the partner level. Report on an attachment to Schedule K-1 for each sale or exchange (a) the name of the corporation that issued the QSB stock, (b) the partner's share of the partnership's adjusted basis and sales price of the QSB stock, (c) the dates the QSB stock was bought and sold, and (d) the partner's distributive share of gain from the sale of the QSB stock. For more information see Regulations section 1.1045-1. Do not include these amounts on line 11 of Schedule K.

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

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

Schedule K-1. Enter each partner's distributive share of the other income categories listed on page 27 in box 11 of Schedule K-1. Enter the applicable code A, B, C, D, E, or F (as shown on page 27).

If you are reporting each partner's distributive share of only one type of income under code F, enter the code with an asterisk (F*) and the dollar amount in the entry space in box 11 and attach a statement that shows "Box 11, Code F," and the type of income. If you are reporting multiple types of income under code F, enter the code with an asterisk (F*) and enter "STMT" in the entry space in box 11 and attach a statement that shows "Box 11, Code F," and the dollar amount of each type of income.

If the partnership has more than one trade or business or rental activity (for codes B through F), identify on an attachment to Schedule K-1 the amount from each separate activity. See *Passive Activity Reporting Requirements* on page 13.

Deductions

Line 12. Section 179 Deduction

A partnership can elect to expense part of the cost of certain property the partnership purchased during the tax year for use in its trade or business or certain rental activities. See Pub. 946 for a definition of what kind of property qualifies for the section 179 expense deduction and the Instructions for Form 4562 for limitations on the amount of the section 179 expense deduction.

Complete Part I of Form 4562 to figure the partnership's section 179 expense deduction. The partnership does not claim the deduction itself but instead passes it through to the partners. Attach Form 4562 to Form 1065 and show the total section 179 expense deduction on Schedule K, line 12.

The partnership must reduce the basis of the asset by the amount of the section 179 expense elected by the partnership, even if a portion of that amount cannot be passed through to its partners that year and must be

carried forward because of limitations at the partnership level. Do not reduce the partnership's basis in section 179 property to reflect any portion of the section 179 expense that is allocable to a partner that is a trust or estate.

Identify on an attachment to Schedules K and K-1 the cost of section 179 property placed in service during the year that is qualified enterprise zone, renewal community, section 179 Gulf Opportunity Zone, qualified section 179 Recovery Assistance, or qualified section 179 disaster assistance property.

See the instructions for line 20c of Schedule K for sales or other dispositions of property for which a section 179 deduction has passed through to partners and for the recapture rules if the business use of the property dropped to 50% or less.

Schedule K-1. Report each partner's distributive share of the section 179 expense deduction in box 12 of Schedule K-1. If the partnership has more than one rental, trade, or business activity, identify on an attachment to Schedule K-1 the amount of section 179 deduction from each separate activity. See *Passive Activity Reporting Requirements* on page 13.

Do not complete box 12 of Schedule K-1 for any partner that is an estate or trust; estates and trusts are not eligible for the section 179 expense deduction.

Line 13a. Contributions

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

Cash contributions of any amount must be supported by a dated bank record or receipt.

Enter charitable contributions made during the tax year. Attach a statement to Form 1065 that separately identifies the partnership's contributions for each of the following categories. See *Limits on Deductions* in Pub. 526, Charitable Contributions, for information on adjusted gross income (AGI) limitations on deductions for charitable contributions.

The codes needed for Schedule K-1 reporting are provided for each category.

Cash contributions (50%) (code A). Enter cash contributions subject to the 50% AGI limitation. Do not include in the amount reported using code A the cash contributions reported on Schedule K-1 using code G.

Cash contributions (30%) (code B). Enter cash contributions subject to the 30% AGI limitation.

Noncash contributions (50%) (code C). Enter noncash contributions subject to the 50% AGI limitation. 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 each partner a copy of Form 8283, Noncash Charitable Contributions, to attach to the partner's tax return.

Qualified conservation contributions. The AGI limit for qualified conservation contributions under section 170(h) is 50%. The carryover period is 15 years. See section 170(b) and Notice 2007-50, 2007-25 I.R.B. 1430, for details. Report qualified conservation contributions with a 50% AGI limitation on Schedule K-1 in box 13 using code C. Do not include in the amount reported using code C the conservation contributions of property used in agriculture or livestock production reported on Schedule K-1 using code G.

Charitable contributions of food inventory. Attach a statement to Schedule K-1 that shows:

- The deduction for charitable contributions under section 170(e)(3) of qualified inventory that was donated for the care of the ill, needy, and infants, applies to contributions made during the period beginning on January 1, 2008, and ending on December 31, 2009. To qualify for the deduction, the food must meet all the quality and labeling standards imposed by federal, state, and local laws and regulations. The amount of the charitable contribution for donated food inventory is the lesser of (a) the basis of the donated food plus one-half of the appreciation (gain if the donated food was sold at fair market value on the date of the gift) or (b) twice the amount of basis of the donated food.
- The partner's distributive share of the net income for the tax year from the partnership's trades or businesses that made the contribution of food inventory.

Special rule for contributions of food inventory by a qualified farmer or rancher.

If the partnership is a qualified farmer or rancher (as defined in section 170(b)(1)(E)(v)), the deduction for contributions of food inventory that are made during the period beginning on October 3, 2008, and ending on December 31, 2009, is subject to the 100% AGI limitation. On the attached statement for food inventory contributions (described above), separately show the partner's distributive share of food inventory contributions and net income from the partnership's qualified farming or ranching businesses that made the contributions of food inventory.



Do not include the amount of food inventory contributions in the amount reported in box 13 using code C. These contributions must be reported separately on an attached statement because partners must separately determine the limitations on the deduction.

Noncash contributions (30%) (code D). Enter noncash contributions subject to the 30% AGI limitation.

Capital gain property to a 50% organization (30%) (code E). Enter capital gain property contributions subject to the 30% AGI limitation.

Capital gain property (20%) (code F). Enter capital gain property contributions subject to the 20% AGI limitation.

Contributions of property. See *Contributions of Property* in Pub. 526 and Pub. 561, Determining the Value of Donated Property, for information on noncash contributions and contributions of capital gain property. If the deduction claimed for noncash contributions exceeds \$500, complete Form 8283 and attach it to Form 1065.

If the partnership made a qualified conservation contribution under section 170(h), also include the fair market value of the underlying property before and after the donation, as well as the type of legal interest contributed, and describe the conservation purpose furthered by the donation. Give a copy of this information to each partner.

Nondeductible contributions. Certain contributions made to an organization conducting lobbying activities are not deductible. See section 170(f)(9) for more details. Also, see *Contributions You Cannot Deduct* in Pub. 526 for more examples of nondeductible contributions.

Contributions (100%) (code G). On an attached statement, provide the following information.

Cash contributions for relief efforts in Midwestern disaster areas. Show each partner's distributive share of qualified cash contributions made for relief efforts in Midwestern disaster areas that were paid during the period beginning on May 20, 2008, and ending on December 31, 2008. Partners can elect to use the 100% AGI limitation for these contributions. To qualify, the contributions must meet the following conditions.

- The contributions must be made in cash to an organization described in section 170(b)(1)(A), except for contributions to a section 509(a)(3) organization or a donor advised fund (as defined in section 4966(d)(2)).
- The partnership must obtain from such organization contemporaneous written acknowledgment that the contribution was used (or is to be used) for relief efforts in one or more Midwestern disaster areas. See Pub. 4492-B, Information for Affected Taxpayers in the Midwestern Disaster Areas, for more information on the Midwestern disaster area relief provisions.

Qualified conservation contributions of property used in agriculture or livestock production. If the partnership is a qualified farmer or rancher (as defined in section 170(b)(1)(E)(v)), show each partner's distributive share of qualified conservation contributions of property used in agriculture or livestock production. The contribution must be subject to a restriction that the property remain available for such production. See section 170(b) for details. Partners will have to separately determine whether they qualify for the 50% or 100% AGI limitation for these contributions. Do not include the amounts reported on the attached statement using code G in the amount reported on Schedule K-1 for

qualified conservation contributions using code C.

Schedule K-1. Report each partner's distributive share of charitable contributions in box 13 of Schedule K-1 using codes A through F for each of the contribution categories shown above. For code G items, report them by entering code G with an asterisk (G*) and entering "STMT" in the dollar amount entry space for box 13 and attach a statement that shows "Box 13, Code G" and the dollar amount of each type of deduction. The partnership must attach a copy of its Form 8283 to the Schedule K-1 of each partner if the deduction for any item or group of similar items of contributed property exceeds \$5,000, even if the amount allocated to any partner is \$5,000 or less.

Line 13b. Investment Interest Expense

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

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

Investment income and investment expenses other than interest are reported on lines 20a and 20b respectively. This information is needed by partners to determine the investment interest expense limitation (see Form 4952, Investment Interest Expense Deduction, for details).

Schedule K-1. Report each partner's distributive share of investment interest expense in box 13 of Schedule K-1 using code H.

Lines 13c(1) and 13c(2). Section 59(e)(2) Expenditures

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

The term "qualified expenditures" includes only the following types of expenditures paid or incurred during the tax year:

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

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

Because the partners are generally allowed to make this election, the partnership cannot deduct these amounts or include them as AMT items on Schedule K-1. Instead, the partnership passes through

the information the partners need to figure their separate deductions.

On line 13c(1), enter the type of expenditures claimed on line 13c(2). Enter on line 13c(2) the qualified expenditures paid or incurred during the tax year to which an election under section 59(e) may apply. Enter this amount for all partners whether or not any partner makes an election under section 59(e).

On an attached statement, identify the property for which the expenditures were paid or incurred. If the expenditures were for intangible drilling costs or development costs for oil and gas properties, identify the month(s) in which the expenditures were paid or incurred. If there is more than one type of expenditure or more than one property, provide the amounts (and the months paid or incurred if required) for each type of expenditure separately for each property.

Schedule K-1. Report each partner's distributive share of section 59(e) expenditures in box 13 of Schedule K-1 using code J. On an attached statement, identify (a) the type of expenditure, (b) the property for which the expenditures are paid or incurred, and (c) for oil and gas properties only, the month in which intangible drilling costs and development costs were paid or incurred. If there is more than one type of expenditure or the expenditures are for more than one property, provide each partner's distributive share of the amounts (and the months paid or incurred for oil and gas properties) for each type of expenditure separately for each property.

Line 13d. Other Deductions

Enter deductions not included on lines 12, 13a, 13b, 13c(2), and 16l. Attach a statement to Form 1065 that separately identifies the type and amount of each deduction for the following categories. The codes needed for Schedule K-1 reporting are provided for each category.

Note. Do not include the domestic production activities informational amounts in the total for line 13d.

Deductions—royalty income (code I). Enter the deductions related to royalty income.

Deductions—portfolio (2% floor) (code K). Enter the deductions related to portfolio income that are subject to the 2% of AGI floor (see the instructions for Schedule A (Form 1040)).

Deductions—portfolio (other) (code L). Enter the amount of any other deductions related to portfolio income.

No deduction is allowable under section 212 for expenses allocable to a convention, seminar, or similar meeting. Because these expenses are not deductible by partners, these expenses are not reported on line 13d of Schedule K. The expenses are nondeductible and are reported as such on line 18c of Schedule K and in box 18 of Schedule K-1 using code C.

Schedule K-1. In box 13, report the partner's distributive share of deductions related to portfolio income that are reported on line 13d of Schedule K using codes I (for deductions related to royalty income), K (for deductions related to portfolio income and

subject to the 2% of AGI floor), or L (for other deductions related to portfolio income).

Amounts paid for medical insurance (code M). Enter amounts paid during the tax year for insurance that constitutes medical care for the partner (including the partner's spouse and dependents).

Educational assistance benefits (code N). Enter amounts paid during the tax year for educational assistance benefits paid to a partner.

Dependent care benefits (code O). Enter amounts paid during the tax year for dependent care benefits paid on behalf of each partner.

Preproductive period expenses (code P). If the partnership is required to use an accrual method of accounting under section 447 or 448(a)(3), it must capitalize these expenses. If the partnership is permitted to use the cash method, enter the amount of preproductive period expenses that qualify under Regulations section 1.263A-4(d). An election not to capitalize these expenses must be made at the partner level. See *Uniform Capitalization Rules* in Pub. 225, *Farmer's Tax Guide*.

Commercial revitalization deduction from rental real estate activities (code Q).

Enter the commercial revitalization deduction on line 13d only if it is for a rental real estate activity. If the deduction is for a nonrental building, enter it on line 20 of Form 1065. See the instructions for line 20 beginning on page 18 for more information.

Pensions and IRAs (code R). Enter the payments for a partner to an IRA, qualified plan, or simplified employee pension (SEP) or SIMPLE IRA plan. If a qualified plan is a defined benefit plan, a partner's distributive share of payments is determined in the same manner as his or her distributive share of partnership taxable income. For a defined benefit plan, attach to the Schedule K-1 for each partner a statement showing the amount of benefit accrued for the tax year.

Reforestation expense deduction (code S). The partnership can elect to deduct a limited amount of its reforestation expenditures paid or incurred during the tax year. The amount the partnership may elect to deduct is limited to \$10,000 for each qualified timber property. See section 194(c) for a definition of reforestation expenditures and qualified timber property. The partnership must amortize over 84 months any amount not deducted. See the instructions for line 20 beginning on page 18. See Notice 2006-47, 2006-20 I.R.B. 892, for details on making the election.

Schedule K-1. For partners that are a real estate investment trust or a corporation the stock of which is publicly traded on an established securities market, enter the partner's distributive share of the allowable reforestation expenses in box 13 of Schedule K-1 using code S and attach a statement that provides a description of the qualified timber property. If the partnership is electing to deduct amounts from more than one qualified timber property, provide a description and the amount for each property.

For all other partners, enter the partner's distributive share of allowable reforestation

expense in box 13 of Schedule K-1 using code S and attach a statement that provides a description of the qualified timber property. If the partnership is electing to deduct amounts from more than one qualified timber property, provide a description and the amount for each property.

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

If the partnership does not compute QPAI and W-2 wages at the partnership level or it has partners that are required to compute QPAI at the partner level, it must report on Schedule K-1 using code T the partner's distributive share of the information listed under *QPAI and Form W-2 wages computed at partner level*, below.

QPAI and Form W-2 wages computed at partner level (code T). If the partnership does not calculate QPAI and W-2 wages at the partnership level, attach a statement to Schedule K-1 using code T providing each partner's distributive share of the following information. Do not include these amounts in the total reported on line 13d of Schedule K.

- Domestic production gross receipts (DPGR).
- Gross receipts from all sources.
- Cost of goods sold allocable to DPGR.
- Cost of goods sold from all sources.
- Total deductions, expenses, and losses directly allocable to DPGR.
- Total deductions, expenses, and losses directly allocable to a non-DPGR class of income.
- Other deductions, expenses, and losses not directly allocable to DPGR or another class of income.
- W-2 wages properly allocable to DPGR.
- Any other information a partner needs to use the section 861 method to allocate and apportion cost of goods sold and deductions between DPGR and other receipts. See Form 8903 and its instructions for more details. If the partnership chooses to compute QPAI at the partnership level, see the instructions below.

QPAI and Form W-2 wages computed at partnership level (codes U and V).

Eligible partnerships can choose to compute QPAI and W-2 wages at the partnership level and report each qualified partner's distributive share of QPAI (using code U) and W-2 wages (using code V) on Schedule K-1. See the special rules for non-qualifying partners of an eligible section 861 partnership below. Generally, the partnership must allocate QPAI to its partners in the same proportion as gross income and allocate W-2 wages in the same proportion as wage expense. For information on computing QPAI and W-2

wages at the partnership level, see Rev. Proc. 2007-34, 2007-23 I.R.B. 1345, and the Instructions for Form 8903. See the eligibility requirements and reporting rules for each type of eligible partnership below. Qualifying in-kind partnerships and expanded affiliated group partnerships (defined in Regulations section 1.199-3(i)(7) and (8)) are not eligible to compute QPAI and W-2 wages at the partnership level.

1. Eligible section 861 partnership.

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

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

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

2. Eligible widely-held pass-through partnership.

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

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

An eligible widely-held pass-through partnership must use the simplified deduction method of cost allocation to figure QPAI and W-2 wages (see the Instructions for Form 8903 for details).

3. Eligible small pass-through partnership.

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

- The partnership satisfies one of the following: **(a)** it has average annual gross receipts for the 3 tax years preceding the current tax year of \$5 million or less, **(b)** it is engaged in the trade or business of farming and is not required to use the accrual method of accounting, or **(c)** it is eligible to use the cash method of accounting under Rev. Proc. 2002-28, 2002-18 I.R.B. 815 (that is, it has average annual gross receipts of \$10 million or less and is not excluded from using the cash method under section 448).
- It has total costs of goods sold and deductions that, together, are \$5 million or less.
- It has DPGR.
- It does not have a partner that is an ineligible partnership (qualifying in-kind partnerships and expanded affiliated group partnerships defined in Regulations section 1.199-3(i)(7) and (8)).

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

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

Other deductions (code W). Include any other deduction, such as:

- Amounts paid by the partnership that would be allowed as itemized deductions on any of the partners' income tax returns if they were paid directly by a partner for the same purpose. These amounts include, but are not limited to, expenses under section 212 for the production of income other than from the partnership's trade or business. However, do not enter expenses related to portfolio income or investment interest expense reported on line 13b of Schedule K on this line.
- Any penalty on early withdrawal of savings not reported on line 13b because the partnership withdrew its time savings deposit before its maturity.
- Soil and water conservation expenditures (section 175).
- Endangered species recovery expenditures that were paid or incurred after December 31, 2008 (section 175).
- Expenditures paid or incurred for the removal of architectural and transportation barriers to the elderly and disabled that the partnership has elected to treat as a current expense. See section 190.
- Film and television production expenses. The partnership can elect to deduct certain costs of a qualified film or television production if the aggregate cost of the production does not exceed \$15 million. There is a higher dollar limitation for productions in certain areas. Provide a description of the film or television production on an attached statement. If the partnership makes the election for more than one film or television production, attach a statement to Schedule K-1 that shows each partner's distributive share of the qualified expenditures separately for each production. The deduction is subject to recapture under section 1245 if the election is voluntarily revoked or the production fails to meet the requirements for the deduction. See Temporary Regulations section 1.181-1T through 6T for details.
- Interest expense allocated to debt-financed distributions. See Notice

89-35, 1989-1 C.B. 675, or Pub. 535, chapter 4, for more information.

- Interest paid or accrued on debt properly allocable to each general partner's share of a working interest in any oil or gas property (if the partner's liability is not limited). General partners that did not materially participate in the oil or gas activity treat this interest as investment interest; for other general partners, it is trade or business interest.
- Contributions to a capital construction fund. See Pub. 595.

Schedule K-1. Enter each partner's distributive share of the deduction categories listed earlier in box 13 of Schedule K-1 or provide the information required on an attached statement for the deduction. Enter the applicable code I, K, L, M, N, O, P, Q, R, S, T, U, V, or W (as shown earlier).

If you are reporting only one type of deduction under code W, enter code W with an asterisk (W*) and the dollar amount in the entry space in box 13 and attach a statement that shows the box number, code, and type of deduction. If you are reporting multiple types of deductions under code W, enter the code with an asterisk (W*), enter "STMT" in the dollar amount entry space in box 13, and attach a statement that shows the box number, code, and the dollar amount of each type of deduction.

If the partnership has more than one trade or business activity, identify on an attachment to Schedule K-1 the amount for each separate activity. See *Passive Activity Reporting Requirements* on page 13.

Self-Employment

Note. If the partnership is an options dealer or a commodities dealer, see section 1402(i) before completing lines 14a, 14b, and 14c, to determine the amount of any adjustment that may have to be made to the amounts shown on the *Worksheet for Figuring Net Earnings (Loss) From Self-Employment* below. If the partnership is engaged solely in

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

1a	Ordinary business income (loss) (Schedule K, line 1)	1a		
b	Net income (loss) from certain rental real estate activities (see instructions)	1b		
c	Other net rental income (loss) (Schedule K, line 3c)	1c		
d	Net loss from Form 4797, Part II, line 17, included on line 1a above. Enter as a positive amount . . .	1d		
e	Combine lines 1a through 1d	1e		
2	Net gain from Form 4797, Part II, line 17, included on line 1a above	2		
3a	Subtract line 2 from line 1e. If line 1e is a loss, increase the loss on line 1e by the amount on line 2	3a		
b	Part of line 3a allocated to limited partners, estates, trusts, corporations, exempt organizations, and IRAs	3b		
c	Subtract line 3b from line 3a. If line 3a is a loss, reduce the loss on line 3a by the amount on line 3b. Include each individual general partner's share in box 14 of Schedule K-1, using code A			3c
4a	Guaranteed payments to partners (Schedule K, line 4) derived from a trade or business as defined in section 1402(c) (see instructions)	4a		
b	Part of line 4a allocated to individual limited partners for other than services and to estates, trusts, corporations, exempt organizations, and IRAs	4b		
c	Subtract line 4b from line 4a. Include each individual general partner's share and each individual limited partner's share in box 14 of Schedule K-1, using code A			4c
5	Net earnings (loss) from self-employment. Combine lines 3c and 4c. Enter here and on Schedule K, line 14a			5

the operation of a group investment program, earnings from the operation are not self-employment earnings for either general or limited partners.

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

- Dividends on any shares of stock and interest on any bonds, debentures, notes, etc., unless the dividends or interest are received in the course of a trade or business, such as a dealer in stocks or securities or interest on notes or accounts receivable.
- Rentals from real estate, except rentals of real estate held for sale to customers in the course of a trade or business as a real estate dealer or payments for rooms or space when significant services are provided.
- Royalty income, except royalty income received in the course of a trade or business.

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

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

Line 14a. Net Earnings (Loss) From Self-Employment

Schedule K. Enter on line 14a the amount from line 5 of the worksheet.

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

Enter in box 14 of Schedule K-1 each individual general partner's share of the amount shown on line 3c of the worksheet and each individual limited partner's share of the amount shown on line 4c of the worksheet, using code A.

Line 14b. Gross Farming or Fishing Income

Enter on line 14b the partnership's gross farming or fishing income from self-employment. Individual partners need this amount to figure net earnings from self-employment under the farm optional method in Section B, Part II of Schedule SE (Form 1040). Enter each individual partner's distributive share in box 14 of Schedule K-1 using code B.

Line 14c. Gross Nonfarm Income

Enter on line 14c the partnership's gross nonfarm income from self-employment. Individual partners need this amount to figure net earnings from self-employment under the nonfarm optional method in Section B, Part II of Schedule SE (Form 1040). Enter each individual partner's share in box 14 of Schedule K-1 using code C.

Worksheet Instructions

Line 1b. Include on line 1b any part of the net income (loss) from rental real estate

activities from Schedule K, line 2, that is from:

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

Lines 3b and 4b. Allocate the amounts on these lines in the same way Form 1065, page 1, line 22, is allocated to these particular partners.

Line 4a. Include in the amount on line 4a any guaranteed payments to partners reported on Schedule K, line 4, and Schedule K-1, box 4, and derived from a trade or business as defined in section 1402(c). Also include other ordinary business income and expense items (other than expense items subject to separate limitations at the partner level, such as the section 179 expense deduction) reported on Schedules K and K-1 that are used to figure self-employment earnings under section 1402.

Credits

Note. Do not attach Form 3800, General Business Credit, to Form 1065.

Low-Income Housing Credit

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

Line 15a. Low-Income Housing Credit (Section 42(j)(5))

Enter on line 15a the total low-income housing credit for property with respect to which a partnership is to be treated under section 42(j)(5) as the taxpayer to which the low-income housing credit was allowed.

If the partnership invested in another partnership to which the provisions of section 42(j)(5) apply, report on line 15a the credit reported to the partnership on Schedule K-1 (Form 1065), box 15, code A and code C.

Schedule K-1. Report in box 15 of Schedule K-1 each partner's distributive share of the low-income housing credit reported on line 15a of Schedule K. Use code A to report credits attributable to buildings placed in service before 2008. Use code C to report credits attributable to buildings placed in service after 2007. If the partnership has credits from more than one rental activity, identify on an attachment to Schedule K-1 the amount for each separate activity. See *Passive Activity Reporting Requirements* on page 13.

Line 15b. Low-Income Housing Credit (Other)

Enter on line 15b any low-income housing credit not reported on line 15a. This includes any credit reported to the partnership on Schedule K-1 (Form 1065), box 15, using code B and code D.

Schedule K-1. Report in box 15 of Schedule K-1 each partner's distributive share of the low-income housing credit reported on line 15b of Schedule K. Use code B to report credits attributable to buildings placed in service before 2008. Use code D to report credits attributable to buildings placed in service after 2007. If the partnership has credits from more than one rental activity, identify on an attachment to Schedule K-1 the amount for each separate activity. See *Passive Activity Reporting Requirements* on page 13.

Line 15c. Qualified Rehabilitation Expenditures (Rental Real Estate)

Enter on line 15c the total qualified rehabilitation expenditures related to rental real estate activities of the partnership. See Form 3468 for details on qualified rehabilitation expenditures.

Schedule K-1. Report each partner's distributive share of qualified rehabilitation expenditures related to rental real estate activities in box 15 of Schedule K-1 using code E. Attach a statement to Schedule K-1 that provides the information and the partner's distributive share of the amounts for lines 10b through 10j and line 10m of Form 3468. See the instructions for Form 3468 for details. If the partnership has expenditures from more than one rental real estate activity, identify on an attachment to Schedule K-1 the amount for each separate activity. See *Passive Activity Reporting Requirements* on page 13.



Qualified rehabilitation expenditures for property not related to rental real estate activities must be reported in box 20, using code D.

Line 15d. Other Rental Real Estate Credits

Enter on line 15d any other credit (other than credits reported on lines 15a through 15c) related to rental real estate activities. On the dotted line to the left of the entry space for line 15d, identify the type of credit. If there is more than one type of credit, attach a statement to Form 1065 that identifies the type and amount for each credit. These credits may include any type of credit listed in the instructions for line 15f.

Schedule K-1. Report in box 15 of Schedule K-1 each partner's distributive share of other rental real estate credits using code F. If you are reporting each partner's distributive share of only one type of rental real estate credit under code F, enter the code with an asterisk (F*) and the dollar amount in the entry space in box 15 and attach a statement that shows "Box 15, Code F," and type of credit. If you are reporting multiple types of rental real estate credit under code F, enter the code with an asterisk (F*) and enter "STMT" in the entry space in box 15 and attach a statement that shows "Box 15, Code F," and the type and dollar amount of the credits. If the

partnership has credits from more than one rental real estate activity, identify on the attached statement the amount of each type of credit for each separate activity. See *Passive Activity Reporting Requirements* on page 13.

Line 15e. Other Rental Credits

Enter on line 15e any other credit (other than credits reported on lines 15a through 15d) related to rental activities. On the dotted line to the left of the entry space for line 15e, identify the type of credit. If there is more than one type of credit, attach a statement to Form 1065 that identifies the type and amount for each credit. These credits may include any type of credit listed in the instructions for line 15f.

Schedule K-1. Report in box 15 of Schedule K-1 each partner's distributive share of other rental credits using code G. If you are reporting each partner's distributive share of only one type of rental credit under code G, enter the code with an asterisk (G*) and the dollar amount in the entry space in box 15 and attach a statement that shows "Box 15, Code G," and type of credit. If you are reporting multiple types of rental credit under code G, enter the code with an asterisk (G*) and enter "STMT" in the entry space in box 15 and attach a statement that shows "Box 15, Code G," and the type and dollar amount of the credits. If the partnership has credits from more than one rental activity, identify on the attached statement the amount of each type of credit for each separate activity. See *Passive Activity Reporting Requirements* on page 13.

Line 15f. Other Credits

Enter on line 15f any other credit, except credits or expenditures shown or listed for lines 15a through 15e. If any of these credits are attributable to rental activities, enter the amount on line 15d or 15e. On the dotted line to the left of the entry space for line 15f, identify the type of credit. If there is more than one type of credit or if there are any credits subject to recapture, attach a statement to Form 1065 that separately identifies each type and amount of credit and credit recapture information for the following categories. The codes needed for box 15 of Schedule K-1 are provided in the heading of each category.

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

Alcohol and cellulosic biofuel fuels credit (code I). Complete Form 6478 to figure the credit. Attach it to Form 1065. Include the amount shown on line 8 of Form 6478 in the partnership's income on line 7 of Form 1065. See section 40(f) for an election the partnership can make to not have the credit apply. If this credit includes the small ethanol producer credit, identify on a statement attached to Schedule K-1 (a) each partner's distributive share of the small ethanol producer credit, (b) the number of

gallons of qualified ethanol fuel claimed by the partnership for the small ethanol producer credit, and (c) the partnership's productive capacity for alcohol.

Work opportunity credit (code J). Complete Form 5884 to figure the credit. Attach it to Form 1065.

Disabled access credit (code K). Complete Form 8826 to figure the credit. Attach it to Form 1065.

Empowerment zone and renewal community employment credit (code L). Complete Form 8844 to figure the credit. Attach it to Form 1065.

Credit for increasing research activities (code M). Complete Form 6765 to figure the credit. Attach it to Form 1065.

Credit for employer social security and Medicare taxes paid on certain employee tips (code N). Complete Form 8846 to figure the credit. Attach it to Form 1065.

Backup withholding (code O). This credit is for backup withholding on dividends, interest, and other types of income of the partnership.

Other credits (code P). Attach a statement to Form 1065 that identifies the type and amount of any other credits not reported elsewhere, such as:

- Welfare-to-work credit. Complete Form 8861 to figure the credit. Attach it to Form 1065.
- New markets credit. Complete Form 8874 to figure the credit. Attach it to Form 1065.
- Nonconventional source fuel credit. Complete Form 8907 to figure the credit and attach it to Form 1065.
- Qualified railroad track maintenance credit. Complete Form 8900 to figure the credit and attach it to Form 1065.
- Unused investment credit from cooperatives (Form 3468).
- Renewable electricity, refined coal, and Indian coal production credit. See Rev. Proc. 2007-65 for a safe harbor method for allocating the credit for wind energy production. Complete Form 8835 to figure the credit. Attach a statement to Form 1065 and Schedule K-1 showing separately the amount of the credit from Part I and from Part II of Form 8835. Attach Form 8835 to Form 1065.
- Indian employment credit. Complete Form 8845 to figure the credit and attach it to Form 1065.
- Orphan drug credit. Complete Form 8820 to figure the credit and attach it to Form 1065.
- Credit for contributions to selected community development corporations. Complete Form 8847 to figure the credit and attach it to Form 1065.
- Credit for small employer pension plan startup costs. Complete Form 8881 to figure the credit and attach it to Form 1065.
- Credit for employer-provided childcare facilities and services. Complete Form 8882 to figure the credit and attach it to Form 1065.
- Biodiesel and renewable diesel fuels credit. Complete Form 8864 to figure the credit and attach it to Form 1065. Include the amount from line 10 of Form 8864 in the partnership's income on line 7 of Form 1065. If this credit includes the small agri-biodiesel producer credit, identify on a statement attached to Schedule K-1 (a)

each partner's distributive share of the small agri-biodiesel producer credit included in the total credit allocated to the partner, (b) the number of gallons for which the partnership claimed the small agri-biodiesel producer credit, and (c) the partnership's productive capacity for agri-biodiesel.

• Low sulfur diesel fuel production credit. Complete Form 8896 to figure the credit and attach it to Form 1065.

• General credits from an electing large partnership.

- Distilled spirits credit (Form 8906).
- Energy efficient home credit (Form 8908).
- Energy efficient appliance credit (Form 8909).
- Alternative motor vehicle credit (Form 8910).

- Alternative fuel vehicle refueling property credit (Form 8911).
- Credit to holders of tax credit bonds. These qualified tax credit bonds include clean renewable energy bonds (section 54(d)), new clean renewable energy bonds (section 54C), gulf tax credit bonds and Midwestern tax credit bonds (section 1400N(l)), qualified energy conservation bonds (section 54D), qualified forestry conservation bonds (section 54B), and qualified zone academy bonds (for bonds issued after October 3, 2008) (section 54E).

Use Form 8912 to compute the credit for holders of tax credit bonds and attach it to Form 1065. The amount of the credit (excluding any credits from other partnerships, S corporations, estates, and trusts) must also be reported as interest income on line 5 of Schedule K. See the instructions for Form 8912 for details.

The amount of the credits for the following bonds must also be reported as a cash distribution on line 19a of Schedule K: **New** clean renewable energy bonds, qualified energy conservation bonds, qualified forestry conservation bonds, and qualified zone academy bonds.

- Employee retention credit for affected Midwestern disaster area employers (Form 5884-A).
- Employer housing credit for affected Midwestern disaster area employers (Form 5884-A).
- Mine rescue team training credit (Form 8923).
- Agricultural chemicals security credit (Form 8931).
- Credit for employer differential wage payments (Form 8932).
- Carbon dioxide sequestration credit (Form 8933).

Schedule K-1. Enter in box 15 of Schedule K-1 each partner's distributive share of the credits listed above. See additional Schedule K-1 reporting information provided in the instructions above. Enter the applicable code, H through P, in the column to the left of the dollar amount entry space.

If you are reporting each partner's distributive share of only one type of credit under code P, enter the code with an asterisk (P*) and the dollar amount in the entry space in box 15 and attach a statement that shows "Box 15, Code P," and type of credit. If you are reporting multiple types of credit under code P, enter the code with an asterisk (P*) and enter "STMT" in the entry space in box 15 and attach a statement that shows "Box 15, Code P," and

the type and dollar amount of the credits. If the partnership has credits from more than one activity, identify on an attached statement to Schedule K-1 the amount of each type of credit for each separate activity. See *Passive Activity Reporting Requirements* on page 13.

Foreign Transactions

Lines 16a through 16n must be completed if the partnership has foreign income, deductions, or losses, or has paid or accrued foreign taxes.

Attach a statement to Schedule K-1 for these coded items providing the information described below. If the partnership had income from, or paid or accrued taxes to, more than one country or U.S. possession, see the requirement for an attached statement in the instruction for line 16a below. See Pub. 514, Foreign Tax Credit for Individuals, and the Instructions for Form 1116, for more information.

Line 16a. Name of Country or U.S. Possession (code A)

Enter the name of the foreign country or U.S. possession from which the partnership had income or to which the partnership paid or accrued taxes. If the partnership had income from, or paid or accrued taxes to, more than one foreign country or U.S. possession, enter "See attached" and attach a statement for each country for lines 16a through 16n (codes A through N and code Q of Schedule K-1). On Schedule K-1, if there is more than one country enter code A followed by an asterisk (A*), enter "STMT," and attach a statement to Schedule K-1 for each country for the information and amounts coded A through N and code Q.

Line 16b. Gross Income From All Sources (code B)

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

Line 16c. Gross Income Sourced at Partner Level (code C)

Enter the total gross income of the partnership that is required to be sourced at the partner level. This includes income from the sale of most personal property, other than inventory, depreciable property, and certain intangible property. See Pub. 514 and section 865 for details. Attach a statement to Form 1065 showing the following information.

- The amount of this gross income (without regard to its source) in each category identified in the instructions for lines 16d, 16e, and 16f, including each of the listed categories.
- Specifically identify gains on the sale of personal property other than inventory, depreciable property, and certain intangible property on which a foreign tax of 10% or more was paid or accrued. Also list losses on the sale of such property if the foreign country would have imposed a 10% or higher tax had the sale resulted in a gain. See *Determining the Source of Income From the Sales or Exchanges of Certain Personal Property* in Pub. 514 and section 865.
- Specify foreign source capital gains or losses within each separate limitation category. Also separately identify foreign

source gains or losses within each separate limitation category that are collectibles (28%) gains and losses or unrecaptured section 1250 gains.

Lines 16d–16f. Foreign Gross Income Sourced at Partnership Level

Separately report gross income from sources outside the United States by category of income as follows. See Pub. 514 for more information on the categories of income.

Line 16d. Passive category (code D).

Passive category foreign source income. This category includes the following income.

- Passive income.
 - Dividends from a domestic international sales corporation (DISC) or a former DISC.
 - Taxable income that is foreign trade income.
 - Distributions from a foreign sales corporation (FSC) or a former FSC.
- See *Line 16f. Other (code F)* for exceptions.



Passive income does not include export financing interest.

Line 16e. General category (code E).

General category foreign source income. Include all foreign income sourced at the partnership level that is not passive category income. See *Line 16f. Other (code F)* for exceptions.

Line 16f. Other (code F). Attach a statement separately showing the amount of foreign source income included in the following categories:

- Section 901(j) income, and
- Certain income re-sourced by treaty.

Lines 16g–16h. Deductions Allocated and Apportioned at Partner Level

Line 16g. Interest expense (code G).

Enter on line 16g the partnership's total interest expense (including interest equivalents under Temporary Regulations section 1.861-9T(b)). Do not include interest directly allocable under Temporary Regulations section 1.861-10T to income from a specific property. This type of interest is allocated and apportioned at the partnership level and is included on lines 16i through 16k.

Line 16h. Other (code H). Enter the total of all other deductions or losses that are required to be allocated at the partner level. For example, include on line 16h research and experimental expenditures (see Regulations section 1.861-17(f)).

Lines 16i–16k. Deductions Allocated and Apportioned at Partnership Level to Foreign Source Income

Separately report partnership deductions that are allocated and apportioned at the partnership level by category of income as follows. See Pub. 514 for more information.

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

Line 16i (code I). Enter the amount of deductions allocated and apportioned at the partnership level to passive category foreign source income (defined in the instructions for line 16d).

Line 16j. General category (code J).

Enter the amount of deductions allocated and apportioned at the partnership level to general category foreign source income (defined in the instructions for line 16e).

Line 16k. Other (code K). Attach a statement separately showing the amount of deductions allocated and apportioned at the partnership level to the following two categories:

- Section 901(j) income, and
- Certain income re-sourced by treaty.

Line 16l. Total Foreign Taxes Paid or Accrued

Enter in U.S. dollars the total foreign taxes (described in section 901 or section 903) that were paid or accrued by the partnership (according to its method of accounting for such taxes). Enter the amount paid on line 16l. Translate these amounts into U.S. dollars by using the applicable exchange rate (see Pub. 514).

Foreign taxes paid (code L). If the partnership uses the cash method of accounting, check the *Paid* box and enter foreign taxes paid during the tax year on line 16l. Report each partner's distributive share in box 16 of Schedule K-1 using code L.

Foreign taxes accrued (code M). If the partnership uses the accrual method of accounting, check the *Accrued* box and enter foreign taxes accrued on line 16l. Report each partner's distributive share in box 16 of Schedule K-1 using code M.

A partnership reporting foreign taxes using the cash method can make an irrevocable election to report these taxes using the accrual method for the year of the election and all future years. Make this election by reporting all foreign taxes using the accrual method on line 16l and check the *Accrued* box (see Regulations section 1.905-1).

Attach a statement reporting the following information.

1. The total amount of foreign taxes (including foreign taxes on income sourced at the partner level) relating to each category of income (see instructions for lines 16d–16f).
2. The dates on which the taxes were paid or accrued, the exchange rates used, and the amounts in both foreign currency and U.S. dollars, for:
 - Taxes withheld at source on interest.
 - Taxes withheld at source on dividends.
 - Taxes withheld at source on rents and royalties.
 - Other foreign taxes paid or accrued.

Line 16m. Reduction in Taxes Available for Credit (code N)

Enter the total reduction in taxes available for credit. Attach a statement showing the reductions for:

- Taxes on foreign mineral income (section 901(e)).
- Taxes on foreign oil and gas extraction income (section 907(a)).

- Taxes attributable to boycott operations (section 908).
- Failure to timely file (or furnish all of the information required on) Forms 5471 and 8865.
- Any other items (specify).

Line 16n. Other Foreign Tax Information

- **Foreign trading gross receipts (code O).** Report the partner's distributive share of foreign trading gross receipts from line 15 of Form 8873 using code O. See *Extraterritorial Income Exclusion* beginning on page 14.
- **Extraterritorial income exclusion (code P).** If the partnership is not permitted to deduct the extraterritorial income exclusion as a non-separately stated item, attach a statement to Schedule K-1 showing the partner's distributive share of the extraterritorial income exclusion reported on line 52 of Form 8873. Also identify the activity to which the exclusion is related.
- **Other foreign transactions (code Q).** Enter in box 16 of Schedule K-1 any other foreign transaction information the partners need to prepare their tax returns using code Q.

Alternative Minimum Tax (AMT) Items

Lines 17a through 17f must be completed for all partners except certain small corporations exempt from the alternative minimum tax (AMT) under section 55(e).

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

Do not include as a tax preference item any qualified expenditures to which an election under section 59(e) may apply. Instead, report these expenditures on line 13c(2). Because these expenditures are subject to an election by each partner, the partnership cannot figure the amount of any tax preference related to them. Instead, the partnership must pass through to each partner in box 13, code J, of Schedule K-1 the information needed to figure the deduction.

Schedule K-1. Report each partner's distributive share of amounts reported on lines 17a through 17f (concerning alternative minimum tax items) in box 17 of Schedule K-1 using codes A through F, respectively. If the partnership is reporting items of income or deduction for oil, gas, and geothermal properties, you may be required to identify these items on a statement attached to Schedule K-1 (see the instructions for *Oil, Gas, and Geothermal Properties—Gross Income and Deductions*, later, for details). Also see the requirement for an attached statement in the instructions for line 17f.

Line 17a. Post-1986 Depreciation Adjustment

Figure the adjustment for line 17a based only on tangible property placed in service after 1986 (and tangible property placed in

service after July 31, 1986, and before 1987 for which the partnership elected to use the general depreciation system). Do not make an adjustment for motion picture films, videotapes, sound recordings, certain public utility property (as defined in section 168(f)(2), property depreciated under the unit-of-production method (or any other method not expressed in a term of years), qualified Indian reservation property, property eligible for a special depreciation allowance, qualified revitalization expenditures, or the section 179 expense deduction.

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

- For section 1250 property (generally, residential rental and nonresidential real property), use the straight line method over 40 years.
- For tangible property (other than section 1250 property) depreciated using the straight line method for the regular tax, use the straight line method over the property's class life. Use 12 years if the property has no class life.
- For any other tangible property, use the 150% declining balance method, switching to the straight line method the first tax year it gives a larger deduction, over the property's AMT class life. Use 12 years if the property has no class life.

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

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

Figure the adjustment by subtracting the AMT deduction for depreciation from the regular tax deduction and enter the result on line 17a. If the AMT deduction is more than the regular tax deduction, enter the difference as a negative amount.

Depreciation capitalized to inventory must also be refigured using the AMT rules. Include on this line the current year adjustment to income, if any, resulting from the difference.

Line 17b. Adjusted Gain or Loss

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

tax gain, enter the difference as a negative amount.

If any part of the adjustment is allocable to net short-term capital gain (loss), net long-term capital gain (loss), or net section 1231 gain (loss), attach a statement that identifies the amount of the adjustment allocable to each type of gain or loss.

For a net long-term capital gain (loss), also identify the amount of the adjustment that is collectibles (28%) gain (loss).

For a net section 1231 gain (loss), also identify the amount of adjustment that is unreaptured section 1250 gain.

Line 17c. Depletion (Other Than Oil and Gas)

Do not include any depletion on oil and gas wells. The partners must figure their oil and gas depletion deductions and preference items separately under section 613A.

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

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

Oil, Gas, and Geothermal Properties—Gross Income and Deductions

Generally, the amounts to be entered on lines 17d and 17e are only the income and deductions for oil, gas, and geothermal properties that are used to figure the partnership's ordinary income (loss) (line 22 of Form 1065).

If there are any items of income or deductions for oil, gas, and geothermal properties included in the amounts that are required to be passed through separately to the partners on Schedule K-1 (items not reported on line 1 of Schedule K-1), give each partner a statement that shows, for the box in which the income or deduction is included, the amount of income or deductions included in the total amount for that box. Do not include any of these direct pass-through amounts on line 17d or 17e. The partner is told in the Partner's Instructions for Schedule K-1 (Form 1065) to adjust the amounts in box 17, code D or E, for any other income or deductions from oil, gas, or geothermal properties included in boxes 2 through 13, 18, and 20 of Schedule K-1 in order to determine the total income and deductions from oil, gas, and geothermal properties for the partnership.

Figure the amounts for lines 17d and 17e separately for oil and gas properties that are not geothermal deposits and for all properties that are geothermal deposits.

Give each partner a statement that shows the separate amounts included in the computation of the amounts on lines 17d and 17e of Schedule K.

Line 17d. Oil, Gas, and Geothermal Properties—Gross Income

Enter the total amount of gross income (within the meaning of section 613(a)) from all oil, gas, and geothermal properties received or accrued during the tax year and included on page 1, Form 1065.

Line 17e. Oil, Gas, and Geothermal Properties—Deductions

Enter any deductions allowed for the AMT that are allocable to oil, gas, and geothermal properties.

Line 17f. Other AMT Items

Attach a statement to Form 1065 and Schedule K-1 that shows other items not shown on lines 17a through 17e that are adjustments or tax preference items or that the partner needs to complete Form 6251, Form 4626, or Schedule I (Form 1041). See these forms and their instructions to determine the amount to enter.

Other AMT items include the following.

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

Schedule K-1. If you are reporting each partner's distributive share of only one type of AMT item under code F, enter the code with an asterisk (F*) and the dollar amount in the entry space in box 17 and attach a statement that shows the type of AMT item. If you are reporting multiple types of AMT items under code F, enter the code with an asterisk (F*) and enter "STMT" in the entry space in box 17 and attach a statement that shows the dollar amount of each type of AMT item.

Tax-Exempt Income and Nondeductible Expenses

Line 18a. Tax-exempt interest income.

Enter on line 18a tax-exempt interest income, including any exempt-interest dividends received from a mutual fund or other regulated investment company.

Line 18b. Other tax-exempt income.

Enter on line 18b all income of the partnership exempt from tax other than tax-exempt interest.

Line 18c. Nondeductible expenses. Enter on line 18c nondeductible expenses paid or incurred by the partnership.

Do not include separately stated deductions shown elsewhere on Schedules K and K-1, capital expenditures, or items the deduction for which is deferred to a later tax year.

Schedule K-1. Report in box 18 of Schedule K-1 each partner's distributive share of amounts reported on lines 18a, 18b, and 18c of Schedule K (concerning items affecting partners' basis) using codes A through C, respectively.

Distributions

Line 19a. Distributions of cash and marketable securities. Enter on line 19a the total distributions to each partner of cash and marketable securities that are treated as money under section 731(c)(1). Also include the amount of the credits to holders of tax credit bonds that are treated as cash distributions under section 54A(g). See the instructions for *Other credits (code P)* under *Line 15f. Other Credits* for the list of bond credits that are treated as distributions. Do not include distributions of section 737 property (see *Distributions subject to section 737 (code C)*, below). Generally, marketable securities are valued at FMV on the date of distribution. However, the value of marketable securities does not include the distributee partner's share of the gain on the securities distributed to that partner. See section 731(c)(3)(B) for details.

If the amount on line 19a includes marketable securities treated as money, state separately on an attachment to Schedules K and K-1 (a) the partnership's adjusted basis of those securities immediately before the distribution and (b) the FMV of those securities on the date of distribution (excluding the distributee partner's share of the gain on the securities distributed to that partner).

Line 19b. Distributions of other property.

Enter on line 19b the total distributions to each partner of property not included on line 19a. In box 19 of Schedule K-1, distributions of section 737 property will be reported separately from other property. The codes used when reporting amounts from line 19b in box 19 of Schedule K-1 appear in the heading for the categories.

Other property (code B). Include all distributions of property not included on line 19a and that are not section 737 property. In computing the amount of the distribution, use the adjusted basis of the property to the partnership immediately before the distribution. In addition, attach a statement showing the adjusted basis and fair market value of each property distributed.

Distributions subject to section 737 (code C).

If a partner contributed section 704(c) built-in gain property within the last 7 years and the partnership made a distribution of property to that partner other than the previously contributed built-in gain property, attach a statement to the distributee partner's Schedule K-1 that provides the following information.

- The fair market value of the distributed property (other than money).
- The amount of money received in the distribution.
- The net precontribution gain of the partner. This is the net gain (if any) that would have been recognized by the distributee partner under section 704(c)(1)(B) if all the following property had been distributed by the partnership to another partner. This property includes all

property contributed by the distributee partner during the 7 years prior to the distribution and that is still held by the partnership at the time of the distribution (see section 737).

For more information, see *Recognition of Precontribution Gain on Certain Partnership Distributions* on page 9.

Schedule K-1. Report in box 19 each partner's distributive share of the amount on line 19a using code A. If a statement is attached, enter an asterisk after the code (A*) and "STMT" in the entry space, and attach the required statement. For line 19b, report each partner's distributive share of the amount for other property in box 19 using code B with an asterisk (B*) and "STMT" in the entry space, and attach the required statement. For distributions subject to section 737, enter code C in box 19 with an asterisk (C*) and "STMT" in the entry space, and attach the required statement.

Other Information

Lines 20a and 20b. Investment Income and Expenses

Enter on line 20a the investment income included on lines 5, 6a, 7, and 11, of Schedule K. Do not include other portfolio gains or losses on this line.

Investment income includes gross income from property held for investment, the excess of net gain attributable to the disposition of property held for investment over net capital gain from the disposition of property held for investment, any net capital gain from the disposition of property held for investment that each partner elects to include in investment income under section 163(d)(4)(B)(iii), and any qualified dividend income that the partner elects to include in investment income. Generally, investment income and investment expenses do not include any income or expenses from a passive activity. See Regulations section 1.469-2(f)(10) for exceptions.

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

Enter investment expenses on line 20b. Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income. See the instructions for Form 4952 for more information.

Schedule K-1. Report each partner's distributive share of amounts reported on lines 20a and 20b (investment income and expenses) in box 20 of Schedule K-1 using codes A and B, respectively.

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

Line 20c. Other Items and Amounts

Report the following information on a statement attached to Form 1065. On Schedule K-1 enter the appropriate code in box 20 for each information item followed by

an asterisk in the left-hand column of the entry space (for example, "C**"). In the right-hand column, enter "STMT." The codes are provided for each information category.

Fuel tax credit information (code C).

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

Qualified rehabilitation expenditures (other than rental real estate) (code D).

Enter total qualified rehabilitation expenditures from activities other than rental real estate activities. See Form 3468 for details on qualified rehabilitation expenditures.

Note. Report qualified rehabilitation expenditures related to rental real estate activities on line 15c.

Schedule K-1. Report each partner's distributive share of qualified rehabilitation expenditures related to activities other than rental real estate activities in box 20 of Schedule K-1 using code D. Attach a statement to Schedule K-1 that provides the information and the partner's distributive share of the amounts for lines 10b through 10j and line 10m of Form 3468. See the instructions for Form 3468 for details. If the partnership has expenditures from more than one activity, identify on a statement attached to Schedule K-1 the amount for each separate activity. See *Passive Activity Reporting Requirements* on page 13.

Basis of energy property (code E). See Form 3468 for details on basis of energy property. In box 20 of Schedule K-1, enter code E followed by an asterisk and enter "STMT" in the entry space for the dollar amount. Attach a statement to Schedule K-1 that provides the information and the partner's distributive share of the amounts for the following lines on Form 3468.

- Lines 5a through 5q if the partnership's tax year began before October 4, 2008.
- Lines 11a through 11n if the partnership's tax year began after October 3, 2008.

Recapture of low-income housing credit (codes F and G). If recapture of part or all of the low-income housing credit is required because (a) the prior year qualified basis of a building decreased or (b) the partnership disposed of a building or part of its interest in a building, see Form 8611, Recapture of Low-Income Housing Credit. Complete lines 1 through 7 of Form 8611 to determine the amount of credit to recapture. Use code F on Schedule K-1 to report recapture of the low-income housing credit from a section 42(j)(5) partnership. Use code G to report recapture of any other low-income housing credit. See the instructions for lines 15a and 15b on page 32 for more information.

Note. If a partner's ownership interest in a building decreased because of a transaction at the partner level, the partnership must provide the necessary information to the partner to enable the partner to figure the recapture.



The disposal of a building or an interest therein occurring after July 30, 2008, will generate a credit recapture unless it is reasonably expected

that the building will continue to be operated as a qualified low-income building for the remainder of the building's compliance period. For disposals of a building or an interest therein that occurred before July 31, 2008, you may discontinue maintaining a bond or pledging eligible U.S. Treasury Securities by making the election described in Rev. Proc. 2008-60, 2008-43 I.R.B. 1006, and if it is reasonably expected that the building will continue to be operated as a qualified low-income building for the remainder of the building's compliance period. See Rev. Proc. 2008-60 for details on making the election.

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

Recapture of investment credit (code H).

Complete and attach Form 4255, Recapture of Investment Credit, when investment credit property is disposed of, or it no longer qualifies for the credit, before the end of the recapture period or the useful life applicable to the property. State the type of property at the top of Form 4255, and complete lines 2, 4, and 5, whether or not any partner is subject to recapture of the credit.

Attach to each Schedule K-1 a separate statement providing the information the partnership is required to show on Form 4255, but list only the partner's distributive share of the cost of the property subject to recapture. Also indicate the lines of Form 4255 on which the partners should report these amounts.

Recapture of other credits (code I). On an attached statement to Schedule K-1, provide any information partners will need to report recapture of credits (other than recapture of low-income housing and investment credit reported on Schedule K-1 using codes F, G, and H). Examples of credits subject to the recapture and reported using code I include:

- The qualified electric vehicle credit. See section 30(d) for details.
- The new markets credit. See Form 8874 for details on recapture.
- The Indian employment credit. See section 45A(d) for details.
- The credit for employer-provided childcare facilities and services. See section 45F(d) for details.
- The alternative motor vehicle credit (see section 30B(h)(8)).
- The alternative fuel vehicle refueling property credit (see section 30C(e)(5)).

Look-back interest—completed long-term contracts (code J). If the partnership is closely held (defined in section 460(b)(4)) and it entered into any long-term contracts after February 28, 1986, that are accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method, it must attach a statement to Form 1065 showing the information required in items (a) and (b) of the instructions for lines 1 and 3 of Part II of Form 8697. It must also report the amounts for Part II, lines 1 and 3, to its partners. See the Instructions for Form 8697 for more information.

Look-back interest—income forecast method (code K). If the partnership is closely held (defined in section 460(b)(4)) and it depreciated certain property placed in service after September 13, 1995, under the

income forecast method, it must attach to Form 1065 the information specified in the Instructions for Form 8866, line 2, for the 3rd and 10th tax years beginning after the tax year the property was placed in service. It must also report the line 2 amounts to its partners. See the Instructions for Form 8866 for more details.

Dispositions of property with section 179 deductions (code L).

This represents gain or loss on the sale, exchange, or other disposition of property for which a section 179 deduction has been passed through to partners. The partnership must provide all the following information with respect to such dispositions (see the instructions for line 6, on page 15).

- Description of the property.
- Date the property was acquired and placed in service.
- Date of the sale or other disposition of the property.
- The partner's share of the gross sales price or amount realized.
- The partner's share of the cost or other basis plus expense of sale (reduced as explained in the instructions for Form 4797, line 21).
- The partner's share of the depreciation allowed or allowable, determined as described in the instructions for Form 4797, line 22, but excluding the section 179 deduction.
- The partner's share of the section 179 deduction (if any) passed through for the property and the partnership's tax year(s) in which the amount was passed through.
- If the disposition is due to a casualty or theft, a statement indicating so, and any additional information needed by the partner.
- If the sale was an installment sale made during the partnership's tax year, any information the partner needs to complete Form 6252. The partnership also must separately report the partner's share of all payments received for the property in the following tax years. (Installment payments received for sales made in prior tax years should be reported in the same manner used in the prior tax years.) See the instructions for Form 6252 for details.

Recapture of section 179 deduction (code M).

This amount represents recapture of section 179 deduction if business use of the property dropped to 50% or less. If the business use of any property (placed in service after 1986) for which a section 179 deduction was passed through to partners dropped to 50% or less (for a reason other than disposition), the partnership must provide all the following information.

- The partner's distributive share of the original basis and depreciation allowed or allowable (not including the section 179 deduction).
- The partner's distributive share of the section 179 deduction (if any) passed through for the property and the partnership's tax year(s) in which the amount was passed through.

Interest expense for corporate partners (code N).

Report as an information item each corporate partner's distributive share of the total amount of interest expense reported elsewhere on this return. A

corporate partner's distributive share of interest income, interest expense, and partnership liabilities are treated as income, expense, and liabilities of the corporation for purposes of the limitation on the deduction for interest under section 163(j)).

Section 453(l)(3) information (code O).

Supply any information needed by a partner to compute the interest due under section 453(l)(3). If the partnership elected to report the dispositions of certain timeshares and residential lots on the installment method, each partner's tax liability must be increased by the partner's distributive share of the interest on tax attributable to the installment payments received during the tax year.

Section 453A(c) information (code P).

Supply any information needed by a partner to compute the interest due under section 453A(c). If an obligation arising from the disposition of property to which section 453A applies is outstanding at the close of the year, each partner's tax liability must be increased by the tax due under section 453A(c) on the partner's distributive share of the tax deferred under the installment method.

Section 1260(b) information (code Q).

Supply any information needed by a partner to figure the interest due under section 1260(b). If the partnership had gain from certain constructive ownership transactions, each partner's tax liability must be increased by the partner's distributive share of interest due on any deferral of gain recognition. See section 1260(b) for details, including how to figure the interest.

Interest allocable to production

expenditures (code R). Supply any information needed by a partner to properly capitalize interest as required by section 263A(f). See *Section 263A uniform capitalization rules* on page 16 for more information.

CCF nonqualified withdrawal (code S).

Report nonqualified withdrawals by the partnership from a capital construction fund to partners. See Pub. 595.

Depletion information—oil and gas (code T).

Report gross income and other information relating to oil and gas well properties to partners to allow them to figure the depletion deduction for oil and gas well properties. Allocate to each partner a proportionate share of the adjusted basis of each partnership oil or gas property. See section 613A(c)(7)(D) for details.

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

Amortization of reforestation costs

(code U). Report the amortizable basis of reforestation expenditures paid or incurred before October 23, 2004, for which the partnership elected amortization, and the tax year the amortization began for the current tax year and the 7 preceding tax years. The amortizable basis cannot exceed \$10,000 for each of those tax years.

Unrelated business taxable income

(code V). Report any information a partner that is a tax-exempt organization may need to figure its share of unrelated business

taxable income under section 512(a)(1) (but excluding any modifications required by paragraphs (8) through (15) of section 512(b)). Partners are required to notify the partnership of their tax-exempt status. See Form 990-T, Exempt Organization Business Income Tax Return, and Publication 598, Tax on Unrelated Business Income of Exempt Organizations, for more information.

Precontribution gain (loss) (code W).

If the partnership distributed any section 704(c) property to any partner **other than** the contributing partner, and the date of the distribution was within 7 years of the date the section 704(c) property was contributed to the partnership, the distribution must be treated as if it were a sale by the contributing partner taking place on the date of the distribution. Section 704(c) property is property that had a fair market value which was either greater or less than the contributing partner's adjusted basis at the time the property was contributed to the partnership. See *Distributions of Contributed Property* on page 9 for more information. If the partnership made such a distribution during its tax year, attach a statement to the contributing partner's Schedule K-1 that provides the following information.

- The amount of the gain or loss that would have been allocated to the contributing partner if the partnership had sold the section 704(c) property at its fair market value at the time of the distribution. See section 704(c)(1)(B) for details.

- The character of the gain or loss which would have resulted if the partnership had sold the section 704(c) property to the distributee partner.

Enter code W in box 20 of Schedule K-1 with an asterisk ("W*") and enter "STMT," and attach the required statement.

Other information (code X). Report to each partner:

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

- If a partner that is a corporation elected under section 168(k)(4) to accelerate the corporation's pre-2006 AMT and research credits carryforwards in lieu of bonus depreciation, it is required to notify the partnership of this election so the partnership can adjust the electing corporate partner's distributive share of partnership items that include bonus depreciation. The partnership is required to recompute the partner's distributive share of the depreciation on any eligible qualified property placed in service by the partnership to eliminate bonus depreciation and use the straight line depreciation method for such property. On an attached statement, list each partnership item that includes bonus depreciation and show the electing corporate partner's adjustment for each item that results from the recomputed depreciation and elimination of the bonus depreciation. See section 168(k)(4) for more information.

- If the partnership participates in a transaction that must be disclosed on Form

8886 (see page 8), both the partnership and its partners may be required to file Form 8886. The partnership must determine if any of its partners are required to disclose the transaction and provide those partners with information they will need to file Form 8886. This determination is based on the category(s) under which a transaction qualified for disclosures. See the Instructions for Form 8886 for details.

- Compensation to partners deferred under a section 409A nonqualified deferred compensation plan that does not meet the requirements of section 409A. Include in this amount any earnings on these deferrals. This amount must also be included on line 4 of Schedule K, Guaranteed payments. For details, see the regulations under section 409A. These regulations do not provide guidance on the application of section 409A to arrangements between partnerships and partners. For interim guidance on such arrangements, see Q&A-7 in Notice 2005-1, 2005-2 I.R.B. 274, and the information provided in the preamble to these regulations (T.D. 9321). Also see Notice 2006-79, 2006-43 I.R.B. 763, Notice 2007-86, 2007-46 I.R.B. 990, and Notice 2008-113, 2008-51 I.R.B. 1305 for additional information on transitional and relief rules.

- Any income or gain reported on lines 1 through 11 of Schedule K that qualifies as inversion gain, if the partnership is an expatriated entity or is a partner in an expatriated entity. For details, see section 7874. Attach a statement to Form 1065 that shows the amount of each type of income or gain included in the inversion gain. The partnership must report each partner's distributive share of the inversion gain in box 20 of Schedule K-1 using code X. Attach a statement to Schedule K-1 that shows the partner's distributive share of the amount of each type of income or gain included in the inversion gain.

- Basis in qualifying advanced coal project property. Complete lines 6a through 6c of Form 3468 and attach it to Form 1065. See the instructions for Form 3468 for details. Attach a statement to Schedule K-1 showing each partner's distributive share of these amounts.

- Basis in qualifying gasification project property. Complete lines 7a and 7b of Form 3468. Attach a statement to Schedule K-1 showing each partner's distributive share of these amounts.

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

- This item applies only to partners that are corporations. Report the corporate partner's distributive share of the partnership's qualified timber gain that is allocable to the period that begins after May, 22, 2008, and ends before May 23, 2009. For this purpose, a qualified timber gain is the net gain described in section 631(a) and (b), determined by taking into account only trees held more than 15 years. See section 1201(b) for more information. This gain is included in the net long term capital gain reported on line 9a of Schedule K.

- Any other information the partners need to prepare their tax returns.

Analysis of Net Income (Loss)

For each type of partner shown, enter the portion of the amount shown on line 1 that was allocated to that type of partner. Report all amounts for LLC members on the line for limited partners. The sum of the amounts shown on line 2 must equal the amount shown on line 1. In addition, the amount on line 1 must equal the amount on line 9, Schedule M-1 (if the partnership is required to complete Schedule M-1). If the partnership files Schedule M-3, the amount on line 1 must equal the amount in column (d) of line 26, Part II.

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

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

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

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

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

5. If the partnership’s principal activity is a portfolio activity, classify all partners as “active.”

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

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

Schedule L. Balance Sheets per Books

Note. Schedules L, M-1, and M-2 are not required to be completed if the partnership answered “Yes” to question 6 of Schedule B.

The balance sheets should agree with the partnership’s books and records. Attach a statement explaining any differences. There are additional requirements for completing Schedule L for partnerships that are required to file Schedule M-3 (see page

3 of the Instructions for Schedule M-3 for details).

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

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

Exception. If the partnership or any qualified business unit of the partnership uses the U.S. dollar approximate separate transactions method, Schedule L should reflect the tax balance sheet prepared and translated into U.S. dollars according to Regulations section 1.985-3(d), and not a U.S. GAAP balance sheet.

Partnerships Required To File Schedule M-3

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

Line 5. Tax-Exempt Securities

Include on this line:

1. State and local government obligations, the interest on which is excludable from gross income under section 103(a), and

2. Stock in a mutual fund or other regulated investment company that distributed exempt-interest dividends during the tax year of the partnership.

Line 14. Total Assets

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

For purposes of measuring total assets at the end of the year, the partnership’s assets may not be netted against or reduced by partnership liabilities. In addition, asset amounts may not be reported as a negative number. If the partnership has an interest in another partnership and uses a tax-basis

method for Schedule L, it must show as an asset the adjusted basis of its interest in the other partnership and separately show as a liability its share of the other partnership’s liabilities (which are included in the computation of its adjusted basis). See the Partner’s Instructions for Schedule K-1 for details on how to figure the adjusted basis of a partnership interest. If Schedule L is non-tax-basis, investment in a partnership may be shown as appropriate under the non-tax-basis accounting method of the partnership including, if required by the non-tax-basis accounting method of the partnership, the equity method of accounting for investments, but must be shown as a non-negative amount.

Example. Partnership A prepares a tax-basis Schedule L and is a general partner in Partnership B, a general partnership. Partnership A’s adjusted basis in Partnership B at the end of the tax year is \$16 million. Partnership A’s share of Partnership B’s liabilities is \$20 million, which is included in the \$16 million adjusted basis amount. On its Schedule L, Partnership A must report \$16 million on line 8 as the amount of its investment asset in Partnership B and report on line 20 its \$20 million share of Partnership B’s liabilities. These amounts cannot be netted on Schedule L.

Line 18. All Nonrecourse Loans

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

Line 20. Other Liabilities

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

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

Note. Schedules M-3 may be required instead of Schedule M-1. See *Item J. Schedule M-3* on page 14. See the Instructions for Schedule M-3 for more information.

Line 2

Report on this line income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on the partnership’s books this year. Describe each such item of income. Attach a statement if necessary.

Line 3. Guaranteed Payments

Include on this line guaranteed payments shown on Schedule K, line 4 (other than amounts paid for insurance that constitutes medical care for a partner, a partner’s spouse, and a partner’s dependents).

Line 4b. Travel and Entertainment

Include on this line:

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

Schedule M-2. Analysis of Partners' Capital Accounts

Show what caused the changes during the tax year in the partners' capital accounts as reflected on the partnership's books and records. The amounts on Schedule M-2 should equal the total of the amounts reported in item L of all the partners' Schedules K-1.

The partnership may use tax-basis amounts or apply the rules in Regulations section 1.704-1(b)(2)(iv) to determine the partners' capital accounts in Schedule M-2 and item L of the partners' Schedules K-1. If the beginning and ending capital accounts reported under these rules differ from the amounts reported on Schedule L, attach a statement reconciling any differences.

Line 2. Capital Contributed During Year

Include on line 2a the amount of money contributed and on line 2b the amount of

property contributed by each partner to the partnership as reflected on the partnership's books and records.

Line 3. Net Income (Loss) per Books

Enter on line 3 the net income (loss) shown on the partnership books used in maintaining the partner's capital accounts for purposes of Schedule K-1.

Line 6. Distributions

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

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

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. Section 6109 requires you to provide your social security number or other identifying numbers on the return.

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

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

Form	Recordkeeping	Learning about the law or the form	Preparing the form	Copying, assembling, and sending the form to the IRS
1065	43 hr., 53 min.	26 hr., 33 min.	38 hr., 49min.	2 hr., 57min.
Sch C (Form 1065)	1 hr., 54 min.	24 min.	26 min.	
Sch. D (Form 1065)	5 hr., 30 min.	2 hr., 58 min.	3 hr., 12 min.	
Sch. K-1 (Form 1065)	12 hr., 12 min.	7 hr., 44 min.	8 hr., 17 min.	
Sch. L (Form 1065)	14 hr., 21 min.	2 hr., 8 min.	7 hr., 7 min.	1 hr., 20 min.
Sch. M-1 (Form 1065)	3 hr., 6 min.	12 min.	15 min.	
Sch. M-2 (Form 1065)	3 hr., 6 min.	12 min.	15 min.	
Sch. M-3 (Form 1065)	69 hr., 6 min.	8 hr., 51 min.	22 hr., 28 min.	3 hr., 29 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms simpler, we would be happy to hear from you. You can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Do not send the tax form to this address. Instead, see *Where To File* on page 4.

Codes for Principal Business Activity and Principal Product or Service

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

Using the list of activities and codes below, determine from which activity the business derives the largest percentage of its "total receipts." Total receipts is defined as the sum of gross receipts or sales (page 1, line 1a); all other income (page 1, lines 4 through 7); income reported on Schedule K, lines 3a, 5, 6a, and 7; income or net gain reported on Schedule K, lines 8, 9a, 10, and 11; and income or net gain reported on Form 8825, lines 2, 19, and 20a. If the business purchases raw materials and

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

Once the Principal Business Activity is determined, enter the six-digit code from the list below on page 1, item C. Also enter a brief description of the business activity in item A and the principal product or service of the business in item B.

Code	Code	Code	Code
Agriculture, Forestry, Fishing and Hunting Crop Production 111100 Oilseed & Grain Farming 111210 Vegetable & Melon Farming (including potatoes & yams) 111300 Fruit & Tree Nut Farming 111400 Greenhouse, Nursery, & Floriculture Production 111900 Other Crop Farming (including tobacco, cotton, sugarcane, hay, peanut, sugar beet & all other crop farming) Animal Production 112111 Beef Cattle Ranching & Farming 112112 Cattle Feedlots 112120 Dairy Cattle & Milk Production 112210 Hog & Pig Farming 112300 Poultry & Egg Production 112400 Sheep & Goat Farming 112510 Aquaculture (including shellfish & finfish farms & hatcheries) 112900 Other Animal Production Forestry and Logging 113110 Timber Tract Operations 113210 Forest Nurseries & Gathering of Forest Products 113310 Logging Fishing, Hunting and Trapping 114110 Fishing 114210 Hunting & Trapping Support Activities for Agriculture and Forestry 115110 Support Activities for Crop Production (including cotton ginning, soil preparation, planting, & cultivating) 115210 Support Activities for Animal Production 115310 Support Activities For Forestry Mining 211110 Oil & Gas Extraction 212110 Coal Mining 212200 Metal Ore Mining 212310 Stone Mining & Quarrying 212320 Sand, Gravel, Clay, & Ceramic & Refractory Minerals Mining & Quarrying 212390 Other Nonmetallic Mineral Mining & Quarrying 213110 Support Activities for Mining Utilities 221100 Electric Power Generation, Transmission & Distribution 221210 Natural Gas Distribution 221300 Water, Sewage & Other Systems 221500 Combination Gas & Electric Construction Construction of Buildings 236110 Residential Building Construction 236200 Nonresidential Building Construction	Heavy and Civil Engineering Construction 237100 Utility System Construction 237210 Land Subdivision 237310 Highway, Street, & Bridge Construction 237990 Other Heavy & Civil Engineering Construction Specialty Trade Contractors 238100 Foundation, Structure, & Building Exterior Contractors (including framing carpentry, masonry, glass, roofing, & siding) 238210 Electrical Contractors 238220 Plumbing, Heating, & Air-Conditioning Contractors 238290 Other Building Equipment Contractors 238300 Building Finishing Contractors (including drywall, insulation, painting, wallcovering, flooring, tile, & finish carpentry) 238900 Other Specialty Trade Contractors (including site preparation) Manufacturing Food Manufacturing 311110 Animal Food Mfg 311200 Grain & Oilseed Milling 311300 Sugar & Confectionery Product Mfg 311400 Fruit & Vegetable Preserving & Specialty Food Mfg 311500 Dairy Product Mfg 311610 Animal Slaughtering and Processing 311710 Seafood Product Preparation & Packaging 311800 Bakeries & Tortilla Mfg 311900 Other Food Mfg (including coffee, tea, flavorings & seasonings) Beverage and Tobacco Product Manufacturing 312110 Soft Drink & Ice Mfg 312120 Breweries 312130 Wineries 312140 Distilleries 312200 Tobacco Manufacturing Textile Mills and Textile Product Mills 313000 Textile Mills 314000 Textile Product Mills Apparel Manufacturing 315100 Apparel Knitting Mills 315210 Cut & Sew Apparel Contractors 315220 Men's & Boys' Cut & Sew Apparel Mfg 315230 Women's & Girls' Cut & Sew Apparel Mfg 315290 Other Cut & Sew Apparel Mfg 315990 Apparel Accessories & Other Apparel Mfg Leather and Allied Product Manufacturing 316110 Leather & Hide Tanning & Finishing 316210 Footwear Mfg (including rubber & plastics)	316990 Other Leather & Allied Product Mfg Wood Product Manufacturing 321110 Sawmills & Wood Preservation 321210 Veneer, Plywood, & Engineered Wood Product Mfg 321900 Other Wood Product Mfg Paper Manufacturing 322100 Pulp, Paper, & Paperboard Mills 322200 Converted Paper Product Mfg Printing and Related Support Activities 323100 Printing & Related Support Activities Petroleum and Coal Products Manufacturing 324110 Petroleum Refineries (including integrated) 324120 Asphalt Paving, Roofing, & Saturated Materials Mfg 324190 Other Petroleum & Coal Products Mfg Chemical Manufacturing 325100 Basic Chemical Mfg 325200 Resin, Synthetic Rubber, & Artificial & Synthetic Fibers & Filaments Mfg 325300 Pesticide, Fertilizer, & Other Agricultural Chemical Mfg 325410 Pharmaceutical & Medicine Mfg 325500 Paint, Coating, & Adhesive Mfg 325600 Soap, Cleaning Compound, & Toilet Preparation Mfg 325900 Other Chemical Product & Preparation Mfg Plastics and Rubber Products Manufacturing 326100 Plastics Product Mfg 326200 Rubber Product Mfg Nonmetallic Mineral Product Manufacturing 327100 Clay Product & Refractory Mfg 327210 Glass & Glass Product Mfg 327300 Cement & Concrete Product Mfg 327400 Lime & Gypsum Product Mfg 327900 Other Nonmetallic Mineral Product Mfg Primary Metal Manufacturing 331110 Iron & Steel Mills & Ferroalloy Mfg 331200 Steel Product Mfg from Purchased Steel 331310 Alumina & Aluminum Production & Processing 331400 Nonferrous Metal (except Aluminum) Production & Processing 331500 Foundries Fabricated Metal Product Manufacturing 332110 Forging & Stamping 332210 Cutlery & Handtool Mfg 332300 Architectural & Structural Metals Mfg 332400 Boiler, Tank, & Shipping Container Mfg	332510 Hardware Mfg 332610 Spring & Wire Product Mfg 332700 Machine Shops; Turned Product; & Screw, Nut, & Bolt Mfg 332810 Coating, Engraving, Heat Treating, & Allied Activities 332900 Other Fabricated Metal Product Mfg Machinery Manufacturing 333100 Agriculture, Construction, & Mining Machinery Mfg 333200 Industrial Machinery Mfg 333310 Commercial & Service Industry Machinery Mfg 333410 Ventilation, Heating, Air-Conditioning, & Commercial Refrigeration Equipment Mfg 333510 Metalworking Machinery Mfg 333610 Engine, Turbine & Power Transmission Equipment Mfg 333900 Other General Purpose Machinery Mfg Computer and Electronic Product Manufacturing 334110 Computer & Peripheral Equipment Mfg 334200 Communications Equipment Mfg 334310 Audio & Video Equipment Mfg 334410 Semiconductor & Other Electronic Component Mfg 334500 Navigational, Measuring, Electromedical, & Control Instruments Mfg 334610 Manufacturing & Reproducing Magnetic & Optical Media Electrical Equipment, Appliance, and Component Manufacturing 335100 Electric Lighting Equipment Mfg 335200 Household Appliance Mfg 335310 Electrical Equipment Mfg 335900 Other Electrical Equipment & Component Mfg Transportation Equipment Manufacturing 336100 Motor Vehicle Mfg 336210 Motor Vehicle Body & Trailer Mfg 336300 Motor Vehicle Parts Mfg 336410 Aerospace Product & Parts Mfg 336510 Railroad Rolling Stock Mfg 336610 Ship & Boat Building 336990 Other Transportation Equipment Mfg Furniture and Related Product Manufacturing 337000 Furniture & Related Product Manufacturing Miscellaneous Manufacturing 339110 Medical Equipment & Supplies Mfg 339900 Other Miscellaneous Manufacturing

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

<p><i>Code</i></p> <p>Wholesale Trade Merchant Wholesalers, Durable Goods</p> <p>423100 Motor Vehicle & Motor Vehicle Parts & Supplies</p> <p>423200 Furniture & Home Furnishings</p> <p>423300 Lumber & Other Construction Materials</p> <p>423400 Professional & Commercial Equipment & Supplies</p> <p>423500 Metal & Mineral (except Petroleum)</p> <p>423600 Electrical & Electronic Goods</p> <p>423700 Hardware, & Plumbing & Heating Equipment & Supplies</p> <p>423800 Machinery, Equipment, & Supplies</p> <p>423910 Sporting & Recreational Goods & Supplies</p> <p>423920 Toy & Hobby Goods & Supplies</p> <p>423930 Recyclable Materials</p> <p>423940 Jewelry, Watch, Precious Stone, & Precious Metals</p> <p>423990 Other Miscellaneous Durable Goods</p> <p>Merchant Wholesalers, Nondurable Goods</p> <p>424100 Paper & Paper Products</p> <p>424210 Drugs & Druggists' Sundries</p> <p>424300 Apparel, Piece Goods, & Notions</p> <p>424400 Grocery & Related Products</p> <p>424500 Farm Product Raw Materials</p> <p>424600 Chemical & Allied Products</p> <p>424700 Petroleum & Petroleum Products</p> <p>424800 Beer, Wine, & Distilled Alcoholic Beverages</p> <p>424910 Farm Supplies</p> <p>424920 Book, Periodical, & Newspapers</p> <p>424930 Flower, Nursery Stock, & Florists' Supplies</p> <p>424940 Tobacco & Tobacco Products</p> <p>424950 Paint, Varnish, & Supplies</p> <p>424990 Other Miscellaneous Nondurable Goods</p> <p>Wholesale Electronic Markets and Agents and Brokers</p> <p>425110 Business to Business Electronic Markets</p> <p>425120 Wholesale Trade Agents & Brokers</p>	<p><i>Code</i></p> <p>Building Material and Garden Equipment and Supplies Dealers</p> <p>444110 Home Centers</p> <p>444120 Paint & Wallpaper Stores</p> <p>444130 Hardware Stores</p> <p>444190 Other Building Material Dealers</p> <p>444200 Lawn & Garden Equipment & Supplies Stores</p> <p>Food and Beverage Stores</p> <p>445110 Supermarkets and Other Grocery (except Convenience) Stores</p> <p>445120 Convenience Stores</p> <p>445210 Meat Markets</p> <p>445220 Fish & Seafood Markets</p> <p>445230 Fruit & Vegetable Markets</p> <p>445291 Baked Goods Stores</p> <p>445292 Confectionery & Nut Stores</p> <p>445299 All Other Specialty Food Stores</p> <p>445310 Beer, Wine, & Liquor Stores</p> <p>Health and Personal Care Stores</p> <p>446110 Pharmacies & Drug Stores</p> <p>446120 Cosmetics, Beauty Supplies, & Perfume Stores</p> <p>446130 Optical Goods Stores</p> <p>446190 Other Health & Personal Care Stores</p> <p>Gasoline Stations</p> <p>447100 Gasoline Stations (including convenience stores with gas)</p> <p>Clothing and Clothing Accessories Stores</p> <p>448110 Men's Clothing Stores</p> <p>448120 Women's Clothing Stores</p> <p>448130 Children's & Infants' Clothing Stores</p> <p>448140 Family Clothing Stores</p> <p>448150 Clothing Accessories Stores</p> <p>448190 Other Clothing Stores</p> <p>448210 Shoe Stores</p> <p>448310 Jewelry Stores</p> <p>448320 Luggage & Leather Goods Stores</p> <p>Sporting Goods, Hobby, Book, and Music Stores</p> <p>451110 Sporting Goods Stores</p> <p>451120 Hobby, Toy, & Game Stores</p> <p>451130 Sewing, Needlework, & Piece Goods Stores</p> <p>451140 Musical Instrument & Supplies Stores</p> <p>451211 Book Stores</p> <p>451212 News Dealers & Newsstands</p> <p>451220 Prerecorded Tape, Compact Disc, & Record Stores</p> <p>General Merchandise Stores</p> <p>452110 Department Stores</p> <p>452900 Other General Merchandise Stores</p> <p>Miscellaneous Store Retailers</p> <p>453110 Florists</p> <p>453210 Office Supplies & Stationery Stores</p> <p>453220 Gift, Novelty, & Souvenir Stores</p> <p>453310 Used Merchandise Stores</p> <p>453910 Pet & Pet Supplies Stores</p> <p>453920 Art Dealers</p> <p>453930 Manufactured (Mobile) Home Dealers</p> <p>453990 All Other Miscellaneous Store Retailers (including tobacco, candle, & trophy shops)</p> <p>Nonstore Retailers</p> <p>454110 Electronic Shopping & Mail-Order Houses</p> <p>454210 Vending Machine Operators</p> <p>454311 Heating Oil Dealers</p> <p>454312 Liquefied Petroleum Gas (Bottled Gas) Dealers</p>	<p><i>Code</i></p> <p>454319 Other Fuel Dealers</p> <p>454390 Other Direct Selling Establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)</p>	<p><i>Code</i></p> <p>Telecommunications</p> <p>517000 Telecommunications (including paging, cellular, satellite, cable & other program distribution, resellers, other telecommunications, & Internet service providers)</p>
<p>Retail Trade Motor Vehicle and Parts Dealers</p> <p>441110 New Car Dealers</p> <p>441120 Used Car Dealers</p> <p>441210 Recreational Vehicle Dealers</p> <p>441221 Motorcycle Dealers</p> <p>441222 Boat Dealers</p> <p>441229 All Other Motor Vehicle Dealers</p> <p>441300 Automotive Parts, Accessories, & Tire Stores</p> <p>Furniture and Home Furnishings Stores</p> <p>442110 Furniture Stores</p> <p>442210 Floor Covering Stores</p> <p>442291 Window Treatment Stores</p> <p>442299 All Other Home Furnishings Stores</p> <p>Electronics and Appliance Stores</p> <p>443111 Household Appliance Stores</p> <p>443112 Radio, Television, & Other Electronics Stores</p> <p>443120 Computer & Software Stores</p> <p>443130 Camera & Photographic Supplies Stores</p>	<p>Transportation and Warehousing Air, Rail, and Water Transportation</p> <p>481000 Air Transportation</p> <p>482110 Rail Transportation</p> <p>483000 Water Transportation</p> <p>Truck Transportation</p> <p>484110 General Freight Trucking, Local</p> <p>484120 General Freight Trucking, Long-distance</p> <p>484200 Specialized Freight Trucking</p> <p>Transit and Ground Passenger Transportation</p> <p>485110 Urban Transit Systems</p> <p>485210 Interurban & Rural Bus Transportation</p> <p>485310 Taxi Service</p> <p>485320 Limousine Service</p> <p>485410 School & Employee Bus Transportation</p> <p>485510 Charter Bus Industry</p> <p>485990 Other Transit & Ground Passenger Transportation</p> <p>Pipeline Transportation</p> <p>486000 Pipeline Transportation</p> <p>Scenic & Sightseeing Transportation</p> <p>487000 Scenic & Sightseeing Transportation</p> <p>Support Activities for Transportation</p> <p>488100 Support Activities for Air Transportation</p> <p>488210 Support Activities for Rail Transportation</p> <p>488300 Support Activities for Water Transportation</p> <p>488410 Motor Vehicle Towing</p> <p>488490 Other Support Activities for Road Transportation</p> <p>488510 Freight Transportation Arrangement</p> <p>488990 Other Support Activities for Transportation</p> <p>Couriers and Messengers</p> <p>492110 Couriers</p> <p>492210 Local Messengers & Local Delivery</p> <p>Warehousing and Storage</p> <p>493100 Warehousing & Storage (except lessors of miniwarehouses & self-storage units)</p>	<p>Information Publishing Industries (except Internet)</p> <p>511110 Newspaper Publishers</p> <p>511120 Periodical Publishers</p> <p>511130 Book Publishers</p> <p>511140 Directory & Mailing List Publishers</p> <p>511190 Other Publishers</p> <p>511210 Software Publishers</p> <p>Motion Picture and Sound Recording Industries</p> <p>512100 Motion Picture & Video Industries (except video rental)</p> <p>512200 Sound Recording Industries</p> <p>Broadcasting (except Internet)</p> <p>515100 Radio & Television Broadcasting</p> <p>515210 Cable & Other Subscription Programming</p>	<p>Data Processing Services</p> <p>518210 Data Processing, Hosting, & Related Services</p> <p>Other Information Services</p> <p>519100 Other Information Services (including news syndicates, libraries, Internet publishing & broadcasting)</p> <p>Finance and Insurance Depository Credit Intermediation</p> <p>522110 Commercial Banking</p> <p>522120 Savings Institutions</p> <p>522130 Credit Unions</p> <p>522190 Other Depository Credit Intermediation</p> <p>Nondepository Credit Intermediation</p> <p>522210 Credit Card Issuing</p> <p>522220 Sales Financing</p> <p>522291 Consumer Lending</p> <p>522292 Real Estate Credit (including mortgage bankers & originators)</p> <p>522293 International Trade Financing</p> <p>522294 Secondary Market Financing</p> <p>522298 All Other Nondepository Credit Intermediation</p> <p>Activities Related to Credit Intermediation</p> <p>522300 Activities Related to Credit Intermediation (including loan brokers, check clearing, & money transmitting)</p> <p>Securities, Commodity Contracts, and Other Financial Investments and Related Activities</p> <p>523110 Investment Banking & Securities Dealing</p> <p>523120 Securities Brokerage</p> <p>523130 Commodity Contracts Dealing</p> <p>523140 Commodity Contracts Brokerage</p> <p>523210 Securities & Commodity Exchanges</p> <p>523900 Other Financial Investment Activities (including portfolio management & investment advice)</p> <p>Insurance Carriers and Related Activities</p> <p>524140 Direct Life, Health, & Medical Insurance & Reinsurance Carriers</p> <p>524150 Direct Insurance & Reinsurance (except Life, Health & Medical) Carriers</p> <p>524210 Insurance Agencies & Brokerages</p> <p>524290 Other Insurance Related Activities (including third-party administration of insurance and pension funds)</p>
			<p>Funds, Trusts, and Other Financial Vehicles</p> <p>525100 Insurance & Employee Benefit Funds</p> <p>525910 Open-End Investment Funds (Form 1120-RIC)</p> <p>525920 Trusts, Estates, & Agency Accounts</p> <p>525990 Other Financial Vehicles (including mortgage REITs & closed-end investment funds)</p>

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

<p><i>Code</i> "Offices of Bank Holding Companies" and "Offices of Other Holding Companies" are located under <i>Management of Companies (Holding Companies)</i> below.</p>	<p><i>Code</i> Computer Systems Design and Related Services 541511 Custom Computer Programming Services 541512 Computer Systems Design Services 541513 Computer Facilities Management Services 541519 Other Computer Related Services</p>	<p><i>Code</i> Health Care and Social Assistance Offices of Physicians and Dentists 621111 Offices of Physicians (except mental health specialists) 621112 Offices of Physicians, Mental Health Specialists 621210 Offices of Dentists Offices of Other Health Practitioners 621310 Offices of Chiropractors 621320 Offices of Optometrists 621330 Offices of Mental Health Practitioners (except Physicians) 621340 Offices of Physical, Occupational & Speech Therapists, & Audiologists 621391 Offices of Podiatrists 621399 Offices of All Other Miscellaneous Health Practitioners</p>	<p><i>Code</i> 713900 Other Amusement & Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, & bowling centers)</p>
<p>Real Estate and Rental and Leasing Real Estate 531110 Lessors of Residential Buildings & Dwellings (including equity REITs) 531114 Cooperative Housing (including equity REITs) 531120 Lessors of Nonresidential Buildings (except Miniwarehouses) (including equity REITs) 531130 Lessors of Miniwarehouses & Self-Storage Units (including equity REITs) 531190 Lessors of Other Real Estate Property (including equity REITs) 531210 Offices of Real Estate Agents & Brokers 531310 Real Estate Property Managers 531320 Offices of Real Estate Appraisers 531390 Other Activities Related to Real Estate Rental and Leasing Services 532100 Automotive Equipment Rental & Leasing 532210 Consumer Electronics & Appliances Rental 532220 Formal Wear & Costume Rental 532230 Video Tape & Disc Rental 532290 Other Consumer Goods Rental 532310 General Rental Centers 532400 Commercial & Industrial Machinery & Equipment Rental & Leasing Lessors of Nonfinancial Intangible Assets (except copyrighted works) 533110 Lessors of Nonfinancial Intangible Assets (except copyrighted works)</p>	<p>Other Professional, Scientific, and Technical Services 541600 Management, Scientific, & Technical Consulting Services 541700 Scientific Research & Development Services 541800 Advertising & Related Services 541910 Marketing Research & Public Opinion Polling 541920 Photographic Services 541930 Translation & Interpretation Services 541940 Veterinary Services 541990 All Other Professional, Scientific, & Technical Services</p>	<p>Outpatient Care Centers 621410 Family Planning Centers 621420 Outpatient Mental Health & Substance Abuse Centers 621491 HMO Medical Centers 621492 Kidney Dialysis Centers 621493 Freestanding Ambulatory Surgical & Emergency Centers 621498 All Other Outpatient Care Centers Medical and Diagnostic Laboratories 621510 Medical & Diagnostic Laboratories Home Health Care Services 621610 Home Health Care Services Other Ambulatory Health Care Services 621900 Other Ambulatory Health Care Services (including ambulance services & blood & organ banks)</p>	<p>Accommodation and Food Services Accommodation 721110 Hotels (except Casino Hotels) & Motels 721120 Casino Hotels 721191 Bed & Breakfast Inns 721199 All Other Traveler Accommodation 721210 RV (Recreational Vehicle) Parks & Recreational Camps 721310 Rooming & Boarding Houses Food Services and Drinking Places 722110 Full-Service Restaurants 722210 Limited-Service Eating Places 722300 Special Food Services (including food service contractors & caterers) 722410 Drinking Places (Alcoholic Beverages)</p>
<p>Professional, Scientific, and Technical Services Legal Services 541110 Offices of Lawyers 541190 Other Legal Services Accounting, Tax Preparation, Bookkeeping, and Payroll Services 541211 Offices of Certified Public Accountants 541213 Tax Preparation Services 541214 Payroll Services 541219 Other Accounting Services Architectural, Engineering, and Related Services 541310 Architectural Services 541320 Landscape Architecture Services 541330 Engineering Services 541340 Drafting Services 541350 Building Inspection Services 541360 Geophysical Surveying & Mapping Services 541370 Surveying & Mapping (except Geophysical) Services 541380 Testing Laboratories Specialized Design Services 541400 Specialized Design Services (including interior, industrial, graphic, & fashion design)</p>	<p>Management of Companies (Holding Companies) 551111 Offices of Bank Holding Companies 551112 Offices of Other Holding Companies</p>	<p>Hospitals 622000 Hospitals Nursing and Residential Care Facilities 623000 Nursing & Residential Care Facilities Social Assistance 624100 Individual & Family Services 624200 Community Food & Housing, & Emergency & Other Relief Services 624310 Vocational Rehabilitation Services 624410 Child Day Care Services</p>	<p>Other Services Repair and Maintenance 811110 Automotive Mechanical & Electrical Repair & Maintenance 811120 Automotive Body, Paint, Interior, & Glass Repair 811190 Other Automotive Repair & Maintenance (including oil change & lubrication shops & car washes) 811210 Electronic & Precision Equipment Repair & Maintenance 811310 Commercial & Industrial Machinery & Equipment (except Automotive & Electronic) Repair & Maintenance 811410 Home & Garden Equipment & Appliance Repair & Maintenance 811420 Reupholstery & Furniture Repair 811430 Footwear & Leather Goods Repair 811490 Other Personal & Household Goods Repair & Maintenance Personal and Laundry Services 812111 Barber Shops 812112 Beauty Salons 812113 Nail Salons 812190 Other Personal Care Services (including diet & weight reducing centers) 812210 Funeral Homes & Funeral Services 812220 Cemeteries & Crematories 812310 Coin-Operated Laundries & Drycleaners 812320 Drycleaning & Laundry Services (except Coin-Operated) 812330 Linen & Uniform Supply 812910 Pet Care (except Veterinary) Services 812920 Photofinishing 812930 Parking Lots & Garages 812990 All Other Personal Services</p>
	<p>Administrative and Support and Waste Management and Remediation Services Administrative and Support Services 561110 Office Administrative Services 561210 Facilities Support Services 561300 Employment Services 561410 Document Preparation Services 561420 Telephone Call Centers 561430 Business Service Centers (including private mail centers & copy shops) 561440 Collection Agencies 561450 Credit Bureaus 561490 Other Business Support Services (including repossession services, court reporting, & stenotype services) 561500 Travel Arrangement & Reservation Services 561600 Investigation & Security Services 561710 Exterminating & Pest Control Services 561720 Janitorial Services 561730 Landscaping Services 561740 Carpet & Upholstery Cleaning Services 561790 Other Services to Buildings & Dwellings 561900 Other Support Services (including packaging & labeling services, & convention & trade show organizers) Waste Management and Remediation Services 562000 Waste Management & Remediation Services</p>	<p>Arts, Entertainment, and Recreation Performing Arts, Spectator Sports, and Related Industries 711100 Performing Arts Companies 711210 Spectator Sports (including sports clubs & racetracks) 711300 Promoters of Performing Arts, Sports, & Similar Events 711410 Agents & Managers for Artists, Athletes, Entertainers, & Other Public Figures 711510 Independent Artists, Writers, & Performers Museums, Historical Sites, and Similar Institutions 712100 Museums, Historical Sites, & Similar Institutions Amusement, Gambling, and Recreation Industries 713100 Amusement Parks & Arcades 713200 Gambling Industries</p>	<p>Religious, Grantmaking, Civic, Professional, and Similar Organizations 813000 Religious, Grantmaking, Civic, Professional, & Similar Organizations (including condominium and homeowners associations)</p>
	<p>Educational Services 611000 Educational Services (including schools, colleges, & universities)</p>		

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