



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

Partner's Share of Income, Credits, Deductions, Etc.

(For Partner's Use Only)

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

Reminder

Four-year ratable spread of short-year income.—Many partnerships were required to change their tax year in 1987. As a result of this change, the affected partnerships issued two Schedule K-1s in 1987, one for the full tax year ending in 1987, and one for the short tax year ending in 1987. If you were a partner in such a partnership, your partnership should have identified the Schedule K-1 that it issued to you for its short year by checking the box in Item H on your Schedule K-1 for 1987. A partner in a partnership that had net income for the short year was given the option of reporting the partner's distributive share of short-year partnership income in full in 1987 or spreading it ratably over 4 years. If you chose to report your distributive share of the short-year partnership income over 4 years, be sure to report 25% of each partnership income and expense item on your 1990 income tax return. When you report each item on the applicable form or schedule, if an itemization by source is required, you should list it on a separate line, identify the partnership to which the income or expense relates, and identify the income or expense as a short-year amount by writing "PYA" beside it.

General Instructions

Purpose of Schedule K-1.—The partnership uses Schedule K-1 to report your share of the partnership's income, credits, deductions, etc. **Please keep it for your records. Do not file it with your tax return.** A copy has been filed with the IRS.

Although the partnership is not subject to income tax, you are liable for tax on your share of the partnership income, whether or not distributed, and you must include your share on your tax return if a return is required.

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

Where "(attach schedule)" appears beside a line item on Schedule K-1, it means you should see either the schedule that the partnership has attached for that line or the space below line 21 of Schedule K-1.

Where "(see instructions for Form 1065)" appears beside an item or line on Schedule K-1, it means the partnership should see the Instructions for Form 1065 before completing these lines. You may ignore this notation.

Inconsistent treatment of items.—Generally, you must report partnership items shown on your Schedule K-1 (and any attached schedules) the same way that the partnership treated the items on its return. This rule does not apply if your partnership is within the "small partnership exception" and does not elect to have the tax treatment of partnership items determined at the partnership level under section 6231(a)(1)(B)(ii).

If the treatment on your original or amended return is inconsistent with the partnership's treatment, or if the partnership was required to, but has not filed a return, you must file **Form 8082**, Notice of Inconsistent Treatment or Amended Return (Administrative Adjustment Request (AAR)), with your original or amended return to identify and explain any inconsistency (or to note that a partnership return has not been filed). See section 6222 for more information.

If you are required to file Form 8082 but fail to do so, you may be subject to the accuracy-related penalty under section 6662. This penalty is in addition to any tax that results from making your amount or treatment of the item consistent with that shown on the partnership's return. Any deficiency that results from making the amounts consistent may be assessed immediately.

Errors.—If you believe the partnership has made an error on your Schedule K-1, notify the partnership and ask for a corrected Schedule K-1. Do not change any items on your copy of Schedule K-1. Be sure that the partnership sends a copy of any corrected Schedule K-1 to the Internal Revenue Service. If you are a partner in a partnership that does not meet the small partnership exception and you report any partnership item on your return in a manner that differs from the way the partnership reported it, you must file Form 8082. See **Inconsistent treatment of items** above, for more information.

Sale or exchange of partnership interest.—Generally, if a partner sells or exchanges a partnership interest where unrealized receivables or substantially appreciated inventory items are involved,

the partner must notify the partnership, in writing, within 30 days of the exchange. An exception to this rule is made in the case of sales or exchanges of publicly traded partnership interests for which a broker is required to file **Form 1099-B**, Proceeds From Broker and Barter Exchange Transactions. See **Form 8308**, Report of a Sale or Exchange of Certain Partnership Interests, for more information.

Nominee reporting.—Generally, any person who holds, directly or indirectly, an interest in a partnership as a nominee for another person is required to furnish a written statement to the partnership by the last day of the month following the end of the partnership's tax year that includes the name, address, and identifying number of the nominee and such other person, description of the partnership interest held as nominee for that person, and other information required under Temporary Regulations section 1.6031(c)-1T. In lieu of this statement, the nominee may furnish to the person on whose behalf the nominee holds the partnership interest a copy of Schedule K-1 and related information within 30 days of receiving it from the partnership. See section 6031(c) and Temporary Regulations section 1.6031(c)-1T for more information.

Note: A nominee who fails to furnish when due all of the required information, or who furnishes incorrect information, is subject to a penalty of \$50 with respect to each statement 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). See sections 6722 and 6724 for more information.

United States persons with interests in foreign partnerships.—If you are a U.S. person in a foreign partnership that does not file a partnership return, you may be required to furnish information necessary to determine your correct income (loss) from the partnership. See Regulations section 1.6031-1. Also, see section 6046A for other information you may be required to report.

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

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

Definitions

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

Limited partner.—A limited partner is a partner whose potential 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.

Nonrecourse loans.—Nonrecourse loans are those liabilities of the partnership for which none of the partners has any personal liability.

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

- Section 108(b)(5) (regarding income from the discharge of indebtedness);
- Section 617 (regarding the deduction and recapture of certain mining exploration expenditures); and
- Section 901 (regarding the foreign tax credit).

Also, you may make an election under section 59(e) to deduct certain qualified expenditures ratably over the period of time specified in that section. For more information, see the instructions for lines 18a and 18b of Schedule K-1.

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

The above publications and other publications referenced throughout these instructions may be obtained at most IRS offices. To order publications and forms, call our toll-free number 1-800-TAX-FORM (829-3676).

Limitations on Losses, Deductions, and Credits

There are three separate potential limitations on the amount of partnership losses that you may deduct on your return. These limitations and the order in which they must be applied are as follows: the basis rules, the at-risk rules, and the passive loss rules. Each of these limitations is discussed separately below.

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

Basis Rules

Generally, you may **not** claim your share of a partnership loss (including a capital loss) to the extent that it is greater than the adjusted basis of your partnership interest at the end of the partnership's tax year.

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

Items which increase your basis are:

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

Items which decrease your basis are:

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

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

At-Risk Rules

Generally, if you have: **(1)** a loss or other deduction from an activity carried on as a trade or business or for the production of income by the partnership, and **(2)** amounts in the activity for which you are not at risk, you will have to complete **Form 6198**, At-Risk Limitations, to figure your allowable loss.

The at-risk rules generally limit the amount of loss (including loss on the disposition of assets) and other deductions (such as the section 179 expense deduction) that you can claim to the amount you could actually lose in the activity.

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

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity, that are not secured by your own property (other than the property used in the activity). See **Item B**, on page 4, for the exception for qualified nonrecourse financing secured by real property.
- Cash, property, or borrowed amounts used in the activity (or contributed to the activity, or used to acquire your interest in the activity) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).
- Amounts borrowed for use in the activity from a person who has an interest in the activity, other than as a creditor, or who is related, under section 465(b)(3), to a person (other than yourself) having such an interest.

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

liability at the end of the year in which the losses occurred. In addition, you should get a separate statement of income, expenses, etc. for each activity from the partnership.

Passive Activity Limitations

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

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

Passive activities include: **(1)** trade or business activities in which you do not materially participate, and **(2)** activities that meet the definition of rental activities under Temporary Regulations section 1.469-1T(e)(3). See the Instructions for Form 8582 (or Form 8810).

Passive activities do not include:

(1) trade or business activities in which you materially participate; **(2)** working interests in oil or gas wells; **(3)** qualifying low-income housing activities; and **(4)** an activity of trading personal property for the account of owners of interests in the activity.

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

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

Material Participation in Trade or Business Activities

You must determine whether you materially participated in each trade or business activity held through the partnership. **All determinations of material participation are made with respect to your participation during the tax year of the partnership.**

Material participation standards for partners who are individuals are listed below. Special rules apply to certain retired or disabled farmers and to the surviving spouses of farmers. See Temporary Regulations section 1.469-5T and the Instructions for Form 8582 for details.

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

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

(1) You participated in the activity for more than 500 hours during the tax year;

(2) Your participation in the activity for the tax year constituted substantially all of the participation in the activity of all individuals (including individuals who are not owners of interests in the activity);

(3) You participated in the activity for more than 100 hours during the tax year, and your participation in the activity for the tax year was not less than the participation in the activity of any other individual (including individuals who are not owners of interests in the activity) for the tax year;

(4) The activity is a significant participation activity for the tax year, and you participated in all significant participation activities (including activities outside the partnership) during the year for more than 500 hours. A "significant participation activity" is any trade or business activity in which you participated for more than 100 hours during the year and in which you did not materially participate under any of the material participation tests (other than this test 4);

(5) You materially participated in the activity for any 5 tax years (whether or not consecutive) during the 10 tax years that immediately precede the tax year;

(6) The activity is a personal service activity and you materially participated in the activity for any 3 tax years (whether or not consecutive) preceding the tax year. A "personal service activity" is an activity involving the performance of personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other trade or business in which capital is not a material income-producing factor; or

(7) Based on all of the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis during the tax year.

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

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

(1) The work is not the sort of work that owners of the activity would usually do and one of the principal purposes of the work that you or your spouse do is to avoid the passive loss or credit limitations; or (2) you do the work in your capacity as an investor and you are not directly involved in the day-to-day operations of the activity. Examples of work done as an investor which would not count toward material participation include:

(a) studying and reviewing financial statements or reports on operations of the activity; (b) preparing or compiling summaries or analyses of the finances or operations of the activity for your own use; and (c) monitoring the finances or operations of the activity in a non-managerial capacity.

Effect of determination.—If you determine that you materially participated in a trade or business activity held through the partnership, report the income (loss),

deductions, and credits from that activity as indicated in either column (c) of Schedule K-1 or the instructions for each line.

If you determine that you did not materially participate in a trade or business activity held through the partnership or if you have income (loss), deductions, or credits from a rental activity held through the partnership, the amounts from that activity are passive. Report passive income (losses), deductions, and credits as follows:

If you have an overall gain (the excess of income over deductions and losses, including any prior year unallowed loss) from a passive activity, report the income, deductions, and losses from the activity as indicated on Schedule K-1 or in these instructions.

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

See the Instructions for Forms 8582 and 8582-CR (or Form 8810) for more information.

Publicly Traded Partnerships

The provisions of section 469 are applied separately for items (other than the low-income housing credit and the rehabilitation investment credit) from each publicly traded partnership (PTP). Thus, a net passive loss from a PTP may not be deducted from other passive income. Instead, a passive loss from a PTP is suspended and carried forward to be applied against passive income from the same PTP in later years. If the partner's entire interest in the PTP is completely disposed of, any unused losses are allowed in full in the year of disposition.

If you have an overall gain from a PTP, the net gain is nonpassive income. In addition, the nonpassive income is included in investment income for purposes of figuring your investment interest expense deduction under section 163(d).

See the Instructions for Form 8582 (or Form 8810) to determine how to report net income or net loss from passive activities held through a PTP.

Active Participation in a Rental Real Estate Activity

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

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

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

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

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

The maximum special allowance that single individuals and married individuals filing a joint return for the tax year can qualify for is \$25,000. The maximum is \$12,500 in the case of married individuals who file separate returns for the tax year and who lived apart all times during the year. The maximum special allowance for which an estate can qualify is \$25,000 reduced by the special allowance for which the surviving spouse qualifies. Any phase-in of the surviving spouse's allowance is disregarded in computing the estate's maximum allowance.

If your modified adjusted gross income is \$100,000 or less (\$50,000 or less in the case of married persons filing separately), your loss is deductible up to the amount of the maximum special allowance referred to in the preceding paragraph. If your modified adjusted gross income is more than \$100,000 (more than \$50,000 in the case of married persons filing separately), the special allowance is 50% of the difference between \$150,000 (\$75,000 in the case of married persons filing separately) and your modified adjusted gross income. When modified adjusted gross income is \$150,000 or more (\$75,000 or more in the case of married persons filing separately), there is no special allowance. Modified adjusted gross income is your adjusted gross income figured without taking into account any passive activity loss, any taxable social security or equivalent railroad retirement benefits, any deductible contributions to an IRA or certain other qualified retirement plans under section 219, the deduction allowed under section 164(f) for one-half of self-employment taxes, or the exclusion from income of interest from Series EE U.S. Savings Bonds used to pay higher education expenses.

Special Rules for Certain Other Activities

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

If you have losses with respect to partnership interests acquired and activities commenced before October 23, 1986 (pre-enactment activities) or net income subject to recharacterization under Temporary Regulations section 1.469-2T(f), report such amounts in accordance with the Instructions for Form 8582 (or Form 8810).

If you have net income (loss), deductions, or credits from any of the following activities, such amounts are treated as nonpassive and you should report them as instructed in column (c) of Schedule K-1 or in these instructions: qualified low-income housing projects; working interests in oil and gas wells; or trading personal property for the account of owners of interests in the activity.

Specific Instructions

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

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

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

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

The at-risk rules also apply to real property, except for real property (other than mineral property) placed in service by the taxpayer before 1987. However, there is an exception for "qualified nonrecourse financing" that is secured by real property used in an activity of holding real property. You are considered at risk for qualified nonrecourse amounts.

Qualified nonrecourse financing generally includes financing for which no one is personally liable for repayment that is secured by real property and that is loaned or guaranteed by a Federal, state, or local government or borrowed from a "qualified" person. Qualified persons include any 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 **Pub. 925, Passive Activity and At-Risk Rules**, for more information on qualified nonrecourse financing.

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

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

Items G(1) and G(2).—If the partnership is a registration-required tax shelter or has invested in a registration-required tax shelter it should have completed Items G(1) and G(2). If you claim or report income, loss, deduction, or credit from a tax shelter, you are required to attach **Form 8271, Investor Reporting of Tax Shelter Registration Number** to your tax return. If the partnership has invested in a tax shelter, it is required to give you a copy of its Form 8271 with your Schedule K-1. You should use the information on this Form 8271 to complete Part I of your Form 8271.

If the partnership itself is a registration-required tax shelter use the information on Schedule K-1 (name of the partnership, partnership identifying number, tax shelter registration number, type of tax shelter) to complete Part I of Form 8271. The partnership will identify the type of tax shelter in the space provided in Item G(2).

Questions H(1) and H(2).—These questions are asked to enable partners, for whom the passive activity rules of section 469 are applicable, to apply the phase-in relief provisions of those rules. See the Instructions for Form 8582 (or Form 8810) for information on the phase-in relief provisions.

Before you can apply the phase-in relief provisions, you must first determine which partnership activities (if any) are passive activities to you. See the instructions under **Passive Activity Limitations** for information on how to make this determination.

If Questions H(1) and H(2) are checked "No," phase-in relief provisions apply to all passive activity amounts from this partnership.

Question H(1).—The phase-in relief provisions do not apply to passive activity losses and credits from interests in the partnership acquired after October 22, 1986, unless the partner had a contractual obligation on that date to purchase the interest.

If Question H(1) is checked "Yes," the partnership should have attached a statement to Schedule K-1, for each activity commenced by the partnership prior to October 23, 1986, identifying your share of income, loss, deduction, and credit attributable to a new or increased ownership interest in the partnership that you acquired after October 22, 1986.

Question H(2).—If Question H(2) is checked "Yes," the partnership should have attached a statement to your Schedule K-1 identifying your share of amounts from activities commenced by the partnership after October 22, 1986. If these amounts are passive activity losses or credits to you, the phase-in relief provisions will not apply to them.

Item I.—If the box in Item I is checked, you are a partner in a publicly traded partnership and must follow the rules discussed on page 3 under **Publicly Traded Partnerships**.

Lines 1 through 21

If you are an individual and the passive activity rules do not apply to the amounts shown on your Schedule K-1, take the amounts shown in column (b) and enter them on the lines on your tax return as indicated in column (c). If the passive activity rules do apply, report the amounts shown in column (b) as indicated in the Instructions for Form 8582.

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

The line numbers in column (c) are references to forms in use for calendar year 1990. If you file your tax return on a calendar year basis, but your partnership files a return for a fiscal year ending in 1991, enter these amounts on the corresponding lines of the tax forms in use for 1991.

If you have losses, deductions, or credits from a prior year that were not deductible or usable because of certain limitations, such as the at-risk rules, they may be taken into account in determining your net income, loss, or credits for this year. However, do not combine the prior-year amounts with any amounts shown on this Schedule K-1 to get a net figure to report on any supporting schedules, statements, or forms attached to your return. Instead, report the amounts on the attached schedule, statement, or form on a year-by-year basis.

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

The amounts shown on lines 1 through 21 reflect your share of income, loss, credits, deductions, etc. from partnership business or rental operations without reference to limitations on losses or adjustments that may be required of you because of: (1) the adjusted basis of your partnership interest, (2) the amount for which you are at risk as determined under section 465, or (3) the passive activity limitations of section 469. For information on these provisions, see **Limitations on Losses, Deductions, and Credits**, beginning on page 2.

Income

Line 1. Ordinary income (loss) from trade or business activities.—The amount reported for line 1 is your share of the ordinary income (loss) from the trade or business activities of the partnership. Generally, where you report this amount on Form 1040 depends on whether or not the amount is from an activity which is a passive activity to you. If you are an individual partner filing your 1990 Form 1040, find your situation in the following guide and report your line 1 income (loss) as instructed, after applying the basis and at-risk limitations on losses:

(1) Report line 1 income (loss) from partnership trade or business activities in which you materially participated on Schedule E (Form 1040), Part II, column (i) or (k).

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

(a) If income is reported on line 1, report the income on Schedule E, Part II, column (h). If, in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, also report the line 1 income following the Instructions for Form 8582.

(b) If a loss is reported on line 1, report the loss following the Instructions for Form 8582, to determine how much of the loss can be reported on Schedule E, Part II, column (g).

Line 2. Net income (loss) from rental real estate activities.—Generally, the income (loss) reported on line 2 is a passive activity amount to all partners. There is an exception, however, for losses from a qualified low-income housing project. The loss limitations of section 469 do not apply to losses incurred by qualified investors in qualified low-income housing projects. The partnership will have attached a schedule for line 2 to identify any such amounts.

If you are filing a 1990 Form 1040, use the following instructions to determine where to enter a line 2 amount:

(1) If you have a loss (other than from a qualified low-income housing project) on line 2 and you meet all of the following conditions, enter the loss on Schedule E (Form 1040), Part II, column (g):

(a) You determined that you actively participated in the partnership rental real estate activities. (See **Active Participation in a Rental Real Estate Activity**, on page 3.)

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

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

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

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

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

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

(h) Your interest in the rental real estate activity is **not** held as a limited partner

(2) If you have a loss on line 2 (other than from a qualified low-income housing project), and **you do not meet** all of the conditions in (1) above, report the loss following the Instructions for Form 8582 to determine how much of the loss can be reported on Schedule E (Form 1040), Part II, column (g).

(3) If you are a qualified investor reporting a qualified low-income housing project loss, report the loss on Schedule E, Part II, column (i).

(4) If you have income on line 2, enter the income on Schedule E, Part II, column (h). If, in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, also report the line 2 income following the Instructions for Form 8582.

Line 3. Net income (loss) from other rental activities.—The amount on line 3 is a passive activity amount for all partners.

(1) If line 3 is a loss, report the loss following the Instructions for Form 8582.

(2) If income is reported on line 3, report the income on Schedule E (Form 1040), Part II, column (h). If, in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, also report the line 3 income following the Instructions for Form 8582.

Line 4. Portfolio income (loss).—Income or loss referred to as “portfolio” income or loss in these instructions is not part of a passive activity subject to the rules of section 469. Portfolio income includes interest, dividend, annuity, and royalty income, not derived in the ordinary course of a trade or business, and gain or loss on the sale of property that produces those types of income or is held for investment. Column (c) of Schedule K-1 tells individual partners where to report this income on Form 1040.

The partnership uses line 4f to report portfolio income other than interest, dividend, royalty, and capital gain (loss) income. It will attach a statement to tell you what kind of portfolio income is reported on line 4f. An example of portfolio income that could be reported on line 4f is income from a real estate mortgage investment conduit (REMIC) in which the partnership is a residual interest holder

If the partnership has a residual interest in a REMIC, it will report on the statement your share of REMIC taxable income (net loss) which you report on Schedule E (Form 1040), Part IV, column (d). The statement will also report your share of any “excess inclusion” which you report on Schedule E, Part IV, column (c), and your share of section 212 expenses which you report on Schedule E, Part IV, column (e). If you itemize your deductions on Schedule A (Form 1040), you may also deduct these section 212 expenses as a miscellaneous deduction subject to the 2% adjusted gross income floor on Schedule A, line 21.

Line 5. Guaranteed payments to partners.—Generally, amounts on this line are not part of a passive activity and should be reported on Schedule E (Form 1040), Part II, column (k). For example, guaranteed payments for personal services paid to any partner are not passive activity income.

Line 6. Net gain (loss) under section 1231 (other than due to casualty or theft).—If the amount on line 6 relates to a rental activity, the section 1231 gain (loss) is a passive activity amount. Likewise, if the amount relates to a trade or business activity and you did not materially participate in the trade or business activity, the section 1231 gain (loss) is a passive activity amount.

● If the amount is not a passive activity amount to you, report it on line 2, column (g) or (h), whichever is applicable, of **Form 4797, Sales of Business Property**. You do not have to complete the information called for in columns (b) through (f). Write “From Schedule K-1 (Form 1065)” across these columns.

● If gain is reported on line 6 and it is a passive activity amount to you, report the gain on line 2, column (h), of Form 4797 and be sure to see **Passive Loss Limitations** in the Instructions for Form 4797

● If a loss is reported on line 6 and it is a passive activity amount to you, see **Passive Loss Limitations** in the Instructions for Form 4797 You will need to report the loss following the Instructions for Form 8582 to determine how much of the loss is allowed on Form 4797

Line 7. Other income (loss).—Amounts on this line are other items of income, gain, or loss not included on lines 1 through 6. The partnership should give you a description and the amount of your share for each of these items.

Report loss items which are passive activity amounts to you following the Instructions for Form 8582.

Report income or gain items which are passive activity amounts to you as instructed below. If, in addition to this passive activity income or gain, you have passive activity losses, deductions, or credits from any source, also report the passive activity income or gain following the Instructions for Form 8582.

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

Line 7 items may include the following:

● Partnership gains from the disposition of farm recapture property (see Form 4797) and other items to which section 1252 applies.

● Recoveries of tax benefit items (section 111). Report such amounts on the “Other income” line of Form 1040.

● Gambling gains and losses (section 165(d)).

● Any income, gain, or loss to the partnership under section 751(b). Report this amount on Form 4797, line 10.

● Specially allocated ordinary gain (loss). Report this amount on Form 4797, line 10.

● Net gain (loss) from involuntary conversions due to casualty or theft. The partnership will give you a schedule that shows the amounts to be entered on **Form 4684, Casualties and Thefts, Section B, Part II**, line 16, columns (b)(i), (b)(ii), and (c).

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

Deductions

Line 8. Charitable contributions.—The partnership will give you a schedule that shows which contributions were subject to the 50%, 30%, and 20% limitations. For further information, see the Form 1040 Instructions.

If contributions of property other than cash are made and if the claimed deduction for one item or group of similar items of property exceeds \$5,000, the partnership is required to give you a copy of **Form 8283**, Noncash Charitable Contributions, to attach to your tax return. Do not deduct the amount shown on this form. Instead, deduct the amount shown on line 8 of your Schedule K-1 (Form 1065).

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

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

Line 9. Section 179 expense

deduction.—Use this amount and other information provided by the partnership, along with the total cost of section 179 property placed in service during the year from other sources, to complete Part I of **Form 4562**, Depreciation and Amortization. Part I of Form 4562 is used to figure your allowable section 179 expense deduction from all sources. Report the amount on line 12 of Form 4562 allocable to a passive activity from the partnership following the Instructions for Form 8582. If the amount is not a passive activity deduction, report it on Schedule E (Form 1040), Part II, column (j).

Line 10. Deductions related to portfolio income.—Amounts entered on this line are deductions that are clearly and directly allocable to portfolio income (other than investment interest expense and section 212 expenses from a REMIC). Generally, you should enter line 10 amounts on Schedule A (Form 1040), line 21. See the Instructions for Schedule A, lines 20 through 25, for more information. These deductions are not taken into account in figuring your passive activity loss for the year. Do not enter them on Form 8582.

Line 11. Other deductions.—Amounts on this line are deductions not included on lines 8, 9, 10, and 17e, such as:

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

Note: *If there was a gain (loss) from a casualty or theft to property not used in a trade or business or for income-producing purposes, you will be notified by the partnership. You will have to complete your own Form 4684.*

- Any penalty on early withdrawal of savings.
- Soil and water conservation expenditures (section 175).
- Expenditures for the removal of architectural and transportation barriers to the elderly and disabled that the partnership elected to treat as a current expense (section 190).
- Any amounts paid during the tax year for insurance which constitutes medical care for a partner, a partner's spouse, and a partner's dependents. Under the provisions of section 162(l), a partner may be allowed a deduction up to 25% of such amounts.

The deduction is claimed on line 26 of Form 1040.

● Payments on behalf of a partner to an IRA, Keogh, or a Simplified Employee Pension (SEP) plan. See Form 1040 Instructions for lines 24a and 24b to figure your IRA deduction. Payments made to a Keogh or SEP plan will be entered on Form 1040, line 27. If the payments to a Keogh plan were to a defined benefit plan, the partnership should give you a statement showing the amount of the benefit accrued for the tax year.

● Interest expense allocated to debt-financed distributions. The manner in which you report such interest expense depends on your use of the distributed debt proceeds. See Notice 89-35, 1989-1 C.B. 675, for details.

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

Investment Interest

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

For more information and the special provisions that apply to investment interest expense, see **Form 4952**, Investment Interest Expense Deduction, and **Pub. 550**, Investment Income and Expenses.

Line 12a. Interest expense on investment debts.—Enter this amount on Form 4952 along with your investment interest expense from other sources to determine how much of your total investment interest is deductible.

Lines 12b(1) and (2). Investment income and investment expenses.—Use the amounts on these lines to determine the amount to enter on Form 4952.

Caution: *The amounts shown on lines 12b(1) and (2) include only investment income and expenses included on lines 4 and 10 of this Schedule K-1. The partnership should attach a schedule which shows the amount of any investment income and expenses included on any other lines of this Schedule K-1. Use these amounts to adjust lines 12b(1) and 12b(2) to determine your total investment income and total investment expenses from this partnership. Combine these totals with investment income and expenses from all other sources to determine the amount to enter on Form 4952.*

Credits

Caution: *If you have credits that are passive activity credits to you, you must complete Form 8582-CR (or Form 8810 for corporations) in addition to the credit forms referenced below. See the Instructions for Form 8582-CR (or Form 8810) for more information.*

Also, if you are entitled to claim more than one general business credit (i.e., investment credit, jobs credit, credit for alcohol used as fuel, research credit, and the low-income housing credit), you must complete Form 3800, General Business Credit, in addition to the credit forms

referenced below. If you have more than one credit, see the instructions for Form 3800 for more information.

Line 13a. Credit for income tax withheld.—Include the amount the partnership reports to you in the total that you enter on line 55, page 2, Form 1040. Be sure to check the box on line 55 and write "Form K-1" on the dotted line next to the check box.

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

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

You must keep a separate record of the amount of low-income housing credit from each of these sources so that you will be able to correctly compute any recapture of low-income housing credit that may result from the disposition of all or part of your partnership interest. For more information, see the Instructions for Form 8586.

Caution: *You cannot claim the low-income housing credit on any qualified low-income housing project for which any person was allowed any benefit under section 502 of the Tax Reform Act of 1986.*

Line 13c. Qualified rehabilitation expenditures related to rental real estate activities.—The partnership should identify your share of the partnership's rehabilitation expenditures that are related to each rental real estate activity. Enter the expenditures on the appropriate line of **Form 3468**, Investment Credit, to figure your allowable investment credit.

Line 13d. Credits related to rental real estate activities (other than credits shown on lines 13b and 13c).—The partnership will identify the type of credit and any other information you need to compute credits related to rental real estate activities (other than the low-income housing credit and qualified rehabilitation expenditures).

Line 13e. Credits related to other rental activities.—The partnership will identify the type of credit and any other information you need to compute credits related to rental activities other than rental real estate activities.

Line 14. Other credits.—The partnership will identify the type of credit and any other information you need to compute credits related to a trade or business activity. Property qualifying for the regular or business energy investment credit (other than from cooperatives) will be reported to you on line 21.

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

- Nonconventional source fuel credit.
- Unused credits from cooperatives.
- The credit for increasing research activities and orphan drug credit (enter these credits on **Form 6765**, Credit for Increasing Research Activities).
- Jobs credit. Complete **Form 5884**, Jobs Credit, and attach it to your return. See **Form 5884** for definitions, special rules, and limitations.
- Credit for alcohol used as fuel. Complete **Form 6478**, Credit for Alcohol Used as Fuel, and attach it to your return.
- Disabled access credit. Complete **Form 8826**, Disabled Access Credit, and attach it to your return.

Note: *The passive activity limitations of section 469 may limit the amount of credits on lines 13b, 13c, 13d, 13e, and 14 that you may take. Lines 13b, 13c, 13d, and 13e credits are related to the rental activities of the partnership and are passive activity credits to all partners. Line 14 credits are related to the trade or business activities of the partnership and are passive activity credits to all partners who did not materially participate in the trade or business activity. In general, except to the extent phase-in relief is available, credits from passive activities are limited to the tax attributable to passive activities. If question H(1) or H(2) is checked "No," the partnership will provide you with information regarding activities for which the phase-in relief is available.*

However, partners who actively participated in the rental real estate activity may be able to use line 13d credits against tax on other income. The amount of these credits so usable is limited to their deduction equivalent up to \$25,000 (net of losses from rental real estate activities deductible against up to \$25,000 of other income).

The credits on lines 13b and 13c may be taken against tax on other income, subject to the same \$25,000 limitation. Line 13e credits are limited to tax attributable to passive activities. The \$25,000 deduction equivalent does not apply to line 13e and line 14 credits.

Self-Employment

Lines 15a, 15b, and 15c.—If you and your spouse are both partners, each of you must complete and file your own **Schedule SE (Form 1040)**, Social Security Self-Employment Tax, to report your partnership earnings (loss) from self-employment.

Line 15a. Net earnings (loss) from self-employment.—Before entering this amount on Schedule SE (Form 1040), you must adjust it by any section 179 expense deduction claimed, unreimbursed partnership expenses claimed, and depletion claimed on oil and gas properties.

Note: *Do not reduce net earnings from self-employment by any separately stated deduction for health insurance expenses allowable under section 162(l).*

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

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

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

Line 15b. Gross farming or fishing income.—If you are an individual partner, enter the amount from this line on Schedule E (Form 1040), Part V, line 41. You may also use this amount to figure self-employment income under the optional method on Schedule SE (Form 1040), Section B, Part II.

Line 15c. Gross nonfarm income.—If you are an individual partner, use this amount to figure self-employment income under the optional method on Schedule SE (Form 1040), Section B, Part II.

Adjustments and Tax Preference Items

Use the information reported on lines 16a through 16f (as well as your adjustments and tax preference items from other sources) to prepare your **Form 6251**, Alternative Minimum Tax—Individuals, **Form 4626**, Alternative Minimum Tax—Corporations, or **Form 8656**, Alternative Minimum Tax—Fiduciaries.

Lines 16e(1) and 16e(2). Gross income from, and deductions allocable to, oil, gas, and geothermal properties.—The amounts reported on these lines include only the gross income from, and deductions allocable to, oil, gas, and geothermal properties that are included on line 1 of Schedule K-1. The partnership should have attached a schedule that shows any income from or deductions allocable to such properties that are included on lines 2 through 11 and line 21 of Schedule K-1. Use the amounts reported on lines 16e(1) and 16e(2) and the amounts on the attached schedule to help you determine the net amount to enter on line 5g of Form 6251.

Line 16f. Other adjustments and tax preference items.—Enter the information on the schedule attached by the partnership for line 16f on the applicable lines of Form 6251.

Foreign Taxes

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

Other

Lines 18a and 18b.—The partnership will show on line 18a the total qualified expenditures to which an election under section 59(e) may apply. It will identify the type of expenditure on line 18b. If there is more than one type of expenditure, the amount of each type will be listed on an attachment. Generally, section 59(e) allows each partner to elect to deduct certain expenses ratably over the number of years in the applicable period rather than deduct the full amount in the current year. Under the election, you may deduct ratably over a 3-year period circulation expenditures. Research and experimental expenditures

and mining exploration and development costs qualify for a writeoff period of 10 years. Intangible drilling and development costs may be deducted over a 60-month period, beginning with the month in which such costs were paid or incurred. If you make this election, these items are not treated as adjustments or tax preference items for purposes of the alternative minimum tax. Make the election on Form 4562.

Because each partner decides whether to make the election under section 59(e), the partnership cannot provide you with the amount of the adjustment or tax preference item related to the expenses listed on line 18a. You must decide both how to claim the expenses on your return and compute the resulting adjustment or tax preference item.

Recapture of Tax Credits

Lines 19a and 19b. Recapture of low-income housing credit.—A section 42(j)(5) partnership will report recapture of a low-income housing credit on line 19a. All other partnerships will report recapture of a low-income housing credit on line 19b. You must keep a separate record of recapture from each of these sources so that you will be able to correctly compute any recapture of low-income housing credit that may result from the disposition of all or part of your partnership interest. For more information, see **Form 8611**, Recapture of Low-Income Housing Credit.

Line 20. Investment credit properties subject to recapture.—When investment credit property is disposed of or ceases to be qualifying property or there is a decrease in the percentage of business use before the end of the recapture period or the useful life used to figure the original credit, you may have to recapture (pay back) the investment credit taken in prior years. Use the information on line 20 to figure your recapture tax on **Form 4255**, Recapture of Investment Credit. See the Form 3468 on which you took the original credit for other information you need to complete Form 4255.

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

Line 21.—Amounts included on the statement for this line are not included elsewhere such as:

a. Taxes paid on undistributed capital gains by a regulated investment company. (Form 1040 filers enter your share of these taxes on line 61, and add the words "Form 1065.")

b. Number of gallons of each fuel used during the tax year and the appropriate tax rate for each type of use identified on **Form 4136**, Credit for Federal Tax on Fuels, and in the related instructions. Also your share of the credit allowed for qualified diesel-powered highway vehicles. Use this information to complete Form 4136.

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

d. Tax-exempt interest income earned by the partnership. You must report on your return, as an item of information, the amount of tax-exempt interest received or accrued during the year. Individual partners should report this amount on line 8b of Form 1040.

e. Recapture of the section 179 expense deduction. If the recapture was caused by a disposition of the property, include the amount on Form 4797, line 16.

The amount to be recaptured will be limited to the amount you deducted in earlier years.

f. Any items you need to determine the basis of your partnership interest for purposes of section 704(d) because Item K on Schedule K-1 is not completed; or any items (other than those shown in Item B) you need to figure your amount at risk.

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

h. Farm production expenses. You may be eligible to elect to deduct these expenses currently or capitalize them under section 263A. See **Pub. 225**, Farmer's Tax Guide, and Temporary Regulations section 1.263A-1T(c).

i. Any information you need to compute the interest due under section 453(l)(3) with respect to the disposition of certain timeshares and residential lots on the installment method. If you are an individual, report the interest on Form 1040, line 54. Write "453(l)(3)" and the amount of the interest on the dotted line to the left of line 54.

j. Any information you need to compute the interest due under section 453A(c) with respect to certain installment sales. If you are an individual, report the interest on Form 1040, line 54. Write "453A(c)" and the amount of the interest on the dotted line to the left of line 54.

k. Any information you need to compute the interest due or to be refunded under the look-back method of section 460(b)(3) on certain long-term contracts. Use **Form 8697**, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to report any such interest.

l. Any information you need relating to interest expense that you are required to capitalize under section 263A for production expenditures. See Notice 88-99, 1988-2 C.B. 422, for more information.

m. Any information you need to compute unrelated business taxable income under section 512(a)(1) (but excluding any modifications required by paragraphs (8) through (15) of section 512 (b)) for a partner that is a tax-exempt organization.

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

n. Your share of the partnership's energy property qualifying for the credit and any regular investment credit property that qualifies for the credit. Generally, you can claim a tax credit based on these amounts by filing Form 3468.

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

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